

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Washington State University July 1, 2016 through June 30, 2017

2017-001 The University did not have adequate internal controls in place for the fiscal year to ensure the accurate presentation of its permanent endowment fund additions, and investment and component unit footnotes.

Background

University management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. These controls should ensure the University follows all generally accepted accounting principles (GAAP) and Governmental Accounting Standards Board (GASB) statements.

The University has high standards for ensuring accurate reporting and a long history of correctly identifying and applying accounting methodology. However, our current audit identified internal control weaknesses that hindered the University's ability to produce reliable financial statements.

Description of Condition

Our audit identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a material weakness:

- The University did not have a process to ensure sufficient research was performed to correctly and timely implement new GASB standards. GASB Statement No. 72 – *Fair Value Measurement and Application*, which affects accounting and financial reporting for investments, was not properly implemented.
- The University did not dedicate the necessary time and resources to properly report financial statement balances and footnote disclosures required by existing GASB standards, including:
 - Statement No. 39 – Determining Whether Certain Organizations Are Component Units – An Amendment Of GASB Statement No. 14
 - Statement No. 31 – Accounting And Financial Reporting for Certain Investments And For External Investment Pools

- Statement No. 61 – The Financial Reporting Entity: Omnibus-An Amendment Of GASB Statements No. 14 and 34
- Although the University reviews the financial statements and required footnote disclosures, the review was not adequate to detect and correct errors before the audit.

Cause of Condition

The University experienced turnover in key financial statement preparation positions, which prevented it from establishing and maintaining necessary controls to ensure financial statements and footnote disclosures were accurately prepared.

Effect of Condition

Our audit identified the following errors in the financial statements and schedules provided for audit. The University did not:

- Disclose key elements in its investment note disclosure as required by GASB 72.
- Adequately research reporting requirements related to its foundation, a discretely presented component unit, as required by GASB 39 and 14.
- Properly classify capital additions to its Land Grant Endowment as required by GASB 31. Contributions of \$8.4 million were initially classified as investment income.
- Disclose required information about the Alumni Association, a blended component unit. Notes to the financial statements should include condensed financial statement data for the blended component unit as required by GASB 61.

Other less significant errors were also identified in the financial statements provided for audit. All material misstatements noted above were corrected.

Recommendation

We recommend University management develop and maintain adequate internal controls over financial statement reporting that ensure accurate and complete financial statements and footnotes. Specifically, the University should:

- Develop a process to ensure sufficient research is performed to correctly and promptly implement new GASB standards

- Analyze changes to the University's financial operations to determine the effect, if any, on its reporting required by GAAP and GASB
- Conduct an effective, independent financial statement review that ensures the statements and footnotes are prepared in accordance with all GASB standards and GAAP reporting principles

University's Response

We appreciate the SAO's recommendations in regards to internal controls over financial statement preparation and agree that improvements can be made to enhance the areas noted. We are investing in training and technical resources to ensure that all future changes to accounting guidance are researched and applied to our financial statements and footnotes in a timely manner. Further, we have new management in place with significant experience to bring appropriate oversight and review to future financial statement reporting activities.

Auditor's Remarks

We thank the University for its cooperation, assistance and immediate responses during the audit. We appreciated the University's commitment to resolve this finding. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, Communicating Internal Controls Related Matter Identified in an Audit, paragraph 7.

RCW 43.88.160 Fiscal management – Powers and duties of officers and agencies, establishes expectations for developing and maintaining internal controls for state agencies

The Office of Financial Management's State Administrative and Accounting Manual (SAAM), Section 20.15 establishes the responsibilities for identifying risks and establishing, maintaining, and reviewing agency internal controls systems.