



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements and Federal Single Audit Report

Mason Conservation District

Mason County

For the period January 1, 2013 through December 31, 2013

Published June 29, 2015

Report No. 1014162





Washington State Auditor's Office

June 29, 2015

Board of Supervisors
Mason Conservation District
Shelton, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Mason Conservation District's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

Federal Summary	4
Schedule Of Federal Audit Findings And Questioned Costs.....	6
Schedule Of Audit Findings And Responses	14
Independent Auditor’s Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	30
Independent Auditor’s Report On Compliance For Each Major Federal Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133	33
Independent Auditor’s Report On Financial Statements	37
Financial Section.....	40
Corrective Action Plan For Findings Reported Under OMB Circular A-133	42
About The State Auditor’s Office.....	45

FEDERAL SUMMARY

**Mason Conservation District
Mason County
January 1, 2013 through December 31, 2013**

The results of our audit of the Mason Conservation District are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

A disclaimer of opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We noted instances of noncompliance that were material to the financial statements of the District.

Federal Awards

Internal Control Over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District's compliance with requirements applicable to its major federal program.

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
12.130	Estuary Habitat Restoration Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The District did not qualify as a low-risk auditee under OMB Circular A-133.

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

Mason Conservation District Mason County January 1, 2013 through December 31, 2013

2013-001 The District did not have adequate controls to ensure compliance with allowable cost principles and Davis-Bacon Act requirements.

CFDA Number and Title: 12.130 Estuary Habitat Restoration Program
Federal Grantor Name: Department of Defense
Federal Award/Contract Number:
Pass-through Entity Name: N/A
Pass-through Award/Contract Number: N/A
Questioned Cost Amount: \$0

Background

The District spent \$525,000 in federal grant funds from the Department of Defense, U.S. Army Corps of Engineers, during fiscal year 2013. The grant funds were used to partially fund the Skokomish Estuary Restoration Phase 3 Project. The Project was to re-establish historic hydrologic connectivity of a large freshwater wetland to the estuary of the Skokomish River.

Description of Condition

The District did not have internal controls in place to ensure compliance with the following grant requirements:

Cost Principles

Cost principles require costs charged to a federal grant not be included as a cost of another federal award. It is the District's responsibility to ensure controls are adequate to prevent this from occurring.

Davis-Bacon Act

For federally funded construction projects that exceed \$2,000, the Davis-Bacon Act requires contractors to pay federally prescribed prevailing wages to laborers. In addition, contracts for these projects must contain language notifying the

contractor and subcontractors that they must comply with the Davis Bacon Act. The Act also requires recipients to obtain weekly certified payrolls for all contractors and subcontractors to ensure prevailing wages are paid. Under the grant agreement, the District was responsible for following these federal and state laws and regulations.

Cost Principles

The District used \$525,000 of federal grant funds to pay two vendor invoices on a construction contract for the Phase 3B project; and requested reimbursement of the costs in October 2013. The grant reimbursement was received in December 2013.

The District did not have an adequate system or process to ensure federal grant costs were not charged to more than one federal award. As a result, the District requested reimbursement for one of the same invoices in the amount of \$271,195 from another grant award through the Recreation and Conservation Office (RCO) that included both state and federal funding in December 2013. We confirmed only state funds were used to reimburse the subsequent duplicate billing to the RCO grant.

Davis-Bacon Act

The District did not include the required Federal prevailing wage rate clauses in its contract with the contractor for the project. The contract did state the project would be done in accordance with the Washington State Department of Transportation Standard Specifications Manual, which included the clauses.

Also, the District relied on the contractor to provide weekly certified payroll reports and did not ensure all weekly certified payrolls were obtained. The District could not provide any of the seven weekly certified payroll reports required upon our initial audit request. The District Engineer also could not confirm whether the reports had been received timely, if at all, during the project. Subsequent to our audit request, the District was able to obtain the certified weekly reports from its contractor.

We consider these control deficiencies to be material weaknesses.

Cause of Condition

Cost Principles

The former Financial Accountant lacked adequate training and knowledge to administer the grant in accordance with federal requirements. Additionally, District management did not provide adequate oversight of grant billings to ensure they were allowable and adequately supported.

Davis-Bacon Act

District management and officials lacked adequate training and knowledge regarding Davis-Bacon Act requirements. Furthermore, they believed reference to the Washington State Department of Transportation Standard Specifications Manual was adequate to communicate Federal prevailing wage requirements to its contractor. Also, the project was not monitored to ensure required weekly certified payrolls were obtained, reviewed, and retained.

Effect of Condition and Questioned Costs

Cost Principles

Since the District requested reimbursement of expenditures from the Department of Defense funds first, and the costs were for allowable activities, the District was found to be in compliance with Cost Principles for this Federal program. As such, we are not questioning expenditures related to this program. However, the material weakness in internal controls led to an overpayment of RCO State grant funds. This could result in a repayment to RCO, which would be material to the financial statements; or loss of eligibility for future state and federal awards. This issue is reported in Finding #2013-004 in this report.

Davis-Bacon Act

The District could not ensure contractors paid proper prevailing wages to their employees in compliance with federal regulations. This could result in underpayment of wages to laborers working on the District's project, which the District could be responsible for paying. We found the District's inability to ensure certified weekly payroll reports were received and reviewed timely to be a material noncompliance with Federal Davis-Bacon Act requirements.

Non-compliance with grant requirements may require the District to return all or a portion of this money to the grantor.

Recommendation

We recommend the District establish adequate internal controls to ensure compliance with federal grant requirements. We also recommend the District provide training to employees responsible for the use of the funds to ensure they have adequate knowledge of grant requirements. We further recommend the District implement controls to ensure:

- Charges to the grant are allowable in accordance with Cost Principles.
- Compliance with prevailing wage requirements.

District's Response

The District asserts it substantially complied with allowable cost principles, Davis-Bacon Act requirements, and disputes the SAO claim that a material violation occurred in the grant contract with the Department of Defense.

Cost Principles:

The District's request for reimbursement from the Department of Defense was proper, in compliance with the grant contract, and no costs were charged to this federal grant that were included as a cost to another federal award.

Prior to the audit, the District installed new accounting software. The new software contains a grant module specifically designed to track income and expense details of each individual grant and contract. The grant module will not allow a duplicate billing action to occur for the same expense or invoice. In addition, the District implemented a separate spreadsheet tracking system for all grants and contracts. In the event the accounting software were to allow an expense to be vouchered twice (although that is very unlikely) it would be detected with the new tracking spreadsheet. In addition, at the beginning of 2014 the District instituted a process for the District Manager to review all vouchers prior to distribution as a third check in the billing system.

Davis-Bacon Act:

The District did include required Federal prevailing wage rate statements in its contract with the contractor for this project. The contract stated the project must be done in accordance with the Washington State Department of Transportation Standard Specifications Manual, which included the appropriate clauses. This was the guidance provided to the District by the Department of Transportation.

The District entered into an agreement with a third party fiduciary that received and disbursed payments to the contractor who performed construction activities for the Skokomish Estuary Phase 3b project. The third party fiduciary did receive certified payroll from the contractor as required. These records were provided to the District, were reviewed, and determined to substantially comply with the Davis-Bacon Act.

The District has established procedures requiring all contractors to submit certified payroll records for all contracts subject to prevailing wage requirements. District staff review these payroll records to assure compliance with prevailing wage requirements prior to contractor reimbursement for work performed.

Auditor's Remarks

We thank the District for their response and for the steps taken since the audit period to improve internal controls. We reaffirm that there was a material weakness in internal controls that led to the duplicate billing to two grants, both of which included federal funding. Again, we confirmed that no federal funding was received to reimburse the District for the subsequent billing to the RCO grant, and are, therefore, not questioning costs.

In addition, we reaffirm that a material weakness in internal controls and material non-compliance with Davis Bacon Act requirements existed, as identified above.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR 225), Appendix A, Section C, states in part:

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

- (b) Be allocable to Federal awards under the provisions of this Part.

Title 29, Code of Federal Regulations, Section 5.5 states in part:

- (a) The Agency head shall cause or require the contracting officer to insert in full in any contract in excess of \$2,000 which is entered into for the actual construction, alteration and/or repair, including painting and decorating, of a public building or public work, or building or work financed in whole or in part from Federal funds or in accordance with guarantees of a Federal agency or financed from funds obtained by pledge of any contract of a Federal agency to make a loan, grant or annual contribution (except where a different meaning is expressly

indicated), and which is subject to the labor standards provisions of any of the acts listed in § 5.1, the following clauses (or any modifications thereof to meet the particular needs of the agency, Provided, That such modifications are first approved by the Department of Labor): ...

(1) *Minimum wages.* (i) All laborers and mechanics employed or working upon the site of the work (or under the United States Housing Act of 1937 or under the Housing Act of 1949 in the construction or development of the project), will be paid unconditionally and not less often than once a week, and without subsequent deduction or rebate on any account (except such payroll deductions as are permitted by regulations issued by the Secretary of Labor under the Copeland Act (29 CFR part 3)), the full amount of wages and bona fide fringe benefits (or cash equivalents thereof) due at time of payment computed at rates not less than those contained in the wage determination of the Secretary of Labor which is attached hereto and made a part hereof, regardless of any contractual relationship which may be alleged to exist between the contractor and such laborers and mechanics.

(3)(ii)(A) The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the (write in name of appropriate federal agency) if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the (write in name of agency) . . .

(B) Each payroll submitted shall be accompanied by a "Statement of Compliance," signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 500, states in part:

(a) The audit shall be conducted in accordance with GAGAS.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal

control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, as follows:

.11 For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows: ...

Deficiency in internal control over compliance. A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in *operation* exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Material weakness in internal control over compliance. A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.

Remote. The chance of the future event or events occurring is slight.

Probable. The future event or events are likely to occur. ...

Significant deficiency in internal control over compliance. A deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Mason Conservation District Mason County January 1, 2013 through December 31, 2013

2013-002 The District's internal controls over accounting and financial statement preparation are inadequate to ensure accurate reporting.

Background

It is the responsibility of District management to design and follow internal controls that provided reasonable assurance regarding the reliability of financial reporting.

The District began the process of changing accounting software in January 1, 2013. During fiscal year 2013, the District was using both accounting software programs; however, neither system was complete. Review of the general ledger activity confirmed that accounts were not set up correctly and transactions were not accounted for accurately.

We identified material weaknesses in internal controls over financials reporting that affected the District's ability to produce reliable financial statements.

Description of Condition

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

- The District Manager and Financial Accountant were not able to demonstrate how the numbers on the financial statements agreed to accounting records. The former Financial Accountant, who prepared the financial statements, did not retain documentation to support the numbers reported.
- The District Manager's review of the financial statements was not adequate to ensure the financial transactions were presented properly and complete.
- The District does not have controls in place to ensure its financial transactions are accurately recorded in accordance with the *Budgeting Accounting and Reporting System* (BARS) manual requirements.

- The District lacks a process for ensuring it is properly setting up and coding all of its transactions in its computerized accounting records in accordance with the *Budgeting, Accounting and Recording System* (BARS) manual. Therefore, these records are not an accurate representation of the District's financial activity.

Cause of Condition

Neither management nor the governing body adequately monitored or reviewed the District's financial statements prior to their submission for audit.

The District staff did not have the technical knowledge or sufficient understanding of the financial statement preparation requirements detailed in the *Budgeting, Accounting and Reporting Standards* (BARS) manual.

The District uses two accounting systems for recording financial transactions. A review of system reports indicated that neither system contained complete financial information. Review of the reports also showed that accounts were not set up correctly and transactions were not recorded accurately.

Effect of Condition

The District does not have reliable recorded financial transactions to ensure the accuracy of financial statements. The District's financial information contained significant errors that were not detected by District management. We identified the following errors in the original financial statements we received for audit:

- Reported revenues and expenditures were understated \$1,483,866.
- We were unable to reconcile a material overstatement of \$221,928 in revenues and expenditures.
- The State Auditor's Office disclaimed on the financial statements. Due to the material weaknesses identified, we could not render an opinion as to whether the financial statements were fairly presented.

Recommendation

We recommend the District:

- Provide adequate training for staff on financial accounting and reporting to ensure compliance with reporting requirements.
- Establish a review process of the financial statements by a person knowledgeable of BARS cash basis reporting requirements to ensure accurate preparation and reporting of the District's financial statements.

- Establish internal control procedures to ensure all District activity is recorded in the general ledger, reported timely and in accordance with BARS requirements.

District's Response

The District transitioned to new accounting software during 2013. During the transition it was necessary to utilize both the old software and the new software throughout the year, while the conversion was underway. This is a common practice among public (and private for that matter) entities during software conversions of this nature. The use of dual accounting systems created additional complexity, some confusion, and did not provide for a clear interface for accounting transactions. District financial staff were also in transition in the latter part of 2013, with the District Treasurer's retirement, and notification of the District Financial Accountants planned leave at the end of the year.

The District Manager became aware of possible errors in the coding of revenues and expenditures in the first quarter of 2014, when a new financial accountant was hired. The District Financial Accountant is experienced in governmental financial accounting and the new accounting software will ensure financial transactions are accurately recorded in accordance with the Budgeting Accounting and Reporting System Manual (BARS) requirements. The District established proper internal controls to ensure indirect and direct grant revenues are properly identified in its new accounting system for 2014 and beyond, prior to the 2013 audit being performed by SAO.

The District Manager was proactive, requesting a review by SAO to determine if the 2013 annual report was properly filed, when he became aware of possible problems related to the coding of revenues and expenditures for the 2013 fiscal year.

District financial staff is properly trained and is experienced in the requirements of reporting federal expenditures, including the annual report and supplemental schedules. Appropriate measures were put in place in 2014, prior to the 2013 audit performed by SAO, to assure the annual report is accurate and adequately reviewed for completeness and reasonableness prior to filing.

The District has established a method to track and review federal expenditures and is prepared to request a required federal audit timely to the State Auditor's Office if it becomes necessary in the future.

None of the challenges resulting from the accounting staff and accounting software transition resulted in negative consequences to District financial condition.

Auditor's Remarks

We thank the District for its assistance throughout the audit, and the steps it is taking to address these issues. We will review the status of the District's corrective action during our next audit.

Applicable Laws and Regulations

RCW 43.09.200 states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

RCW 43.09.230 states in part:

The state auditor shall require from every local government financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.

Such reports shall be prepared, certified, and filed with the state auditor within one hundred fifty days after the close of each fiscal year.

Budget Accounting and Reporting System Manual - Part 3, Accounting, Chapter 1, Accounting Principles and General Procedures, Section 3, Internal Control states in part:

Controls over Financial Reporting

3.1.3.140 This objective refers to fair presentation of financial statements and required schedules in all material respects in accordance with the stated basis of accounting.

3.1.3.150 In meeting this objective, the government should have controls that accomplish the following key functions:

- Identification of financial events – Controls should ensure financial events and transactions are properly identified and recorded.
- Properly applying accounting standards – Controls should ensure correct criteria and methodology is applied when accounting for financial events. When the correct method

of accounting for or reporting a transaction is unclear, the government should seek clarification by performing research, contracting for accounting assistance, or communicating with the State Auditor's Office or standard setting bodies.

- Correctly accounting for all financial events – Controls should ensure that:
 - Only valid transactions are recorded and reported.
 - All transactions occurred during the period are recorded and reported.
 - Transactions are recorded and reported at properly valued and calculated amounts.
 - Recorded and reported transactions accurately reflect legal rights and obligations.
 - Transactions are recorded and reported in the account and fund to which they apply.
 - Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records. Controls should also ensure correct presentation of statements and schedules.

3.1.3.160 Controls and processes should generate adequate documentation to demonstrate achievement of objectives. This is not only important for audit, oversight and public records purposes, but also to enable effective monitoring of controls over financial reporting by management.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or

grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows: ...

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Mason Conservation District Mason County January 1, 2013 through December 31, 2013

2013-003 The District's internal controls over financial reporting were inadequate to ensure accurate and timely federal grant reporting, resulting in a missed federal audit deadline.

Background

U.S. Office of Management and Budget Circular A-133 requires grantees that spend \$500,000 or more each year in federal money in a year to submit a completed Schedule of Expenditures of Federal Awards (SEFA) and to have a single audit conducted and audit report issued within nine months of fiscal year-end. It is the responsibility of District management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting.

Our audit identified control deficiencies in internal controls that we considered to be a material weakness.

Description of Condition

The District lacked internal controls to ensure expenditures of federal awards were reported properly on its SEFA. The District Manager notified the State Auditor's Office in December 2014 that the District may require a federal audit of its 2013 federal expenditures; however, they only reported \$1,099 in federal expenditures on its fiscal year 2013 SEFA. We reviewed the District's grant files and found the SEFA was understated by approximately \$726,032. The District failed to report federal expenditures from the following federal programs:

- CFDA 12.130 – Department of Defense, Estuary Habitat Restoration Program – \$525,000 in direct federal expenditures. This program required a single audit of its activity to ensure compliance with applicable requirements.
- CFDA 11.463 – Department of Commerce, Habitat Conservation - \$100,000 in indirect federal expenditures.

- CFDA 66.123 – Environmental Protection Agency, Puget Sound Action Agenda - \$85,253 in indirect federal expenditures.
- CFDA 11.438 – Department of Commerce, Pacific Coast Salmon Recovery - \$15,779 in indirect federal expenditures.

The District was required to obtain and submit a federal single audit report to the Federal Clearinghouse by September 30, 2014, which did not occur.

Cause of Condition

- The Financial Accountant and District Manager did not properly identify federal grant revenues in its accounting system.
- The Financial Accountant lacked the knowledge to properly prepare the Schedule of Expenditures of Federal Awards.
- The District Manager did not adequately review the SEFA to ensure it was fairly presented.
- The District Manager did not notify the State Auditor's Office timely of the need for a single audit of its federal awards.

Effect of Condition and Questioned Costs

The material weakness in internal controls over the SEFA preparation caused the District to incorrectly report federal expenditures in its financial records and annual financial report. It also caused the District to fail to meet its single audit reporting deadline for 2013. Non-compliance with this requirement can put future federal funding in jeopardy.

Recommendation

We recommend the District establish internal controls to ensure:

- Indirect and direct grant revenues are properly identified in its accounting system.
- Staff is properly trained in the requirements related to reporting federal expenditures in the annual report.
- Supplemental schedules, such as the Schedule of Expenditures of Federal Awards, are adequately reviewed for completeness and reasonableness prior to filing the annual report.
- Requests for required federal audits are communicated timely to the State Auditor's Office.

District's Response

The District transitioned to new accounting software during 2013. During the transition it was necessary to utilize both the old software and the new software throughout the year, while the conversion was underway. This is a common practice among public (and private for that matter) entities during software conversions of this nature. The use of dual accounting systems created additional complexity, some confusion, and did not provide for a clear interface for accounting transactions between these two systems.

The District Treasurer who prepared the Annual Report has over 30 years of governmental accounting experience in Washington and is familiar with BARS. The District Management deferred discretion to the District Treasurer who operated with minimal oversight to prepare the annual report. In addition, District financial staff were in transition in the third and fourth quarters of 2013, with the District Treasurer's retirement, and notification of the District Financial Accountant's planned leave at the end of the year.

The District Manager became aware of possible errors in the coding of revenues and expenditures in the first quarter of 2014, when a new financial accountant was hired. The District established proper internal controls to ensure indirect and direct grant revenues are properly identified in its accounting system for 2014 and beyond, prior to the 2013 audit being performed by SAO.

The District Manager was proactive, requesting a review by SAO to determine if the 2013 annual report was properly filed, when he became aware of possible issues related to proper coding of revenues and expenditures.

District financial staff is properly trained and is experienced in the requirements of reporting federal expenditures in the annual report and supplemental schedules. Appropriate measures were put in place in 2014, prior to the 2013 audit performed by SAO, to assure the annual report is adequately reviewed for completeness and reasonableness prior to filing.

The District has established a method to track and review federal expenditures and is prepared to request a required federal audit timely to the State Auditor's Office when necessary.

None of the challenges resulting from the accounting staff and accounting software transition resulted in negative consequences to Districts the financial condition.

Auditor's Remarks

We thank the District for its assistance throughout the audit, and the steps it is taking to address these issues. We will review the status of the District's corrective action during our next audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows: ...

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, states in part:

§ ___.200 Audit requirements.

(a) Audit required. Non-Federal entities that expend \$300,000 (*\$500,000 for fiscal years ending after December 31, 2003*) or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of this part. Guidance on determining Federal awards expended is provided in § ___.205.

(b) Single audit. Non-Federal entities that expend \$300,000 (*\$500,000 for fiscal years ending after December 31, 2003*) or more in a year in Federal awards shall have a single audit conducted in accordance with § ___.500 except when they elect to have a program-specific audit conducted in accordance with paragraph (c) of this section.

§ ___.300 Auditee responsibilities.

The auditee shall:

(a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs. ...

(e) Ensure that the audits required by this part are properly performed and submitted when due. When extensions to the report submission due date required by § ___.320(a) are

granted by the cognizant or oversight agency for audit, promptly notify the Federal clearinghouse designated by OMB and each pass-through entity providing Federal awards of the extension.

§ ____ .320 Report submission.

(a) General. The audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. Unless restricted by law or regulation, the auditee shall make copies available for public inspection.

Circular A-102, *Uniform Administrative Requirements for Grants and Cooperative Agreements With State and Local Governments*, Section 20 [7 CFR 3016.20], states in part:

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

(1) *Financial reporting*. Accurate, current and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

(2) *Accounting records*. Grantees and subgrantees must maintain records, which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Mason Conservation District Mason County January 1, 2013 through December 31, 2013

2013-004 Internal controls over reimbursement claims to a state grant were inadequate.

Background

Mason Conservation District received over \$1.3 million in state and indirect federal grant funding from the Recreation and Conservation Office (RCO) in 2013 and 2014. Funds were used to partially fund the Skokomish Estuary Habitat Restoration project. The District also received \$525,000 in federal grant funds from the Department of Defense (DOD) for the same project. This federal program (CFDA 12.130) was audited as a major program in the fiscal year 2013 audit.

Description of Condition

During our 2013 federal program audit, we found the District did not have an adequate system or process to ensure costs were not charged to more than one grant award. This was considered a weakness in internal controls, which resulted in the District requesting reimbursement for the same invoice of \$271,195 from both the federal DOD and state RCO grant programs. While the RCO grant included both state and indirect federal funding sources, we confirmed no federal funding was used to reimburse the subsequent duplicate billing to the RCO grant.

Cause of Condition

The former Financial Accountant lacked adequate training and knowledge to administer the grant in accordance with grant requirements. Additionally, District management did not provide adequate oversight of grant billings to ensure they were allowable and adequately supported.

Effect of Condition

The District received \$271,195 in state grant funds not due to it. The District is at risk of having to repay the Recreation and Conservation Office for the overpayment. This instance of non-compliance with grant requirements would have a material effect on the financial statements. This also places the District at risk of losing eligibility for future state and federal awards.

The internal control weakness identified above was considered a material weakness in the audit of the federal DOD major program. This issue was reported in this report as Finding #2013-001.

Recommendation

We recommend the District:

- Provide training to employees responsible for the use of the funds to ensure they have adequate knowledge of grant requirements.
- Implement controls to ensure charges to grants are allowable and adequately supported, including management oversight of grant billings.
- Communicate with RCO to determine if the grant funds need to be returned.

District's Response

The District substantially completed the accounting software transition in 2014. The new accounting software contains a grant module specifically designed to track income and expense details of each individual grant and contract. The grant module in this newly implemented software will not allow a duplicate billing action to occur for the same expense or invoice. In addition, the District implemented a spreadsheet tracking system for all grants and contracts. In the event the accounting software was to allow an expense to be vouchered twice (although that is very unlikely) it would be detected with the new tracking spreadsheets. Further, since the beginning of 2014 the District Manager reviews all vouchers for payment prior to distribution. Each of these changes was implemented in 2014, prior to SAO initiating the 2013 audit.

Therefore, the District respectfully disputes SAO's conclusion in the Single Audit report noted above.

The District has contacted the RCO to discuss how to resolve the duplicate charges.

Auditor's Remarks

We thank the District for its assistance throughout the audit, and the steps it is taking to address this issue. We will review the status of the District's corrective action during our next audit.

Applicable Laws and Regulations

RCW 43.09.200, Local government accounting – Uniform system of accounting, states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Budgeting, Accounting, and Reporting System (BARS) Manual, chapter 3, part 1, section 3, regarding Internal Control, issued by the State Auditor's Office, states in part:

Controls over Compliance

This objective refers to compliance with laws, regulations, contracts, grant agreements and government policies, including the requirement to safeguard public resources against misappropriation and misuse.

In meeting this objective, the government should have controls that accomplish the following key functions:

- Identification of requirements – Controls should ensure that requirements are identified and that employees whose actions may affect compliance are aware of applicable requirements. When statutory, regulatory or contractual

provisions are unclear, the government should seek clarification through legal counsel, research or communication with regulatory agencies or contracting parties.

- Compliance – Controls should prevent non-compliance or detect non-compliance in a timely enough manner for the government to remedy the situation. Such controls vary greatly, depending on the nature of the compliance requirement.

Generally Accepted Government Auditing Standards, *Chapter 4 Standards for Financial Audits*, paragraph 4.25, states in part:

4.25 When performing a GAGAS financial audit, and auditors conclude, based on sufficient, appropriate evidence, that any of the following either has occurred or is likely to have occurred, they should include in their report on internal control and compliance the relevant information about

b. noncompliance with provisions of contracts or grant agreements that has a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives;

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Mason Conservation District
Mason County
January 1, 2013 through December 31, 2013**

Board of Supervisors
Mason Conservation District
Shelton, Washington

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Mason Conservation District, Mason County, Washington, for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 8, 2015. Our report disclaims an opinion on such financial statements because we were not able to obtain financial statements supporting the financial activities of the District for the year ended December 31, 2013, nor were we able to satisfy ourselves as to those financial activities by other auditing procedures.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In connection with our engagement to audit the financial statements of the District, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying

Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Findings 2013-002 and 2013-003 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

In connection with our engagement to audit the financial statements of the District, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Audit Findings and Responses as Finding 2013-004. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

DISTRICT'S RESPONSE TO FINDINGS

The District's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The District's response was not subjected to the auditing procedures applied in the engagement to audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of

the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, reading "Jan M. Jutte". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

May 8, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

**Mason Conservation District
Mason County
January 1, 2013 through December 31, 2013**

Board of Supervisors
Mason Conservation District
Shelton, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of the Mason Conservation District, Mason County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The District's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program

occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2013-001. Our opinion on each major federal program is not modified with respect to these matters.

District's Response to Findings

The District's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal

control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2013-001 to be a material weakness.

District's Response to Findings

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It

also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, reading "Jan M. Jutte". The signature is fluid and cursive, with the first name "Jan" and last name "Jutte" clearly legible.

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

May 8, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Mason Conservation District Mason County January 1, 2013 through December 31, 2013

Board of Supervisors
Mason Conservation District
Shelton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We were engaged to audit the financial statements of the Mason Conservation District, Mason County, Washington, for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Because of the matter described in the Basis for Disclaimer Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide basis for an audit opinion.

Basis for Disclaimer of Opinion

The District did not provide accurate financial statements or supporting schedules for the period ended December 31, 2013, and therefore, representations of the District's financial activities were not available for audit. Further, the District did not retain sufficient documentation in support of transactions to allow us to evaluate the fair statement of revenues and expenditures in the financial statements for the period ended December 31, 2013. The District's records do not permit the application of other auditing procedures to evaluate the fair statement of revenues and expenditures.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements. The statements are not included in our report.

Other Matters Regarding Disclaimer of Opinion

As the statutory auditor of all public accounts in the state of Washington we are precluded from withdrawing from the audit engagement, regardless of the matters described in the Basis for Disclaimer of Opinion paragraph.

Other Matters

Supplementary and Other Information

We were engaged for the purpose of forming an opinion on the basic financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis and is not a required part of the financial statements. Because of the significance of the matter described in the Basis for Disclaimer of Opinion, it is inappropriate to and we do not express an opinion on the schedule of expenditures of federal awards.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report

is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink, reading "Jan M. Jutte". The signature is fluid and cursive, with the first name "Jan" and last name "Jutte" clearly legible.

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

May 8, 2015

FINANCIAL SECTION

**Mason Conservation District
Mason County
January 1, 2013 through December 31, 2013**

Supplementary and Other Information

Schedule of Expenditures of Federal Awards – 2013

Mason Conservation District
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2013

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	
National Oceanic And Atmospheric Administration (noaa), Department Of Commerce (via IAC/SFRB via South Puget Sound Salmon Enhancement)	Pacific Coast Salmon Recovery_Pacific Salmon Treaty Program	11.438	None	1,099	-	1,099	
Total Federal Awards Expended:				1,099	-	1,099	

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER OMB CIRCULAR A-133

Mason Conservation District

Mason County

January 1, 2013 through December 31, 2013

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the Mason Conservation District.

Finding ref number: 2013-001	Finding caption: The District did not have adequate controls to ensure compliance with allowable cost principles and Davis-Bacon Act requirements.
Name, address, and telephone of auditee contact person: John Bolender, District Manager 450 W. Business Park Road Shelton, WA 98584 360-427-9436	
Corrective action the auditee plans to take in response to the finding: <i>The District asserts it substantially complied with allowable cost principles, Davis-Bacon Act requirements, and disputes the SAO claim that a material violation occurred in the grant contract with the Department of Defense.</i> <i><u>Allowable Costs:</u> Prior to the audit, the District installed new accounting software. The new software contains a grant module specifically designed to track income and expense details of each individual grant and contract. The grant module will not allow a duplicate billing action to occur for the same expense or invoice. In addition, the District implemented a separate spreadsheet tracking system for all grants and contracts. In the event the accounting software were to allow an expense to be vouchered twice (although that is very unlikely) it would be detected with the new tracking spreadsheet. In addition, at the beginning of 2014 the District instituted a process for the District Manager to review all vouchers prior to distribution as a third check in the billing system.</i> <i><u>Davis-Bacon Act:</u> The District did include required Federal prevailing wage rate statements in its contract with the contractor for the project. The contract stated the project must be done in accordance with the Washington State Department of Transportation Standard Specifications Manual, which included the appropriate clauses. This was the guidance provided to the District by the Department of Transportation.</i> <i>The third party fiduciary did receive certified payroll from the contractor as required. These</i>	

records were provided to the District, were reviewed, and determined to substantially comply with the Davis-Bacon Act.

The District has established procedures requiring all contractors to submit certified payroll records for all contracts subject to prevailing wage requirements. District staff review these payroll records to assure compliance with prevailing wage requirements prior to contractor reimbursement for work performed.

Anticipated date to complete the corrective action: Immediately

Finding ref number: 2013-002	Finding caption: The District's internal controls over accounting and financial statement preparation are inadequate to ensure accurate reporting.
----------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------

Name, address, and telephone of auditee contact person:

John Bolender, District Manager
450 W. Business Park Road
Shelton, WA 98584
360-427-9436

Corrective action the auditee plans to take in response to the finding:

The District Manager became aware of possible errors in the coding of revenues and expenditures in the first quarter of 2014, when a new financial accountant was hired. The District Financial Accountant is experienced in governmental financial accounting and the new accounting software will ensure financial transactions are accurately recorded in accordance with the Budgeting Accounting and Reporting System (BARS) manual requirements. The District established proper internal controls to ensure indirect and direct grant revenues are properly identified in its new accounting system for 2014 and beyond, prior to the 2013 audit being performed by SAO.

Appropriate measures were put in place in 2014, prior to the 2013 audit performed by SAO, to assure the annual report is accurate and adequately reviewed for completeness and reasonableness prior to filing.

Anticipated date to complete the corrective action: Immediately

Finding ref number: 2013-003	Finding caption: The District's internal controls over financial reporting were inadequate to ensure accurate and timely federal grant reporting, resulting in a missed federal audit deadline.
----------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Name, address, and telephone of auditee contact person:

John Bolender, District Manager
450 W. Business Park Road

Shelton, WA 98584
360-427-9436

Corrective action the auditee plans to take in response to the finding:

The District Manager became aware of possible errors in the coding of revenues and expenditures in the first quarter of 2014, when a new financial accountant was hired. The District established proper internal controls to ensure indirect and direct grant revenues are properly identified in its accounting system for 2014 and beyond, prior to the 2013 audit being performed by SAO.

The District has established a method to track and review federal expenditures and is prepared to request a required federal audit timely to the State Auditor's Office when necessary.

Anticipated date to complete the corrective action: Immediately

Finding ref number:
2013-004

Finding caption:

Internal controls over reimbursement claims to a state grant were inadequate.

Name, address, and telephone of auditee contact person:

John Bolender, District Manager
450 W. Business Park Road
Shelton, WA 98584
360-427-9436

Corrective action the auditee plans to take in response to the finding:

The District substantially completed the accounting software transition in 2014. The new accounting software contains a grant module specifically designed to track income and expense details of each individual grant and contract. The grant module in this newly implemented software will not allow a duplicate billing action to occur for the same expense or invoice. In addition, the District implemented a spreadsheet tracking system for all grants and contracts. In the event the accounting software was to allow an expense to be vouchered twice (although that is very unlikely) it would be detected with the new tracking spreadsheets. Further, since the beginning of 2014 the District Manager reviews all vouchers for payment prior to distribution. Each of these changes was implemented in 2014, prior to SAO initiating the 2013 audit.

Anticipated date to complete the corrective action: Immediately

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov