



Washington State Auditor's Office

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Financial Statements Audit Report Wenatchee Valley College

For the period July 1, 2013 through June 30, 2014

Published October 24, 2016

Report No. 1017695





Washington State Auditor's Office

October 24, 2016

Board of Trustees
Wenatchee Valley College
Wenatchee, Washington

Report on Financial Statements

Please find attached our report on the Wenatchee Valley College's financial statements.

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

Sincerely,

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2014-001 The College's internal controls over accounting and financial statement preparation are inadequate to ensure accurate reporting.

Background

It is the responsibility of College management to design, implement and maintain internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified material weaknesses in internal controls over financial reporting that affected the College's ability to produce reliable financial statements.

Government Auditing Standards, prescribed by the Comptroller General of the United States, requires auditor's to communicate material weaknesses, defined in the Applicable Laws and Regulations section below, as a finding.

Description of Condition

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

- College staff responsible for compiling the statements did not receive adequate training to effectively prepare the statements under generally accepted accounting principles (GAAP). Specifically, the College did not have procedures to record capital assets and related depreciation in accordance with GAAP or the State's Administrative and Accounting Manual (SAAM). In addition, although capital assets and accumulated depreciation balances comprised 81% of total reported assets, the College did not undertake a thorough analysis of these balances to ensure that they both accurately reflected a complete inventory of the college's assets, and were properly valued and appropriately depreciated.
- College staff responsible for financial statement preparation lacked the technical knowledge of reporting requirements prescribed by Governmental Accounting Standards Board (GASB). In addition, the College did not perform a review of the financial statements to ensure financial statements were accurate in all material respects and met reporting requirements.

Cause of Condition

This is the first year that the College has prepared financial statements. College staff responsible for financial statements did not have experience preparing formal financial statements in accordance with Generally Accepted Accounting Principles.

College staff did not appropriately use their capital assets management system for the period extending between fiscal year 2007 until fiscal year 2016, which is designated by the State Board of Community and Technical Colleges, thereby increasing the burden on current accounting staff to determine proper capital assets balances.

Effect of Condition

We identified the following errors during our audit of the College's financial statements:

- The College did not properly record or maintain accurate accounting records for capital assets and related depreciation from 2007 through 2014. Further, the College did not conduct a physical inventory to determine the entire population of capital assets required to be reported. As a result, the College did not include eight buildings with approximate value of \$772,000 on its original financial statements. Further, we were not able to substantiate reported capital assets net of related depreciation balance of approximately \$41 million and the associated depreciation expense balance of approximately \$855,000.
- The College did not present the Wenatchee Valley College Foundation as a component unit as required by GASB Statement No. 39 *Determining Whether Certain Organizations are Component Units*. The total value of the Foundation's omitted assets approximates \$8.6 million.

The College misclassified long-term investments as current cash and equivalents; as result current cash and equivalents were overstated by \$4.1 million and long term investments were understated by the same amount.

- We were unable to reconcile the Statement of Cash Flows to other financial statements due to incomplete capital asset records.
- We also identified other errors within the basic financial statements, the Management's Discussion and Analysis, and the Notes to the Financial Statements that were not individually significant; however, these errors impair the reliability of the financial report.

Inaccurate accounting records and financial reports limit access to financial information used by College officials, the public, state and federal agencies and other interested parties, and might impact the College's ability to maintain accreditation.

Recommendation

We recommend the College establish and follow procedures to ensure:

- Personnel responsible for financial transactions are provided the necessary resources, time, training and oversight to facilitate accurate accounting for balances and preparation of accurate and supported financial statements.
- Establish an effective review process of the financial statements by a person knowledgeable of GAAP reporting requirements to ensure accurate preparation and reporting of the College's financial statements.

College's Response

Wenatchee Valley College recognizes the importance of a strong internal control environment and takes very seriously the identification of a weakness in our controls. We appreciate the opportunity to respond to this finding. Corrective actions were begun as soon as the weakness was identified, prior to the conclusion of the financial statements audit.

Inventory procedures: *Responsibility for recording equipment, land, buildings and other improvements in the College's fixed asset system has historically resided with the Facilities Department due to the other uses for the data maintained in the system (such as room locations, square footage, etc.) that is critical to ongoing Facilities operations but would not impact financial reporting. Entries to record capital assets other than equipment are infrequent. The inventory for equipment was moved to an alternate software system prior to the audit period, and responsible employees did not have adequate understanding of the impact of their records on accounting. This condition has been corrected, and a physical inventory of all recorded assets is in process.*

Monthly reconciliations between accounting records and changes to the asset inventory are again being performed. Inventory policy and procedure were reviewed and updated, and will be revisited annually prior to the preparation of the financial statements.

The College made adjustments to the financial statements to account for eight small homes owned by the College originally missing from the inventory, and the associated depreciation.

Training: Additional training is planned for key personnel on internal controls and inventory procedures. Facilities office staff will take advantage of training related to the inventory and facilities operations software. Business office staff will take advantage of training on GASB standards for financial statements provided by the State Board for Community and Technical Colleges and the community college business officers group (Business, Accounting and Reporting Council).

GASB compliance: The College revised the financial statements to include the WVC Foundation prior to the conclusion of the audit. Fiscal office staff monitors communications from the State Board and other sources concerning GASB standards. All future financial statements will be reviewed for conformity to prescribed accounting standards and formats by college executives or their designees.

Representatives of the State Auditor's Office were generous with information and advice throughout the audit. WVC accounting and management personnel are grateful for the ongoing assistance as we implement and evaluate corrective actions.

Auditor's Remarks

We appreciate the College's commitment to resolve this finding and thank the College for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

RCW 43.88.160 – Fiscal management – Powers and duties of officers and agencies, states in part:

This section sets forth the major fiscal duties and responsibilities of officers and agencies of the executive branch. The regulations issued by the governor pursuant to this chapter shall provide for a comprehensive, orderly basis for fiscal management and control, including efficient accounting and reporting therefor, for the executive branch of the state government and may include, in addition, such requirements as will generally promote more efficient public management in the state.

(1) Governor; director of financial management. The governor, through the director of financial management, shall devise and supervise a modern and complete accounting system for each agency to the end that all revenues, expenditures, receipts, disbursements, resources, and obligations of the state shall be properly and

systematically accounted for. The accounting system shall include the development of accurate, timely records and reports of all financial affairs of the state. The system shall also provide for central accounts in the office of financial management at the level of detail deemed necessary by the director to perform central financial management. The director of financial management shall adopt and periodically update an accounting procedures manual. Any agency maintaining its own accounting and reporting system shall comply with the updated accounting procedures manual and the rules of the director adopted under this chapter. An agency may receive a waiver from complying with this requirement if the waiver is approved by the director. Waivers expire at the end of the fiscal biennium for which they are granted. The director shall forward notice of waivers granted to the appropriate legislative fiscal committees. The director of financial management may require such financial, statistical, and other reports as the director deems necessary from all agencies covering any period.

(4) In addition, the director of financial management, as agent of the governor, shall:

(a) Develop and maintain a system of internal controls and internal audits comprising methods and procedures to be adopted by each agency that will safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies for accounting and financial controls. The system developed by the director shall include criteria for determining the scope and comprehensiveness of internal controls required by classes of agencies, depending on the level of resources at risk.

(i) For those agencies that the director determines internal audit is required, the agency head or authorized designee shall be assigned the responsibility and authority for establishing and maintaining internal audits following professional audit standards including generally accepted

government auditing standards or standards adopted by the institute of internal auditors, or both.

(ii) For those agencies that the director determines internal audit is not required, the agency head or authorized designee may establish and maintain internal audits following professional audit standards including generally accepted government auditing standards or standards adopted by the institute of internal auditors, or both, but at a minimum must comply with policies as established by the director to assess the effectiveness of the agency's systems of internal controls and risk management processes;

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 material weaknesses and significant deficiencies 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.

The Office of Financial Management's *State Administrative and Accounting Manual* (SAAM), states in part:

Section 20.15.30.a *Who is responsible for internal control?*

The agency head or authorized designee is ultimately responsible for identifying risks and establishing, maintaining, and reviewing the agency's system of internal control. If the agency head delegates this responsibility, the designated person should have sufficient authority to carry out these responsibilities. Normally, this person is a senior agency manager who does not serve in the internal audit function.

Section 20.15.40.c *Control Activities*

Control activities help ensure risk responses are effectively carried out and include policies and procedures, manual and automated tools, approvals, authorizations, verifications, reconciliations, security over assets, and segregation of duties. These activities occur across an agency, at all levels and in all functions, and are designed to help prevent or reduce the risk that agency objectives will not be achieved. Managers set up control activities to provide reasonable assurance that the agency and business unit objectives are met. An example of a control activity is something as simple as listing tasks assigned to staff members and then periodically checking the list to verify that assignments are completed on time. Refer to Section 20.25 for further discussion of control activities.

Section 20.15.40.e *Monitoring*

Things change and, by monitoring the risks and the effectiveness of control measures on a regular basis, an agency can react dynamically to changing conditions.

Monitoring evaluates the effectiveness of an agency's internal controls and is designed to ensure that internal controls continue to operate effectively. Monitoring is effective when it leads to the identification and correction of

control weaknesses before they materially affect the achievement of the agency's objectives. An agency's internal control is most effective when there is proper monitoring, results are prioritized and communicated, and weaknesses are corrected and followed up on as necessary.

Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*, states in part:

40a. Certain organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government or its other component units. A legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if *all* of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

**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**

**Wenatchee Valley College
July 1, 2013 through June 30, 2014**

Board of Trustees
Wenatchee Valley College
Wenatchee, Washington

We have audited, 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 business-type activities of the Wenatchee Valley College, Chelan County, Washington, as of and for the year ended June 30, 2014, and the related notes to the financial statements. We were not engaged to audit the financial statements of the aggregate discretely presented component units. These financial statements collectively comprise the College's basic financial statements, and we have issued our report thereon dated September 28, 2016. We were not able to substantiate capital assets net of depreciation and the associated depreciation expense balances as reported on the College's financial statements for the year ending June 30, 2014. In addition, due to incomplete capital asset records, we were not able to reconcile the Statement of Cash Flows to other financial statements. Accordingly, our report was modified to reflect a qualified opinion on the fair presentation of the business-type activities for this departure from accounting principles generally accepted in the United States of America. Our report includes a disclaimer of opinion on the aggregate discretely presented component units because we were not engaged to audit those financial statements for the year ended June 30, 2014.

The financial statements of the Wenatchee Valley College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2014, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the College'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College'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 College'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 Finding 2014-001 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of the College'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 audit, and accordingly, we do not express such an opinion.

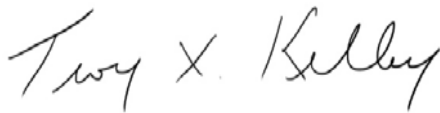
The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

COLLEGE'S RESPONSE TO FINDINGS

The College's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The College's response was not subjected to the auditing procedures applied in the 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 College'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 College'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.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

September 28, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Wenatchee Valley College July 1, 2013 through June 30, 2014

Board of Trustees
Wenatchee Valley College
Wenatchee, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities of the Wenatchee Valley College, Chelan County, Washington, as of and for the year ended June 30, 2014, and the related notes to the financial statements. We were not engaged to audit the financial statements of the aggregate discretely presented component units. These financial statements collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 opinions on these financial statements based on our audit. We conducted our 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of the matter described in the "Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units" paragraph, however, we were not able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on the aggregate discretely presented component units.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our modified audit opinions.

Basis for Qualified Opinion on Business-Type Activities

The College did not properly record or maintain accurate accounting records for capital assets and related depreciation from 2007 through 2014. Furthermore, the College did not conduct a physical inventory to determine the entire population of capital assets required to be reported. As a result, we were not able to substantiate capital assets net of depreciation balance of approximately \$41 million and the associated depreciation expense balance of approximately \$855,000 as reported on the College's financial statements for business-type activities for the year ending June 30, 2014. In addition, due to incomplete capital asset records, we were unable to reconcile the Statement of Cash Flows to the other financial statements for the business-type activities. Correct accounting and reporting of these balances is required by accounting principles generally accepted in the United States of America.

Qualified Opinion on Business-Type Activities

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the College, as of June 30, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Unit

The financial statements of the Wenatchee Valley College Foundation (WVCF) component unit have not been audited, and we were not engaged to audit the WVCF financial statements as part of our audit of the College's basic financial statements. WVCF's financial activities are included in the College's basic financial statements as a discretely presented component unit and represent 100 percent of the assets, net position, and revenues, respectively, of the College's discretely presented component unit.

Disclaimer of Opinion on the Aggregate Discretely Presented Component Units

Because of the significance of the matter described in the “Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units” paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the aggregate discretely presented component units of the Wenatchee Valley College, Washington. Accordingly, we do not express an opinion on these financial statements.

Matters of Emphasis

As discussed in Note 1, the financial statements of the Wenatchee Valley College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2014, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

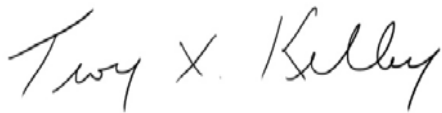
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of

America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2016 on our consideration of the College'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 College's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

September 28, 2016

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.

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