



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report **Whitman County**

For the period January 1, 2015 through December 31, 2015

Published November 28, 2016

Report No. 1017861





Washington State Auditor's Office

November 28, 2016

Board of Commissioners
Whitman County
Colfax, Washington

Report on Financial Statements

Please find attached our report on Whitman County's financial statements.

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

Schedule Of Audit Findings And Responses.....	4
Summary Schedule Of Prior Audit Findings	10
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	12
Independent Auditor’s Report On Financial Statements	15
About The State Auditor’s Office.....	18

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Whitman County January 1, 2015 through December 31, 2015

2015-002 The County's did not have adequate internal controls in place to ensure accurate reporting of its financial statements and schedules.

Background

County Elected Officials and appointed management are responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls that adversely affected the County's ability to produce reliable financial statements and required schedules.

Prior audits identified weaknesses in the financial statement preparation process that were reported to management. The County has only been able to prepare materially accurate financial statements in five of the last 11 years.

Description of Condition

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

- County employees responsible for recording financial transactions do not fully understand the accounting software and how the recording of transactions impacts the accuracy of the accounting records.
- Much of the County's financial activity is entered into the accounting records using journal vouchers. The County lacks an effective process that ensure entries are properly authorized, supported and reviewed for accuracy prior to posting to the accounting records.
- The County's annual report preparation process does not include controls that ensure amounts reported in the financial statements and schedules agree to the underlying bank reconciliations or accounting records.
- County employees responsible for financial statement preparation lack the technical knowledge, training and resources needed to ensure the County's financial reporting is accurate and complete.

- The County does not have monitoring controls for the review of the completed annual report to ensure significant errors or inconsistencies are detected and resolved prior to submission.

Cause of Condition

The County contracted with the Governmental Finance Officers Association and State Auditor's Office Local Government Performance Center to assist with improvements to its internal controls in 2014. However, the County still has not been able to design and establish controls to prevent significant errors in its financial statements and accounting records.

Although the County lacks confidence in the accuracy of the financial information, the County continued to rely on one employee to monitor and post financial activity and to prepare the annual financial statements and schedules. This employee is no longer employed by the County and was not available to assist in the audit of the financial statement and accounting records.

The County records some accounting transactions intended for accrual basis accounting and the County prepares its financial statements on the cash basis. This complexity limits software functions such as closing the accounting records each month after reconciliations are finalized and requires a significant number of year-end adjusting entries.

Effect of Condition

The County could not provide sufficient audit evidence for significant journal entries or determine the cause of significant variances between the bank activity, accounting records and reported financial statement amounts. As such, we were not able to express an opinion on the financial statements, as of and for the year ending December 31, 2015 and no financial statements will be included with our audit report.

Audit procedures identified the following:

The County was unable to explain variances of more than \$2.5 million in ending cash and investment when comparing the bank reconciliations, accounting records, and the supporting schedule of cash activity as follows.

Total ending cash and investments:

Reconciled bank balance according to the Treasurer's Office	\$ 83,286,325
Balance according to the accounting records	\$ 80,755,495
Balance according to the Schedule of Cash Activity	\$ 80,326,586

(Note: These amounts represent all cash and investments held by the County. The amount belonging to the County approximates \$27 million and the remainder is held in a fiduciary capacity on behalf of other special purpose districts within the County.)

- The 2013 and 2014 audit identified inaccuracies and errors in the reported cash amounts in the computerized accounting records. The County is aware of these errors and has not taken steps to correct them.

Numerous other variances, inaccuracies and errors were identified in the draft financial reports presented for audit.

In addition, inaccurate accounting and financial records limits access to financial information needed by County officials, the public, state and federal agencies, and other interested parties.

Recommendation

We recommend the County continue its efforts to improve its processes and control structure by performing the following:

- Ensure employees responsible for recording financial transactions are properly trained in the use of the accounting software.
- Establish sound accounting practices and monitoring controls that ensure financial transactions are accurately recorded in the proper account and reporting period.
- Establish proper internal controls over journal vouchers to ensure they are properly authorized, supported and reviewed for accuracy.
- Establish controls over the annual report preparation process to ensure financial statements accurately reflect cash and investments and financial activity in each fund.
- Provide appropriate resources to review the financial statements, schedules and footnote disclosures to ensure accurate and timely reporting.

County's Response

The Whitman County Auditor agrees with all of the charges as stated in this report, and the recommendations given.

We have changed and added personnel in the Auditor's Finance Division. We now have on board a Finance Administrator with years of experience in government accounting at the city and county levels, years of experience working in the SAO's BARS, including year-end reporting, and a history of training and working well with diverse departments and their accounting liaisons. We have also, for the first time since 2010, been able to fill the position of Assistant to the Finance Administrator. In the few weeks that these individuals have been at the county, major improvements have been made or started.

We have contracted with our Financial System vendor for in house training to bring our new employees up to speed on the workings of the system. We have already begun the work of cleaning up our chart of accounts to not only disable old unusable funds and accounts, but to be able to train county staff on the proper use of the system and the correct accounts to ensure transactions are being booked correctly for reporting purposes.

We are actively reviewing and correcting entries made into the system that have been booked in under the old accrual accounts, and then disabling those numbers to just be available in history mode.

We will continue to work with the County Treasurer to improve the accounting processes regarding bank reconciliation, investments, and debt management.

We are requiring support for all journal entries into the system and they are being reviewed for accuracy and proper authorization. We will also be closing months and year ends in a timely manner to no longer allow backdating of corrections to prior months.

Finally, with our new experienced and dedicated staff in the Financial Administration Division, we will be continually reviewing the progress and final version of the Annual Report.

Auditor's Remarks

We thank the County for its cooperation and assistance during the audit and acknowledge its commitment to improving the condition described. We will review the status of this issue 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.

RCW 43.09.200 Local government accounting – Uniform system of accounting, 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.

Budgeting, Accounting and Reporting System (BARS) Manual, Accounting, Accounting Principles and General Procedures, Internal Control, states:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Whitman County January 1, 2015 through December 31, 2015

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of Whitman County. The State Auditor's Office has reviewed the status as presented by the County.

Audit Period: January 1, 2014 through December 31, 2014	Report Ref. No.: 1015156	Finding Ref. No.: 2014-001
Finding Caption: County's internal controls over accounting and financial statement preparation continue to be inadequate to ensure accurate reporting.		
Background: Prior audits identified weaknesses in the financial statement preparation process that were reported to management. The County has only been able to prepare materially accurate financial statements in five of the last 10 years. The County continues to improve its financial statement preparation controls; however, deficiencies still remain. The County was able to prepare materially accurate financial statements for fiscal year 2014. Our audit identified the following internal control deficiencies: <ul style="list-style-type: none">• Lack of a monthly bank reconciliation process that ensures all accounts are reconciled to the underlying accounting records in total.• Lack of an effective process that ensures journal entries are properly authorized, supported and reviewed for accuracy.• Lack of controls to ensure financial transactions are accurately recorded in accordance with <i>Budgeting Accounting and Reporting System</i> Manual (BARS) requirements.• Lack of an effective annual report review process to identify significant errors and inconsistencies in the compiled financial information.		
Status of Corrective Action: <input type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input checked="" type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		

Corrective Action Taken:

The County worked with the Government Financial Officer Association (GFOA) and State Auditor's Office Performance Center to examine policies, procedures and internal controls. Steps are being taken to continue to improve the identified weaknesses including:

- *Gaining a better understanding of the revenue and tax distribution system by both the Treasurer and Auditor Offices.*
- *Employees gaining a better understanding of the system they use in their routine work to ensure that the systems are working efficiently and accurately.*
- *Preparing a hierarchy of Finance with less separation within the organization.*
- *Increased cooperation between the key departments preparing the financial statements and performing the accounting functions within the County.*
- *Writing policies and procedures governing the finance and accounting within the County.*
- *Increasing training and education for employees, department heads, and elected officials surrounding good financial practices.*
- *Increasing accountability and concerted effort to follow good financial practices amongst the above listed groups.*

Progress was made, but the County was unable to resolve all of the weaknesses identified in the prior audit finding.

**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**

**Whitman County
January 1, 2015 through December 31, 2015**

Board of Commissioners
Whitman County
Colfax, 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 Whitman County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's financial statements, and have issued our report thereon dated October 5, 2016. Our report disclaims an opinion on such financial statements because the County was unable to provide sufficient evidence supporting the financial activities of the County for the year ended December 31, 2015, 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 County we considered the County'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 County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County'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 County'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 2015-002 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

In connection with our engagement to audit the financial statements of the County, we performed tests of the County'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements, instances of noncompliance or other matters may have been identified and reported herein.

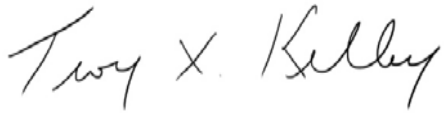
COUNTY'S RESPONSE TO FINDINGS

The County's response to the findings identified in our engagement is described in the accompanying Schedule of Audit Findings and Responses. The County's response was not subjected to the auditing procedures applied in the engagement to audit 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 County's internal control or on compliance. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the County'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 that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

October 5, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Whitman County **January 1, 2015 through December 31, 2015**

Board of Commissioners
Whitman County
Colfax, Washington

REPORT ON THE FINANCIAL STATEMENTS

We were engaged to audit the accompanying financial statements of Whitman County, Washington, for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County'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 matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The County did not provide accurate financial statements or supporting scheduled for the period ended December 31, 2015. Although representations of the County's financial activities were provided for audit, our procedures identified material misstatements. Additionally, the County was unable to explain variances of more than \$2.5 million in ending cash and investments when comparing the bank reconciliations, accounting records and supporting schedule of cash activity. Given the lack of controls over the recording of transactions in the general ledger and adjusting journal entries, we were unable to determine whether transactions were accurately reflected in the automated financial accounting system or the financial statements themselves.

Disclaimer of Opinion

Because of the significance of the matters 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.

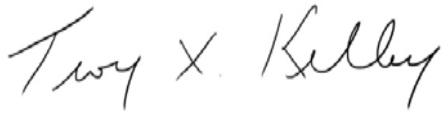
Other Matters Regarding Disclaimer of Opinion

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 REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2016 on our consideration of the County'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 County's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

October 5, 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.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov