



# Washington State Auditor's Office

Government that works for citizens

## Accountability Audit Report **Whitman County**

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

**Published November 28, 2016**

**Report No. 1018051**





## Washington State Auditor's Office

November 28, 2016

Board of Commissioners  
Whitman County  
Colfax, Washington

### Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for County operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the County's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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## AUDIT SUMMARY

### Results in brief

In most areas we audited, County operations complied with applicable requirements and provided adequate safeguarding of public resources. The County also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we identified areas in which the County could make improvements.

We recommended the County improve internal controls over payroll processing.

These recommendations were included in our report as a finding.

We also noted certain matters that we communicated to County management in a letter dated November 21, 2016, related to voucher certification and approval and Special Purpose Taxing District expenditures addressed in the management letter. We appreciate the County's commitment to resolving those matters.

### About the audit

This report contains the results of our independent accountability audit of Whitman County from January 1, 2015 through December 31, 2015.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the County's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Fair Department review
- Sheriff/Jail Department review
- Computer system access and authorities
- Payroll/personnel procedures
- Open Public Meetings Act
- General disbursements

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **2015-001    Whitman County lacks key internal controls over payroll processing that increase the risk that errors could occur and not be detected in a timely manner.**

#### ***Background***

Whitman County employs approximately 260 employees. Salaries and wages accounted for approximately \$10.5 million of the County's annual expenditures.

The County implemented a new software program in 2011. It is used as the centralized payroll system and managed by the County Auditor's Office. The County's Human Resource Department is responsible for establishing and communicating the official payroll policies and procedures to County departments and department heads are responsible for the daily monitoring of staff activity and enforcing payroll rules.

#### ***Description of Condition***

During the prior audit we gained an understanding of the County's established control processes and identified internal control weaknesses that increase the risks that errors could occur and not be detected in a timely manner. In the current audit we noted some improvements in the individual transactions tested in departments, but the County has not taken steps to address the systemic control weaknesses in its payroll controls and processes. The following internal control weaknesses identified in the prior audit still exist:

- The County does not have detailed written procedures manuals that document or communicate payroll rules, regulations, and County expectations.
- The County does not have a training program for department staff responsible for processing and monitoring payroll transactions.
- The County does not have an official policy related to staff sharing arrangements between departments to ensure that expected terms, and conditions are documented and total payroll calculations are supported and accurate. In addition, employees that work in more than one department have multiple employee identification codes which increase the risk of inaccurate overtime calculations and payroll errors.
- The County does not use some automated system controls such as limits on daily hours worked and leave balance accruals; and limiting access rights to

only the system components necessary for each employee to complete their job assignments.

- The County's automated payroll system lacks key processing controls that help ensure the accuracy of the recorded financial data including:
  - The inability to accurately allocate payroll costs among multiple account codes creating the need to revise payroll transactions using a manual journal entry process.
  - Inability to transfer payroll tax data to the disbursements module and assist in the preparation of the quarterly payroll reports. Reports must be manually calculated.
  - System limitations which make it necessary for some employee deductions to be manually recorded into the employee profile instead of being calculated by the software.

### *Cause of Condition*

The County's payroll process is complex and the current control system relies heavily on each department's monitoring controls to detect errors. The County understands the importance of preventative controls like written policies, training and the use of automated system controls, however it did not have the personnel and other resources to devote to correcting the identified weaknesses. As such, no significant improvements have been made to the current methods used to process payroll.

### *Effect of Condition*

In addition to increasing the risk that payroll errors will occur and not be detected in a timely manner, payroll controls and processes are not implemented consistently across departments. For example:

- The County has multiple time records and does not ensure employees and supervisors certify a specific source time record.
- Payroll remittance reports are not always reviewed for accuracy prior to payroll disbursement.
- Vacation and sick leave request forms or compensatory time requests/approvals are not always retained.
- Leave balance adjustments are sometimes made without adequate explanation and support.

## ***Recommendation***

We recommend the County improve internal controls over the payroll process by:

- Developing written procedures manuals so County payroll expectations are formalized.
- Training employees related to payroll policies and expectations so they are consistently applied and enforced.
- Evaluating the payroll system to determine if additional processes and payroll controls can be automated.
- Developing additional manual payroll monitoring controls to adequately address areas where automated controls are not available.

## ***County's Response***

*We have begun documenting and writing our payroll processes and procedures. We have re-started our monthly meetings with all accounting liaisons in the county to train and troubleshoot not only payroll processes, but all accounting processes at the county. Our new Finance Director is checking all permissions to the financial system to see where they need to be updated, or refused to enable the payroll and accounts payable controls are properly in place.*

## ***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***

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.

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 Budgeting, Accounting and Reporting System (BARS) Manual states in part:*

Accounting Principles and Internal Control 3.1.3 Internal Control Purpose and Definition of Internal Controls:

3.1.3.10 Internal control is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in standards adopted by the American Institute of Certified Public Accountants and by the Federal Office of Management and Budget as follows:

3.1.3.20 Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

3.1.3.30 Management and the governing body are responsible for the government’s performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has *ultimate* responsibility for ensuring adequate controls to achieve objectives, even though *primary* responsibility has been delegated to management. Since management and the governing body are assumed to work in harmony, both parties are collectively referred to as “management” throughout the rest of this section.



## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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.

<b>Audit Period:</b> January 1, 2014 through December 31, 2014	<b>Report Ref. No.:</b> 1015510	<b>Finding Ref. No.:</b> 2014-001
<b>Finding Caption:</b> Whitman County lacks key internal controls over payroll processing that increase the risk that errors could occur and not be detected in a timely manner.		
<b>Background:</b> Our audit identified weaknesses in established control processes and internal controls over payroll including: <ul style="list-style-type: none"> <li>• No written procedures manual</li> <li>• No training program for staff who process and monitor payroll</li> <li>• No policy related to staff sharing arrangements between departments</li> <li>• Lack of automated payroll system controls to ensure payroll accuracy</li> </ul>		
<b>Status of Corrective Action:</b> <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="text-align: center;"> <input type="checkbox"/> Fully Corrected         </div> <div style="text-align: center;"> <input type="checkbox"/> Partially Corrected         </div> <div style="text-align: center;"> <input checked="" type="checkbox"/> Not Corrected         </div> <div style="text-align: center;"> <input type="checkbox"/> Finding is considered no longer valid         </div> </div>		
<b>Corrective Action Taken:</b> <i>We have just begun documenting and writing our payroll processes and procedures. We will re-started our monthly meetings with all accounting liaisons in the county to train and troubleshoot not only payroll processes, but all accounting processes at the county. Our new Finance Director will check all permissions to the financial system to see where they need to be updated, or refused to enable the payroll and accounts payable controls are properly in place.</i>		

## RELATED REPORTS

### Financial

We have issued a separate report related to our engagement to audit the County's financial statements; however, we did not express an opinion on the County's financial statements. Given the lack of controls over the recording of transactions in the general ledger and adjusting journal entries for the year ended December 31, 2015, we were unable to determine whether transactions were accurately reflected in the automated financial accounting system or the financial statements themselves. That report includes a finding related to deficiencies in the County's internal controls and noncompliance with state laws that require the preparation of an accurate annual financial report. That report is available on our website: <http://portal.sao.wa.gov/ReportSearch>.

### Federal grant programs

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the County's major federal program, which is listed in the Schedule of Findings and Questioned Costs section of the separate single audit report. That report includes a finding related to deficiencies in the County's internal controls with federal laws that require the preparation of an accurate Schedule of Expenditures of Federal Awards. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

## INFORMATION ABOUT THE COUNTY

Whitman County serves approximately 46,500 residents. The County was established on November 29, 1871, in the area that now makes up Whitman, Franklin and Adams counties. The County was reduced to its current size of approximately 2,159 square-miles in 1883 when Franklin and Adams counties were formed.

An elected, three-member Board of Commissioners governs the County. Nine additional elected officials help administer the County. The County provides public services including road construction and maintenance, public health, judicial services, health and social services, law enforcement, solid waste disposal, recycling, parks and recreation facilities, county fair and noxious weed control with the assistance of approximately 260 employees. The County operated on an annual budget of approximately \$38 million for the fiscal year 2015.

Contact information related to this report	
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Contact:	Eunice Coker, Auditor
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*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for Whitman County at <http://portal.sao.wa.gov/ReportSearch>.

## 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	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>