



**Office of the Washington State Auditor**  
**Pat McCarthy**

# **Financial Statements Audit Report**

## **Lower Columbia College**

**For the period July 1, 2014 through June 30, 2015**

**Published February 23, 2017**

**Report No. 1018662**





**Office of the Washington State Auditor**  
**Pat McCarthy**

February 23, 2017

Board of Directors  
Lower Columbia College  
Longview, Washington

**Report on Financial Statements**

Please find attached our report on the Lower Columbia College's financial statements.

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

## TABLE OF CONTENTS

Schedule Of Audit Findings And Responses.....	4
Summary Schedule Of Prior Audit Findings .....	9
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 .....	10
Independent Auditor’s Report On Financial Statements .....	13
About the State Auditor's Office.....	17

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### Lower Columbia College July 1, 2014 through June 30, 2015

#### **2015-001    The College should improve internal controls over its financial statement preparation.**

##### ***Background***

It is the responsibility of the College to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. In our previous audit, our Office reported a finding on internal control over financial reporting. The current audit again identified deficiencies in internal controls that could adversely affect the College's ability to produce reliable financial statements.

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

We identified the following deficiencies in internal control that, when taken together, represent a significant deficiency:

- Staff preparing financial statements lacked adequate resources to ensure transactions were appropriately reported under generally accepted accounting principles.
- The review performed on the financial statements and notes was not adequate to ensure they were complete and accurate.

##### ***Cause of Condition***

The College experienced turnover in the position primarily responsible for preparing financial statements. The new individual lacked experience preparing financial statements for colleges. The College did not provide additional resources to compensate for the transition.

##### ***Effect of Condition***

The College's financial statements contained significant errors that were not detected by management. We identified the following errors in the original financial statements we received for audit:

- Receivables were overstated and expenses were understated by \$983,560 due to challenges recording building and innovation fee remittances.

- The Management Discussion and Analysis (MD&A) did not contain the required two years of comparative information.
- The College did not fully implement the new pension accounting standard that was effective for the audit period. The note disclosures and supplementary information required by the standard were not prepared.
- Net Investment in Capital Assets, a component of Net Position, was understated by \$1,080,848 due to errors classifying unspent debt proceeds.
- Negative expenses of \$751,263 associated with capitalized fixed assets were presented on the face of the operating statement. These expenses should have reduced maintenance and repair expenses.
- The College disclosed but did not record the loss and related liability for a legal settlement of \$338,263 on their statements.
- Cash was overstated by \$42,905 because the College was unable to fully reconcile its cash balance to bank statements.

These errors were corrected in the College's final financial statements.

### ***Recommendation***

We recommend the College dedicate the necessary time and resources to ensure procedures such as training and oversight are in place to ensure financial statements are accurate, complete and comply with generally accepted accounting principles.

### ***College's Response***

*Thank you for working with Lower Columbia College (LCC) on our FY2015 Financial Statement Audit. FY2015 is the second year that LCC has prepared Financial Statements and has already implemented some vital changes in ensure internal controls. LCC would like it noted that all of the misclassifications that were found during the audit of the FY2014 Financial Statements were not repeated in the FY2015 Financial Statements. Additionally, all errors found by the State Auditor's office were corrected before the final FY2015 Statements were published.*

### ***Auditor's Remarks***

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

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

(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.

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.

There are two types of monitoring: ongoing and periodic. Ongoing monitoring occurs in the course of operations. It includes tasks such as supervisory reviews of reconciliations, reports, and processes. Periodic monitoring includes tasks such as periodic internal audit sampling and annual reviews of high-risk business processes. Internal control deficiencies uncovered by monitoring should be reported to higher levels of management.



## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### Lower Columbia College July 1, 2014 through June 30, 2015

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

<b>Audit Period:</b> July 1, 2013 - June 30, 2014	<b>Report Ref. No.:</b> 1016062	<b>Finding Ref. No.:</b> 2014-001
<b>Finding Caption:</b> The College should improve internal controls over financial reporting.		
<b>Background:</b> <p>We noted those preparing the statements lacked adequate resources to ensure transactions were appropriately reported under generally accepted accounting principles. We also found the review performed on the financial statements and notes was not adequate to ensure they were complete and accurate.</p> <p>As a result of these deficiencies we noted multiple errors on the financial statements. These included \$6.5M in loans presented on the operating statement, \$6.9M in misclassified revenue on the operating statement, and \$20M of financing cash flows misclassified on the statement of cash flows.</p>		
<b>Status of Corrective Action: (check one)</b> <div style="display: flex; justify-content: space-between;"> <div><input type="checkbox"/> Fully Corrected</div> <div><input checked="" type="checkbox"/> Partially Corrected</div> <div><input type="checkbox"/> Not Corrected</div> <div><input type="checkbox"/> Finding is considered no longer valid</div> </div>		
<b>Corrective Action Taken:</b> <p><i>Lower Columbia College (LCC) has implemented many of the recommendations from the above finding. LCC will continue to work on developing additional resources to ensure transactions are appropriately reported under generally accepted accounting principles. LCC would like it noted that all of the misclassifications that were found during the audit of the FY 2014 Financial Statements were not repeated in the FY 2015 Financial Statements.</i></p>		

**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**

**Lower Columbia College  
July 1, 2014 through June 30, 2015**

Board of Trustees  
Lower Columbia College  
Longview, 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 and the aggregate discretely presented component units of the Lower Columbia College, Cowlitz County, Washington, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated February 14, 2017. As discussed in Note 1 to the financial statements, during the year ended June 30, 2015, the College implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*.

Our report includes a reference to other auditors who audited the financial statements of the Lower Columbia College Foundation, as described in our report on the College's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of the Lower Columbia College Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Lower Columbia College Foundation. The Lower Columbia College Foundation prior year comparative information has been derived from the Foundation's 2014 basic financial statements, on which other auditors issued their report dated December 16, 2014.

The financial statements of Lower Columbia 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, 2015, 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.

*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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2015-001 that we consider to be significant deficiencies.

We also noted certain matters that we have reported to the management of the College in a separate letter dated February 14, 2017.

## 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.



Pat McCarthy

State Auditor

Olympia, WA

February 14, 2017

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## Lower Columbia College July 1, 2014 through June 30, 2015

Board of Trustees  
Lower Columbia College  
Longview, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of the business-type activities and the aggregate discretely presented component unit of the Lower Columbia College, Cowlitz County, Washington, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic 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 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 did not audit the financial statements of the Lower Columbia College Foundation, which represents 100 percent of the assets, net position and revenues of the aggregate discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Lower Columbia College Foundation, is based solely on the report of the other auditors.

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 of material misstatement. The financial statements of the Lower

Columbia College Foundation were not audited in accordance with *Government Auditing Standards*.

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 audit opinions.

## **Opinion**

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Lower Columbia College, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis**

As discussed in Note 1 to the financial statements, in 2015, the College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements of the Lower Columbia 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, 2015, 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**

### ***Report on Summarized Comparative Information***

The financial statements include summarized prior-year comparative information for the Lower Columbia College Foundation. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2014, from which such summarized information was derived. Other auditors have previously audited the Lower Columbia College Foundation's 2014 financial statements and they expressed an unmodified opinion in their report dated December 16, 2014.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of Lower Columbia College's Share of Net Pension Liability and Schedule of Contributions 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the College's basic financial statements as a whole. The information identified in the table of contents as the Trustees and Administrative Officers are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the College's basic financial statements as a whole. The information identified in the table of contents as the Trustees and Administrative Officers is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2017 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.



Pat McCarthy  
State Auditor  
Olympia, WA

February 14, 2017



## 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>