

Schedule of Audit Findings and Responses

Franklin County Irrigation District No. 1 May 5, 2011

- 1. The District's lack of records retention and inadequate internal controls over financial operations place public funds at risk of loss.**

Description of Condition

For the three years we audited, Franklin County Irrigation District's revenue and expenditures were:

Year	Revenue	Expenditures
2008	\$1,038,779	\$996,222
2009	\$1,012,230	\$958,501
2010	\$1,021,523	\$979,706
Total	\$3,072,532	\$2,934,429

The District's Secretary/Bookkeeper is responsible for all of its financial operations. The District Board is responsible for overseeing this work to ensure public resources are safeguarded.

Because duties are not segregated and the Board does not provide independent oversight or monitoring, public funds are at risk.

We reported many of the following issues in our previous audit. At that time, the Board stated it would take action to address them. We found several conditions persist.

Records retention

During the audit, District staff could not locate some documents we requested in a timely manner, including invoices and receipts. Staff could not locate some documentation at all, including credit card statements and documentation to support whether expenditures were for District-related purposes.

Payments

During the three years we audited, the District made a total of \$2,934,429 in payments. Based on high dollar amount and unusual vendors, we examined 63 payments totaling \$478,933 and found:

- No supporting documentation for eight payments totaling \$1,558.
- The District Secretary manually added two vendor payments and one employee reimbursement to the payment approval voucher. We were unable to verify if the Board had approved the payments. The payments were for legitimate District business.
- Four late payments to vendors totaling \$12,940.

Credit cards

The District paid \$16,931.76 on its two credit cards in 2009 and 2010. We reviewed the 2009 and 2010 statements and determined:

- \$1,217.13 in support for purchases could not be located. With the exception of \$245.81, we were able to determine the business purpose for the purchases listed on the statements.
- \$137.99 in finance charges were paid by the District.
- \$243 in late payment fees were paid by the District.

We found the District Secretary calculated payment amounts, rather than paying the amount due on the statements. The calculated payments could not be tracked to specific amounts noted on the statements, which resulted in credits and finance charges carried from one statement to the next.

Petty cash

The Board-authorized amount for the District's petty cash fund is \$200. We found:

- The District Secretary reimbursed herself \$215 from this fund for 11 transactions made with her personal credit or debit card. No one reviewed the purchases to determine their business-related purposes.
- A balance of \$600 from a travel advance was added to petty cash when it should have been deposited in the District's bank.
- The District Secretary paid an invoice for a late payroll tax payment with a personal check and subsequently reimbursed herself from petty cash, circumventing the voucher payment and approval process.

Deposits

District staff provided us a letter dated April 9, 2007, from the Franklin County Treasurer's Office that stated the District could make weekly deposits. We noted receipts do not indicate if payments were made with cash or check, making it difficult to ensure funds were deposited as received.

During the three years we audited, the District deposited \$3,072,532 in the bank. Based on deposit activity and amount, we examined 44 receipts totaling \$107,247.20.

- Five receipts totaling \$2,515 were deposited eight to 14 days after receiving.
- Four receipts totaling \$36,620 were deposited 15 to 21 days after receiving.
- One receipt in the amount of \$500 was deposited 43 days after receiving.

The District did not issue receipts for a month and a half, totaling \$7,285.

Cause of Condition

The District Secretary did not place an emphasis on records retention and organization of District documents.

Effect of Condition

The District was unable to provide documentation to show public resources were safeguarded and paid only for District-related business and materials.

We identified several significant indicators of potential loss or misappropriation of district resources during the audit; although, we did not identify any instances of misappropriation. Determining that these issues resulted in no significant losses resulted in increased audit costs.

Recommendation

We recommend the District:

- Establish and follow a system to ensure it retains records needed to determine if all payments are allowable and correct.
- Establish and follow internal controls to ensure the Board reviews all payments.
- Ensure deposits are timely as allowed by state law and the County Treasurer deposit waiver.
- Ensure proper documentation of cash/check composition on receipts.

District's Response

The Board of Directors and new staff understand the importance of records retention for the correct payment of District accounts. We have established internal controls to ensure the retention of the necessary documentation for expenditures and that each payment is reviewed and approved by the Board of Directors.

Working to correct all audit issues in the future the new staff has put in place the following operational changes:

- *Established a new centrally located filing system.*
- *All credit card receipts are matched and attached to billing statements monthly.*
- *Set up a tracking system for petty cash and balanced monthly.*
- *Banking deposits are made weekly according to the County Treasurer's Office waiver.*
 - *Any large sums of money are deposited the same day.*
- *At monthly board meetings the members receive a more detailed voucher report.*
 - *A board member matches all receipts to the voucher report.*
- *Board members receive a detailed financial report monthly.*

With regard to late payments and interest charges, the District relies on Franklin County to issue the warrants requested in a timely manner so that payments can be made when due. There is, on average, an 8 to 10 day lag time between the time the County receives our request and the District receives the issued warrants. This makes it difficult to be timely with some vendors.

The Franklin County Irrigation District Board of Directors and its staff are committed to correcting the deficiencies found in this audit and have already made the operational changes stated above in order to meet that goal. We would like to acknowledge, and thank, the audit team for the assistance and support they provided to the District.

Auditor's Remarks

We appreciate the steps the District is taking to resolve this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

RCW 43.09.200 states in part:

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

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

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. Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.