

Schedule of Audit Findings and Responses

Tenino School District No. 402 Thurston County September 1, 2011 through August 31, 2012

- 1. The District's internal controls over financial reporting were inadequate to ensure accurate grant reporting, resulting in an additional federal program audit.**

Background

It is the responsibility of District management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. We identified significant deficiencies in controls that could adversely affect the District's ability to produce reliable financial statements.

Description of Condition

U.S. Office of Management and Budget Circular A-133 requires grantees that spend \$500,000 or more in federal money in a year to submit a completed Schedule of Expenditures of Federal Awards (SEFA) and to have a single audit conducted and audit report issued within nine months of fiscal year-end.

The District spent \$1,068,706 in federal grant funds in 2012. The Business Manager used the previous year's SEFA in preparing the current year SEFA and did not update one of the federal grant amounts from the prior year, resulting in a reporting error. Further, the District did not have an independent review process to ensure financial reports and schedules were complete and accurate.

Cause of Condition

The District experienced turnover in the Business Manager position. The new Business Manager lacked adequate training in financial statement preparation.

The District did not dedicate resources to ensure an independent review of the financial statements and schedules was performed.

Effect of Condition

Inaccurate financial reports limit access to financial information used by District officials, the public, state and federal agencies and other interested parties. Inaccurate financial statements also can delay or hinder the audit process and increase audit costs.

The District's SEFA was understated by \$81,872. The corrected SEFA identified an additional federal program to be audited.

Recommendation

We recommend the District:

- Provide training to personnel to ensure they have an adequate understanding of the financial reporting preparation process and requirements.
- Establish and follow internal controls that include an independent review of the financial statements after final preparation to ensure the accurate preparation and presentation of the financial statements and related schedules.

District's Response

The Tenino School District understands the importance of all internal controls and reporting procedures. As noted under the Cause of Condition section we would like to clarify that the Business Manager, being new, came into a complicated situation; replacing the newly hired Business Manager that had to be let go due to circumstances outside of Tenino School District issues. It would be important to also note that the current Business Manager disclosed the error to the auditor.

The Superintendent of the Tenino School District strongly supports appropriate training for the business staff of the district. The Tenino School District appreciates the professionalism of the auditing staff that worked in Tenino and we believe that the issue and recommendations are already in place to insure this type of error does not happen in the future.

Auditor's Remarks

We appreciate the District bringing the reporting error to our attention. The District is responsible for implementing internal controls, such as monitoring and oversight, to ensure accurate and complete federal grant reporting. This error was not discovered by the District until we were onsite performing the audit. We re-affirm our finding and will review the District's corrective action during the next audit.

Applicable Laws and Regulations

RCW 43.09.200 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.

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

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:

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

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.

Government Auditing Standards, July 2007 Revision – Section 5.11 provides that auditors should report material weaknesses and significant deficiencies in internal control, which it defines as:

- a. Significant deficiency: a deficiency in internal control or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.
- b. Material weakness: a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.