

Schedule of Audit Findings and Responses

Stevens County Hunters Water District January 1, 2012 through December 31, 2012

1. The District did not have adequate internal controls over accounting and financial reporting.

Background

It is the responsibility of District management to design and follow internal controls and processes that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified material weaknesses in internal controls that adversely affect the District's ability to produce reliable financial statements and schedules.

U.S. Office of Management and Budget Circular A-133 requires grantees that spend \$500,000 or more each year 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 was not aware that it was required to have a federal single audit. Our Office contacted the Washington State Department of Commerce and verified the District spent \$572,154 in Community Development Block grants and was required to have a federal single audit. We reported similar conditions for the year ended December 31, 2010 in an audit report dated December 27, 2011 when the District was also required to have a single and financial statement audit.

Description of Condition

The District has not assigned adequate resources to financial statement preparation or the development of internal control policies and procedures. We identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a material weakness:

- District personnel responsible for compiling and reviewing financial information did not have adequate technical experience to determine if the financial statements, notes and required supplemental information were accurate and conformed to *Budgeting Accounting and Reporting System Manual* (BARS) requirements.
- District personnel responsible for the preparation and review of the SEFA did not have an adequate understanding of Office of Management and Budget (OMB) Circular A-133 reporting requirements.

Cause of Condition

The District generally spends less than \$500,000 in federal grant money and is not required to obtain a single or financial statement audit. Because of this, its staff does not

have the technical knowledge and experience to ensure information included in its annual report is complete and accurate.

Effect of Condition

The original financial reports did not include the notes and schedules required for the single and financial statement audits and indicated that the SEFA was not applicable. The Statement of Fund Resources and Uses Arising From Cash Transactions was incomplete and inaccurate as it did not include \$46,764 of beginning cash or \$34,635 of ending cash.

Inaccurate financial reports limit access to financial information used by District officials, the public, state and federal agencies and other interested parties.

Should future omissions or other errors be made and not identified in a timely manner, the District could miss its federal reporting deadline, jeopardize future federal funding and report its financial information inaccurately to citizens and other governments. Timely, accurate reporting is an important accountability measure.

Recommendation

We recommend the District dedicate the necessary resources to establish and follow effective internal control practices that ensure accurate financial reporting and presentation in accordance with prescribed guidance. Specifically the District should:

- Ensure persons responsible for preparing and reviewing the financial statements are knowledgeable of applicable accounting standards, and BARS and OMB reporting requirements.
- Design internal controls for employees responsible for federal grant reporting to receive training on the SEFA reporting requirements to ensure complete audit coverage of its grant requirements.

District's Response

The District will continue to put processes in place to ensure financial reporting is accurate and timely.

Auditor's Remarks

We appreciate the District's commitment to resolving these issues.

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, 2011 Revision – Section 4.23 provides that auditors should report material weaknesses and significant deficiencies in internal control.

The American Institute of Certified Public Accountants' Statement on Auditing Standards defines significant deficiencies and material weaknesses as follows:

- a. **Significant deficiency:** 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.
- b. **Material weakness:** A material weakness is a deficiency, or 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.

OMB Circular A-133, section .205, provides the basis for determining Federal awards expended:

§ __.205 Basis for determining Federal awards expended.

Determining Federal awards expended. **The determination of when an award is expended should be based on when the activity related to the award occurs.** Generally, the activity pertains to events that require the non-Federal entity to comply with laws, regulations, and the provisions of contracts or grant agreements, such as: **expenditure/expense transactions associated with grants, cost-**

reimbursement contracts, cooperative agreements, and direct appropriations; the disbursement of funds passed through to subrecipients; the use of loan proceeds under loan and loan guarantee programs; the receipt of property; the receipt of surplus property; the receipt or use of program income; the distribution or consumption of food commodities; the disbursement of amounts entitling the non-Federal entity to an interest subsidy; and, the period when insurance is in force.