

# Schedule of Audit Findings and Responses

## City of Woodland Cowlitz County January 1, 2012 through December 31, 2012

### 1. The City should continue to improve internal controls over accounting and financial statement preparation to ensure accurate reporting.

#### Background

It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. In the prior audit, we communicated concerns to management over the City's internal controls over financial reporting.

Our audit identified a significant deficiency in controls that affect the City's ability to produce reliable financial statements and reports.

#### Description of Condition

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

- The City's process for financial statement preparation does not ensure its financial reporting is complete, accurate, and in accordance with the *Budgeting Accounting and Reporting System* (BARS) Manual. For example, the City did not research and apply guidance in BARS on how to classify and disclose reservations on ending cash.
- The City struggles with how to apply BARS criteria when reporting funds. We noted concerns in the prior audit and worked with the City to correct the financial statements. However, they did not apply the guidance to the current year financials for one fund.
- An independent review is not performed for the financial statements by someone knowledgeable of City transactions to ensure they are accurate and complete. The City had a contractor perform an initial review; however, no review was performed on the subsequent versions of the statements and schedules.

#### Cause of Condition

The City has not dedicated sufficient resources to design and implement internal control processes that ensure its financial reporting is timely, accurate and complete.

#### Effect of Condition

During our audit, we identified the following errors in the financial statements:

- Revenues and expenses were overstated by \$200,000.
- Reserved ending cash was understated by \$2,057,089.
- Revised financial statements provided during the audit did not total correctly.
- Supplemental schedules were inaccurately prepared and required revisions. The supplemental schedules are relied on to complete audit procedures. It took an extraordinary amount of resources by the City and audit staff to complete the audit due to the errors in these schedules.

With the exception of the first item noted, these errors were subsequently corrected by the City.

## **Recommendation**

We recommend the City dedicate adequate resources to establish and follow effective internal controls to ensure:

- The City's financial reporting preparation processes are complete, accurate, and in accordance with BARS Manual.
- Individuals responsible for preparing and reviewing the financial statements have sufficient training and knowledge of both BARS manual reporting and government accounting standards and dedicate the necessary time to ensure accurate reporting.
- An individual knowledgeable of the BARS Manual and independent of the financial statement preparation processes performs a thorough review of the financial statements and supporting schedules to ensure they are accurate, complete, and presented in accordance with requirements.

## **City's Response**

*The City acknowledges that there were some errors in the preparation of the Financial Statements for 2012. The City identified and corrected the items noted, prior to the conclusion of the audit, with the exception of item noted as "Revenues and expenses overstated by \$200,000". However, Non-Rollup of Project Fund 411 was disclosed in the Notes to Financial Statements.*

*Although we do not believe that any of the items noted rise to the level of a finding, we will adopt additional measures to improve the accuracy and timeliness of future reports. These include review of the financial statements by the governing body, in addition to the independent contractor hired by the City.*

## **Auditor's Remarks**

We appreciate the steps the County is taking to resolve this issue. We will review the condition during the next regularly scheduled audit.

## Applicable Laws and Regulations

Statement on Auditing Standards (SAS) No. 115, states in part:

For all financial audits, auditors should report the following deficiencies in internal control:

- 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.

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.