

Schedule of Audit Findings and Responses

Roza Irrigation District Yakima County January 1, 2010 through December 31, 2012

- 1. The District's internal controls over federal grant reporting were inadequate, delaying the audit beyond the federal report submission deadline and causing unnecessary audit costs.**

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.

Per Generally Accepted Accounting Principles (GAAP) and Office of Management and Budget (OMB) guidance, expenses are incurred when the activity takes places, so costs incurred in 2011 should have been reported in the 2011 SEFA.

The District used revenues related to the grant to report federal expenditures on its SEFA. District staff did not understand that expenditures, not revenues, should be reported on the schedule. In addition, staff preparing the schedule did not use source documents, such as the SF-270 reimbursement reports, to verify amounts reported and did not use the BARS manual for guidance.

Cause of Condition

District staff lacked the technical training to accurately prepare the SEFA, including ensuring federal expenditures are reported in the appropriate period in accordance with GAAP and OMB Circular A-133, section 205.

Effect of Condition

The District's 2011 SEFA was understated by \$219,465. Since the total 2011 federal expenditures were originally reported below the Circular A-133 audit threshold, the federal single audit was not performed and the federal audit reporting deadline was not met for fiscal year 2011.

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.

Recommendation

We recommend the District provide training for staff related to the preparation of the SEFA, including ensuring federal expenditures are reported in the appropriate period in accordance with GAAP and OMB Circular A-133, section 205. Further, we recommend the District ensure accurate and timely federal grant reporting.

District's Response

Federal grant reporting will be done monthly to insure expenditures are reported in the correct year and source documents will be used to verify amounts reported.

Auditor's Remarks

We thank the District for its attention and response to this issue and will review this area during our 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, 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, states in part:

§ ____ .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.