

Schedule of Audit Findings and Responses

**State of Washington
Department of Ecology
Water Pollution Control State Revolving Fund
July 1, 2012 through June 30, 2013**

- 1. The Department's internal controls over financial statement preparation are inadequate to ensure accurate and complete reporting for the Water Pollution Control State Revolving Fund.**

Background

The Environmental Protection Agency (EPA) has designated the Department as the Washington State administrator of the Water Pollution Control State Revolving Fund (SRF). The SRF account was established to provide financial assistance in the form of low-interest loans to local governments and tribes for high priority water quality projects. The program is funded annually by EPA with a 20 percent state match, loan repayments and interest earned on investments.

The Department is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified a significant deficiency in internal controls over financial reporting that affects the Department's ability to produce accurate and complete financial statements for the SRF account.

Description of Condition

During our audit, we identified the following deficiencies in internal controls, when taken together represent a significant deficiency:

- The key employee responsible for compiling the financial statements left the Department. The remaining accounting staff did not have adequate technical knowledge to prepare the statements in conformity with Generally Accepted Accounting Principles (GAAP).
- The Department did not have an employee, independent of the preparation process, with the experience and technical knowledgeable to review the financial statements for accuracy and completeness.

Cause of Condition

The Department has not dedicated adequate resources to financial statement preparation or the development of effective internal control policies and procedures.

Effect of Condition

The Department's 2013 financial statements submitted for SRF account audit were not prepared in accordance with GAAP and contained errors. We received a total of three sets of financial statements from the Department to audit. We identified the following errors:

- The Department did not implement Governmental Accounting Standards Board Statement No. 63, relating to the presentation of net position when preparing its financial statements as required by the Governmental Accounting Standards Board.
- The liabilities on the Statement of Net Position were incorrectly totaled, resulting in the liabilities being understated in the amount of \$7.3 million.

All the errors were eventually corrected.

Recommendation

We recommend the Department dedicate the necessary staff resources, technical training and oversight to ensure:

- The Department SRF's financial statements are accurately prepared in accordance with GAAP.
- Someone knowledgeable of financial reporting requirements and independent of the financial statement preparation process performs a thorough review of the SRF's financial statement and supporting schedules to ensure they are accurate, complete and presented in accordance with GAAP.

Department's Response

The Department of Ecology recognizes the importance of its Senior Financial Advisor position, including the assigned duty of the preparation of the Water Pollution Control Revolving Account financial statements. Recruiting for a qualified replacement for this position began immediately upon the resignation of the incumbent. We have completed the screening process and have selected a qualified replacement. The new Senior Financial Advisor will fill the position on or before July 1, 2014.

Auditor's Remarks

We appreciate the Department's commitment to monitor and improve its internal control processes for the SRF account. We look forward to working with the Department on this issue and will follow up on it during the next audit.

Applicable Laws and Regulations

Revised Code of Washington, Section 43.09 gives SAO the authority to provide audit services. SAO's responsibility is to express an opinion on the financial statements audit conducted in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller general of the United States.

Government Auditing Standards, December 2011 Revision, paragraph 4.23, states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a 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.

Significant deficiency. 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.