



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements Audit Report **Green River College**

For the period July 1, 2012 through June 30, 2013

Published July 13, 2015

Report No. 1014676





Washington State Auditor's Office

July 13, 2015

Board of Trustees
Green River College
Auburn, Washington

Report on Financial Statements

Please find attached our report on the Green River College's financial statements.

We are issuing this report in order to provide information on the College's financial condition.

Sincerely,

A handwritten signature in blue ink that reads "Jan M. Jutte".

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

Schedule Of Audit Findings And Responses.....	4
Independent Auditor’s Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	10
Independent Auditor’s Report On Financial Statements	13
About The State Auditor’s Office.....	16

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Green River Community College July 1, 2012 through June 30, 2013

2013-001 The College's internal controls over financial statement preparation are inadequate to ensure accurate reporting.

Background

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

Description of Condition

We identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a material weakness over financial reporting:

- The College has one employee who is responsible for preparing the financial statements. The College lacks oversight and monitoring procedures to ensure all capital assets are properly inventoried and recorded and depreciation is recorded accurately.
- College Staff responsible for compiling the statements did not receive adequate training to effectively prepare the statements under generally accepted accounting principles (GAAP).
- The College lacks an effective review process to ensure amounts reported on the financial statements are supported and accurate.

Cause of Condition

This is the first year that the College has prepared financial statements. College management has not had adequate training or experience preparing financial statements to ensure its reported financial information is accurate and complete.

Effect of Condition

We found the following errors during our audit of the College's financial statements:

- The College's statements incorrectly reported capital assets by a net amount of approximately \$26.5 million due to the following:
 - The College omitted a science building from the statements worth \$25.8 million with accumulated depreciation of \$2.6 million.
 - The College did not remove a disposed building from the asset listing. The building is valued at \$752,958 with accumulated depreciation of \$225,888.
 - The College understated capital assets by \$3.8 million due to capitalizing only the payment of debt on its certificates of participation rather than capitalizing the entire building.
- An operating lease was improperly recorded on the financial statements, which caused a misstatement of \$612,537 in long term liabilities.
- The college was unable to provide adequate support for accumulated depreciation of certain capital assets.
- We additionally noted several errors throughout the Management Discussion and Analysis and the Notes to the financial statements.
- The College's reported beginning Net Position balance differed from the general ledger by \$1 million.

The errors noted above were corrected in the College's final financial statements.

Additional errors were noted during the audit and communicated to College management.

Recommendation

We recommend the College dedicate the necessary time and resources to ensure:

- Procedures are in place, such as close supervision and oversight to ensure capital asset balances are valid, accurate, complete and adequately supported.
- Individuals responsible for preparing the financial statements, notes, and supplementary information have sufficient technical training to ensure the financial statements are prepared in accordance with generally accepted accounting principles (GAAP).
- The person responsible for reviewing the financial statements has an adequate understanding of the reporting requirements and is given

sufficient resources to perform this review. The College may wish to develop an internal checklist or other reviewing tool for this purpose.

College's Response

Thank you for working with Green River Community College on our FY12-13 inaugural Financial Statement Audit. Green River Community College is one of 34 colleges in the Washington State Community College system that uses the Financial Management System (FMS) software. This software, while meeting our day-to-day needs, does not adequately provide the information required for GASB financial statements. Green River staff, with the guidance and direction of State Board Accounting Staff, has produced the FY12-13 Financial Statements acknowledging that both Green River accounting staff and the State Auditor's staff have a significant learning curve.

Your office has provided us with a preliminary draft of the SAO's Schedule of Audit Findings. The College agrees that it lacked sufficient staffing to prepare and review GASB financial statements. With limited resources, hiring freezes of the past years and physical space limitations, staff was not increased to assume the massive amount of hours to adequately cover existing needs and those of the GASB Financial Statement preparation.

The college assumes responsibility for the misstatements of capital assets. The misstatements were corrected and they did not result in a loss to the college. Since the college discovered the discrepancy, controls have been put into place to assure that buildings are properly and timely added and disposed of by authorized personnel as necessary.

With all due respect and appreciation for your work, we disagree with the other additional items that were added to the report. The college does not assume full responsibility for any real or perceived errors in depreciation calculation, as this is a system-wide automated process.

The college does not assume full responsibility for the misstatement of beginning net assets as we followed the direction of The State Board for Community and Technical Colleges, as did the other pilot colleges.

The college accepted the State Auditor's direction to remove the operating lease from our financial records. However to explain the rationale of the operating lease, it was recorded in the mid-1990's at the direction of the auditors at the time to recognize an on-going commitment of the college to pay the Foundation rent for the Enumclaw facility.

In conclusion, it is not uncommon for a college to receive a finding during their inaugural financial statement audit. As pilot colleges, we assumed a greater risk of a finding as we paved the way for the other colleges to benefit from our learning experience. Preparation of the statements has been a significant educational process and has led to a more thorough understanding of our systems. It has also helped to identify our weaknesses and also our strengths.

Auditor's Remarks

We appreciate the College's response and recognize that the College is committed to strengthening and improving its internal controls. We also agree that this was the College's first year inaugural financial statement audit; however, we continue to emphasize that the financial statement errors were not discovered by the College prior to our audit and the statements are ultimately the College's responsibility. We reaffirm our finding.

We thank the College's staff and management for their cooperation and assistance during our audit. We look forward to working with the College on this issue and will follow up on it 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.

Government Auditing Standards, July 2007 Revision – Section 5.11 provides that auditors should report material weaknesses and significant deficiencies in internal control.

The American Institute of Certified Public Accountants, Statement on Auditing Standards No. 115 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.

The Office of Financial Management's *State Administrative and Accounting Manual* (SAAM), states in part:

Section 20.15.30.a *Who is responsible for internal control?*

The agency head or authorized designee is ultimately responsible for identifying risks and establishing, maintaining, and reviewing the agency's system of internal control. If the agency head delegates this responsibility, the designated person should have sufficient authority to carry out these responsibilities. Normally, this person is a senior agency manager who does not serve in the internal audit function.

Section 20.15.40.c *Control Activities*

Control activities help ensure risk responses are effectively carried out and include policies and procedures, manual and automated tools, approvals, authorizations, verifications, reconciliations, security over assets, and segregation of duties. These activities occur across an agency, at all levels and in all functions, and are designed to help prevent or reduce the risk that agency objectives will not be achieved. Managers set up control activities to provide reasonable assurance that the agency and business unit objectives are met. An example of a control activity is something as simple as listing tasks assigned to staff members and then periodically checking the list to verify that assignments are completed on time. Refer to Section 20.25 for further discussion of control activities.

Section 20.15.40.e *Monitoring*

Things change and, by monitoring the risks and the effectiveness of control measures on a regular basis, an agency can react dynamically to changing conditions.

Monitoring evaluates the effectiveness of an agency's internal controls and is designed to ensure that internal controls continue to operate effectively. Monitoring is effective when it leads to the identification and correction

of control weaknesses before they materially affect the achievement of the agency's objectives. An agency's internal control is most effective when there is proper monitoring, results are prioritized and communicated, and weaknesses are corrected and followed up on as necessary.

There are two types of monitoring: ongoing and periodic. Ongoing monitoring occurs in the course of operations. It includes tasks such as supervisory reviews of reconciliations, reports, and processes. Periodic monitoring includes tasks such as periodic internal audit sampling and annual reviews of high-risk business processes. Internal control deficiencies uncovered by monitoring should be reported to higher levels of management.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Green River College
July 1, 2012 through June 30, 2013**

Board of Trustees
Green River College
Auburn, Washington

We have audited, in accordance with 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, the financial statements of the business-type activities and discretely presented component units of Green River College, King County, Washington, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated July 7, 2015.

Our report includes a reference to other auditors who audited the financial statements of the Green River College Foundation, as described in our report on the College's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of the Green River College Foundation were not audited in accordance with Government Auditing Standards and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Green River College Foundation.

The financial statements of Green River College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2013, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected, on a timely basis. *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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2013-001 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of the College's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

COLLEGE'S REPONSE TO FINDINGS

The College's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The College's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

July 7, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Green River College July 1, 2012 through June 30, 2013

Board of Trustees
Green River College
Auburn, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Green River College, King County, Washington, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Green River College Foundation, which represents 100 percent of the assets, net position and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Green River College Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Green River College Foundation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate discretely presented component units of Green River College, as of June 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1, the financial statements of Green River College, an agency of the state of Washington, are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its discretely presented component unit. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2015 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM

ACTING STATE AUDITOR

OLYMPIA, WA

July 7, 2015

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov