SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Ben Franklin Transit
Benton County
January 1, 2016 through December 31, 2016

2016-001 The Transit's internal controls over financial reporting are inadequate to ensure accurate financial reporting.

Background

Transit board members, management, state and federal agencies, and the public rely on the information included in the financial statements and reports to make decisions. It is the responsibility of Authority management to design, implement and maintain internal controls to ensure financial statements are fairly presented and provide reasonable assurance regarding reliability of financial reporting.

Our current audit identified a material weakness in internal controls that affected the Transit's ability to produce reliable financial statements. *Government Auditing Standards* requires that the auditor communicate a material weakness, as defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

The Transit presents Site and Structure Improvements and Vehicle and Equipment along with the related Accumulated Depreciation balances on the financial statements. The Transit does not have adequate internal controls in place to ensure these entire balances are materially correct. During our review of these balances, we noted the supporting detailed capital asset list does not match the financial statement balances, includes assets that do not meet the Transits' capitalization threshold of $5,000 and were not adequately supported. Therefore, we were unable to determine if assets included in the financial statement balances are materially correct.

Cause of Condition

The Transit experienced vacancy and turnover in key positions responsible for ensuring adequate controls are present for valuing and ensuring the capital asset balances are adequately supported and materially correct.

Effect of Condition

Our Audit of the Transit's financial statements identified the following errors:

- Site and structure improvements overstated by $3,588,505
- Vehicles and equipment overstated by $19,643
- Accumulated depreciation is overstated by $1,608,207.

Recommendation

We recommend the Transit establish internal controls to ensure the complete capital asset balances and associated accumulated depreciation are accurately valued and supported.

Transit's Response

To be clear, the issue at hand relates to supporting documentation for the valuation of some fixed assets dating as far back as 1984, when BFT was first formed. All fixed assets are intact, inventoried, and accounted for. The original make ready cost supporting documentation and invoices for some assets prior to 2012 were not able to be located for review by the WA State Auditor's Office (SAO) during the audit process.

Ben Franklin Transit (BFT) appreciates the opportunity to respond to this finding. This is a matter that is not taken lightly, rather it is given serious consideration and evaluation as is the case with any level of audit exception. BFT takes great pride in being transparent to the community and compliant with Generally Accepted Accounting Principles and auditing standards. BFT has had a clean audit history since 2012 with audits performed by the Department of Retirement Systems, the Federal Transit Administration, the Washington State Auditor's Office (Federal Single Audits, Financial Statement Audits, and Accountability Audits), Moss Adams, LLC (National Transit Database audit), the WA State Department of Transportation, as well as others with only minor house-keeping items to address.

As with any long-term business, document archiving and storage, changes in personnel, possible improper or accidental document destruction, and office relocations can create the possibility of lost supporting documentation and files. It should be noted that strong internal controls are in place for document retention as well as the additions and disposals of fixed assets and have been strong since 2012. The SAO has reviewed those internal controls and tested the additions and disposals of fixed assets from 2012 through 2016 with no exceptions.

With the assistance of a local accounting firm, BFT staff performed significant reviews and adjustments to the fixed assets in 2012. This work included a full review and inventory of fixed assets. The SAO then audited that review and corresponding adjustments the following year and found them to be reasonable.

This year the SAO local audit team shared that the SAO had been recently audited and as a result, the SAO applied a different approach in their review of financial statement balances to better address the completeness and valuation auditing assertions. Rather than looking at the additions and disposals of fixed assets for the year, the SAO pulled a random sample of the full balance of fixed assets and asked to review the supporting documentation for those sampled fixed assets. With this different approach the issue of supporting documentation for some fixed assets came to light.

BFT staff has already begun a comprehensive review of its fixed assets. This review of supporting substantive documentation will take place using grant, procurement, archives, and accounts payable files to locate and/or recreate support for each asset. Once this project is complete, all fixed assets on the 2017 Financial Statements will be properly supported and substantiated.

In closing, BFT would like to reiterate the fact that this is a supporting documentation issue for some assets acquired prior to 2012. BFT understands the SAO's position and appreciates the opportunity to work with the SAO through this issue. BFT embraces opportunities to improve and grow in order to better serve and exceed the expectations of the community.

Auditor's Remarks

We appreciate the Transit's commitment to resolve this finding and thank the Transit for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

Statement on Auditing Standards No. 115, issued by the Auditing Standards Board of the American Institute of Certified Public Accountants, defines material weakness and significant deficiency as follows:

> a. Material weakness:
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> 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.
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> b. Significant deficiency:
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> 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.

RCW 43.09.230, Local government accounting – Annual reports – Comparative statistics, states:

> The state auditor shall require from every local government financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.

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 material weaknesses and significant deficiencies 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:
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> 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.
>
> 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.