Jefferson County
January 1, 2016 through December 31, 2016

2016-001 The County did not have adequate controls in place to ensure accurate reporting of fiduciary funds.

Background

The County's governing body and management are responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting.

Description of Condition

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

- The County did not have a system in place to ensure the balances and activity of all fiduciary funds were identified and reported on the financial statements.

- Staff responsible for financial statement preparation lacked the technical knowledge to distinguish between revolving fund activity, which should be reported net, and fiduciary fund activity, for which all receipts and disbursements should be reported.

Cause of Condition

Staff responsible for financial statement preparation were unaware that all cash balances and activity on behalf of outside parties were required to be reported on the financial statements, except the activity for claims clearing accounts and special purpose districts. In addition they misapplied guidance received regarding reporting of revolving fund activity.

Effect of Condition

We found the following misstatements on the Fiduciary Fund Resources and Uses Arising from Cash Transactions statement:

- Fiduciary fund beginning cash was under-reported by $405,887. We determined $190,415 was reported on the County's Fund Resources and Uses Arising from Cash Transactions (Statement C-4) in error, and the remaining $215,472 was not reported.

- Fiduciary fund revenues, other increases and financing sources were under-reported by $19,496,003.

- Fiduciary fund expenditures, other decreases and financing uses were under-reported by $19,623,501.

- Fiduciary fund ending cash was under-reported $514,430. We determined $247,520 was reported on the County's Statement C-4 in error, and the remaining $266,910 was not reported.

The County subsequently corrected the majority of the identified misstatements. The uncorrected portion of the misstatements was not material.

Recommendation

We recommend the County:

- Establish controls to ensure all fiduciary activity is identified and accurately reported on the financial statements

- Ensure staff responsible for financial statement preparation receive adequate training to ensure accurate reporting of fiduciary funds

County's Response

Jefferson County and staff thank the State Auditor's Office for their time in conducting a thorough audit and recognizing that we as a team have improved and implemented controls based on previous audit recommendations.

It is disappointing that the improvements led to another aspect of the financial statements that had never been identified in prior years. The State Auditor's Office (SAO) has decided to issue a finding based on all fiduciary activity not reported on financial statements. Our understanding is that similar reporting at counties throughout the state have also resulting in findings for the same issue. The County hopes that the SAO will provide training in this particular area of fiduciary activity and how it should be accurately reported.

The County continues to be dedicated to making it a priority to be sure internal controls are in place and practiced, necessary policies and procedures are implemented, and to work together as a team to ensure that financial statements are reported accurately and in a manner acceptable to the State Auditor.

Auditor's Remarks

We thank the County for its assistance throughout the audit and the steps it is taking to address these issues. Our Office is committed to providing additional guidance and resources to support accurate financial reporting. The County’s corrective action will be reviewed during our next audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

RCW 43.09.200 – Local government accounting – Uniform system of accounting, gives the state auditor the authority to formulate, prescribe and install a uniform system of accounting and reporting for all local governments.

The *Budgeting, Accounting and Reporting System* (BARS) *Manual*, 4.3.13, Fiduciary Fund Resources and Uses Arising from Cash Transactions (C-5), requires the Statement C-5 to be prepared for all trust and agency funds, with the exception of payroll and claims clearing funds and special purpose districts.