

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

WHITCOM Whitman County January 1, 2015 through December 31, 2016

2016-001 The Center's internal controls over financial statement preparation were inadequate to ensure accurate and complete reporting.

Background

Management is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in controls over financial statement reporting that hindered the Center's ability to produce reliable financial statements. These deficiencies, when taken together, represent a material weakness in internal controls over financial reporting.

Description of Condition

The Center prepares its financial statements in accordance with the cash basis method of accounting as prescribed by the State Auditor's Office Budgeting, Accounting and Reporting System (BARS) Manual. Center employees responsible for financial reporting did not have a process in place to:

- Identify new BARS Manual accounting and reporting requirements or to ensure the Center applied these changes to its financial statements, notes and schedules
- Perform an effective review of the financial statements, notes and schedules to ensure amounts reported agreed to underlying accounting records and were prepared in accordance with the most current BARS Manual guidance

Cause of Condition

Staff responsible for financial reporting had not attended recent BARS trainings and used the Center's prior year financial statements, notes and schedules as a template for reporting without reviewing the current BARS Manual to determine if it required changes to financial reporting.

Although Center personnel performed a review of the financial statements, the review was not effective to identify errors included in the financial statements, notes and schedules submitted for audit.

Effect of Condition

The financial statements, notes and schedules provided for audit contained the following errors:

- The Schedule of Liabilities omitted the Center's net pension liability for fiscal years 2015 and 2016. Because the Center did not calculate its net pension liability, we could not readily determine the amounts that should be reported in the Center's Schedule of Liabilities. However, the amounts are presumed to be material. Additionally, the Center's notes to the financial statements did not contain pension plan disclosures required by the BARS Manual. The Center did not correct these errors.
- The Center incorrectly recorded bid bond activity in its financial statements, which caused ending cash to be overstated and expenditures to be understated, both by \$18,433. The Center corrected this error.
- Budgeted appropriations disclosed in the notes to financial statements were understated by \$10,000 for 2015 and 2016. The Center corrected these errors.
- Actual expenditures disclosed in the notes to financial statements for 2016 were understated by \$596,351. The Center corrected this error.

Recommendations

We recommend the Center improve its internal controls to ensure:

- Employees responsible for financial statement preparation attend financial statement trainings and review updated BARS Manual guidance to ensure the financial statements, notes, and schedules are accurately prepared in accordance with current reporting requirements
- Someone who understands financial reporting and accounting requirements performs an effective review of the financial statements, notes and schedules to ensure they are accurate and complete

Center's Response

1) *The Schedule of Liabilities omitted the Center's net pension liability for fiscal years 2015 and 2016 issue was a result of changes in the GASB requirements that occurred during a staffing vacancy and were not realized by the reporting period. Complicating matters is the fact that our pension liabilities are a part of Washington State University's accounting system and there is no existing method to fully parse and reflect them. That is why the errors were not corrected during the audit period.*

We have adopted a more rigorous training schedule so that new GASB requirements are not missed in the future. We are also in the process of obtaining a separate ORG identifier so that our pension liabilities are tracked separately from Washington State University and can be correctly reported in the future.

2) *The bid bond issue was due to recording a bid bond in 2014 as a journal entry, not as revenue, because it was anticipated to be returned within a month or two. It was not returned until 2016, and because of the way it was originally recorded there was not a revenue entry to offset the expenditure. The check should have just been held until the project was complete and not deposited. In the future, bid bond checks will just be held and not deposited. At the end of the project, they will be returned. This error was corrected.*

3,4) *Reporting of travel funds and actual expenditures were understated due to a misunderstanding of how the State 911 Grant reimbursable expenditures were to be reported on the financial statements. These expenditures were fully accounted for in our system, but not reported properly on the financial statement. This error was corrected, and staff understands how they are to be reported in the future.*

Whitcom has begun sending accounting staff to regular training and we have identified additional resources to assist in accurate reporting in the future. We appreciate identification of these areas of concern and have taken steps to avoid the discrepancies in the future.

Auditor's Remarks

We appreciate the steps the Center is taking to resolve this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

RCW 43.09.200, Local government accounting – Uniform system of accounting.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control.

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.

The Budgeting, Accounting and Reporting System (BARS) manual, 3.1.3, Internal Control.