



Office of the Washington State Auditor
Pat McCarthy

Assessment Audit Report

Cowlitz County Cemetery District No. 5

For the period January 1, 2018 through December 31, 2019

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**Office of the Washington State Auditor
Pat McCarthy**

April 22, 2021

Board of Commissioners
Cowlitz County Cemetery District No. 5
Kalama, Washington

Report on Assessment Audit

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

The attached report describes the procedures performed and conclusions for the areas we reviewed. We appreciate the opportunity to work with your staff, and value your cooperation during the assessment audit.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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AUDIT SUMMARY

Results in brief

Based on the procedures performed, except as described below, nothing came to our attention in the areas we reviewed that caused us to believe the District was not in substantial compliance with applicable state laws, regulations, and its own policies, or had significant weaknesses in controls over the safeguarding of public resources. Had we performed additional procedures, other matters might have come to our attention that would have been reported.

As referenced above, we identified areas where the District could make improvements. These recommendations are included with our report as findings.

About the assessment audit

This report contains the results of our independent audit of Cowlitz County Cemetery District No. 5 from January 1, 2018 through December 31, 2019.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives. State law (RCW 43.09.230) also requires local governments to prepare and submit certified annual reports to our Office summarizing such things as revenues received, collections made, amounts receivable or payable, expenditures made, and debt owed.

This assessment audit was conducted under the authority of RCW 43.09.260, which requires the Office of the Washington State Auditor to examine the financial affairs of all local governments at least once every three years. Assessment audits are risk-based, limited-scope reviews of small local governments, generally defined as local governments with less than \$300,000 in annual revenues. To help minimize audit costs, our work for this engagement was conducted off-site primarily using financial and other information provided by the District.

This assessment audit was limited to the following:

- Reviewing meeting minutes for compliance with the Open Public Meetings Act.
- Inquiring as to internal controls over assets, revenues, and disbursements.
- Verifying that annual reports submitted to our Office were complete and filed timely in compliance with state law.
- Reviewing the District's annual revenues and expenditures for unusual transactions or trends.
- Corroborating financial information reported by the District by comparing its annual revenues, expenditures, and cash and investment balances to third-party sources.
- Reviewing expenditures for indications of unusual activities, excessive Board of Commissioners compensation, conflicts of interest, or procurement requirements. Based on that review, we selected expenditures and payroll expenses to test with supporting

invoices and voucher approvals for validity and completeness. We further tested selected expenditures for compliance with applicable procurement requirements.

- Evaluating the District's financial information for indications of financial difficulties.

Cowlitz County Cemetery District No. 5 January 1, 2018 through December 31, 2019

2019-001 The District lacked adequate internal controls and monitoring over operations and financial activities to ensure the safeguarding of public resources and compliance with state law.

Background

Cowlitz County Cemetery District No. 5 manages two cemetery sites in the Kalama area and had average annual expenditures of \$115,000 during the audit period. The District is governed by three Commissioners and has four employees.

The District is responsible for designing, implementing, and maintaining internal controls that provide reasonable assurance that public resources are safeguarded and in compliance with applicable state laws and the BARS manual.

The Washington Open Public Meetings Act (OPMA) requires any discussion and business decisions of the District, including approval of vouchers and resolutions, be conducted in an open public forum by a quorum of commissioners; transactions must be approved prior to the issuance of payment. The Board has a quorum when two of the three members meet and transact business, and therefore it must be in an open public forum.

Description of Condition

The District did not have effective internal controls in place to ensure it safeguarded public resources and complied with state law. Specifically:

- The District lacked adequate internal controls over key operational functions including oversight and management of payroll processing and disbursement activities, contracts and agreements, use of open accounts and purchase cards, and procurement and prevailing wage requirements.
- The District lacked controls and oversight to prevent the gifting of public funds through lending of credit. We identified a District Commissioner using the District's phone and internet plan for personal use. The Commissioner subsequently reimbursed the District.
- The District did not hold monthly meetings as required by state law. Further, meeting minutes lacked significant record of business conducted during open public meetings.

Cause of Condition

District leadership was unaware of statutory requirements and BARS manual prescriptions for operating a local government. Because of this, the District had not established controls or monitoring over its operations.

Effect of Condition

The lack of control and oversight of the District's finances and operations increases the risk that misappropriation or misuse of District resources could occur and not be prevented or detected in a timely manner. Our audit specifically noted the following:

Payroll

The District has not established a system for defining and monitoring duties and responsibilities of staff and key personnel. Job descriptions and written contracts ensure that responsibilities and duties of both parties are agreed upon and actionable. Without this documentation, the District is exposed to unnecessary risk and may be left without recourse if duties are not adequately performed or if terms and payments are disputed.

Further, the District lacked established policies and procedures over timekeeping and payroll activities. The District had annual payroll and benefit expenditures of approximately \$73,000 and \$81,000 in 2018 and 2019, respectively. Without established controls over payroll processes, the District lacks substantiation for its payroll and benefit expenditures, and has no mechanism for monitoring staffing.

Open/store accounts

Open/store accounts are established with local gas stations and maintenance supply stores for entities to make purchases on account, which are invoiced later and paid by the District. The District frequently uses open/store accounts without policies over these activities. In these programs, the District spent approximately \$6,000 and \$8,000 in 2018 and 2019 respectively. Without these policies, open/store accounts are at risk of not being used for a valid business purpose.

Procurement

The District lacked policies for bidding and procurement, which must be established by the District since state law does not establish thresholds. Our audit identified expenditures for a paving project of approximately \$12,500. Further, prevailing wage requirements were not addressed, which are required on all public works projects.

Gift of Public Funds

The District said one of the District Commissioners reimbursed the District for personal use of the District's phone and internet plan. The District spent \$1,200

and \$1,700 in 2018 and 2019 respectively on phone and internet charges. Because the District did not maintain records, we could not determine whether the Commissioner indeed reimbursed the District.

Open Public Meetings Act

When the District does not properly conduct open public meetings, it has no official record of what business was conducted, limiting the public's knowledge and understanding of District business being discussed. Specifically our audit noted the following:

- The District only met for 16 of the 24 required monthly meetings within the audit period.
- Meeting minutes did not provide accurate and adequate documentation of meeting dates and start or end times.
- Meeting minutes did not adequately detail business discussions and actions taken by the Board during open public meetings. Specifically, tax levies and other resolutions were not discussed and approved.
- Voucher approvals for expenditures were not documented in meeting minutes. The District spent approximately \$121,250 and \$108,000 in 2018 and 2019, respectively, without adequately recording that these expenditures were approved during an open public meeting.

Recommendation

We recommend the District:

- Establish effective internal controls for financial operations, including adequate segregation of duties for payroll and non-payroll expenditures, purchases on open accounts, and expenditures with purchase cards.
- Establish employee policies and procedures to include defined duties, timekeeping and reporting, benefits (specifically leave and retirement contributions), and the review and approval of payroll expenditures.
- Establish policies and procedures for bidding and procurement to include guidance to for complying with prevailing wage requirements.
- Conduct meetings, prepare and retain records that clearly show compliance with the Open Public Meetings Act and provide an accurate record of District actions for easy inspection by the public. Attend available trainings on the Open Public Meetings Act.
- Discontinue the gifting of public funds and cancel all non-District phone and internet service plans.

District's Response

The District responded verbally: *“We recognize the criticism and are making corrections. The District is looking to hire a new Secretary and will be on-boarding and establishing processes along with maintaining required documentation.”*

Auditor's Remarks

We appreciate that the District is taking to resolve these issues. We will review the condition during our next audit.

Applicable Laws and Regulations

The *Budgeting, Accounting and Report System (BARS)* manual, 3.1.3, Internal Control

BARS manual, 3.1.4, Original Supporting Documentation

BARS manual, 3.8.4, Purchase Cards

BARS manual, 3.8.5, Voucher Certification and Approval

Washington State Constitution (Article 8, Section 7) – Gift of public funds

Chapter 39.12 RCW - Prevailing Wages on Public Works Projects

Chapter 42.30 RCW - Open Public Meetings Act

RCW 40.14.070, Destruction, disposition, donation of local government records - Preservation for historical interest - Local records committee, duties - Record retention schedules - Sealed records

RCW 42.24.080, Municipal corporations and political subdivisions - Claims against for contractual purposes - Auditing and payments - Forms - Authentication and certification

RCW 43.09.200, Local government accounting - Uniform system of accounting

RCW 43.09.2855, Local governments - Use of credit cards

RCW 68.52.270 - Organization of board - Secretary - Office - Meetings - Powers.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Cowlitz County Cemetery District No. 5 January 1, 2018 through December 31, 2019

2019-002 The District did not retain its accounting records, which prevented our Office from performing certain auditing procedures for fiscal years 2018 and 2019.

Background

District management is responsible for designing and following internal controls that provide reasonable assurance of compliance with state laws and the safeguarding of public resources. District management is also responsible for the integrity and retention of the original vouchers, receipts, and other documents necessary to prove the validity of every transaction relating to the receipt, use, and disposition of public funds and property.

Description of Condition

The District did not retain its supporting documents for vendor payments, open account/purchase card transactions or employee payroll records for 2018 or 2019. The District's total expenditures for 2018 and 2019 were \$121,300 and \$108,000 respectively.

Cause of Condition

The District lacks knowledge of applicable state laws governing the retention of original supporting documentation.

Effect of Condition

The District cannot demonstrate the validity of its financial activity for 2018 and 2019. This activity is made up of 60 percent payroll and 40 percent general disbursements in 2018, and 75 percent payroll and 25 percent general disbursements in 2019.

Because of a lack of supporting documentation, we could not perform detailed testing over financial activity and could not confirm the District spent funds exclusively for allowable purposes. Through inquiry with the County, we obtained payroll disbursement records for April 2019 and confirmed the validity of those payments. However, the payments are unsupported by any documentation from the District.

Recommendation

We recommend the District improve internal controls and develop procedures to effectively maintain records to support its financial activity and comply with records retention schedules.

District's Response

The District responded verbally: *“We recognize the criticism and are making corrections. The District is looking to hire a new Secretary and will be on-boarding and establishing processes along with maintaining required documentation.”*

Auditor's Remarks

We appreciate that the District is taking to resolve these issues. We will review the condition during our next audit.

Applicable Laws and Regulations

RCW 43.09.200, Local government accounting – Uniform system of accounting

RCW 40.14.070, Destruction, disposition, donation of local government - Record retention schedules - Sealed records.

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

The *Budgeting, Accounting and Reporting System (BARS)* manual, 3.1.4, Original Supporting Documentation

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Cowlitz County Cemetery District No. 5 January 1, 2018 through December 31, 2019

2019-003 The District's internal controls over accounting and financial reporting were inadequate to ensure accurate and complete annual report filing.

Background

The Board of Commissioners, state and federal agencies, and the public rely on the information included in financial statements and reports to make decisions. The District is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance regarding the reliability of financial reporting.

State law (RCW 43.09.230) requires the District to submit an annual financial report to our Office containing accurate statements, summaries of financial information and supporting schedules.

Description of Condition

The District did not take appropriate steps to ensure annual report submissions were complete and accurate. Further, the District's annual reports contained material misstatements and did not include all required supplementary information for fiscal years 2018 and 2019.

Cause of Condition

The District did not dedicate the necessary resources to ensure it submitted complete and accurate financial reports.

Effect of Condition

The District's 2018 annual report included a Schedule 01 that underreported revenues, expenditures, and ending cash/investment balances by \$6,715, \$2,068 and \$4,298, respectively. In 2019, the District carried forward the beginning balance discrepancy and then failed to report revenues, expenditures and ending cash/investment balances by \$115,256, \$108,022 and \$11,532, respectively. The 2019 reporting discrepancies constitute 97 and 100 percent of its revenues and expenditures activity, respectively.

Further, the District did not include required supplemental information. Specifically, the District failed to include copies of approved resolutions, detailed expenditure listings, and required policy and fee listings. The District's Schedule 22 questionnaire responses did not accurately reflect the District's

activity and omitted its open accounts and purchase card programs. Last, the District failed to report its net pension liabilities for fiscal year 2018 on the required Schedule of Liabilities.

Upon notification of these discrepancies, the District failed to comply with our Office's requests to amend the annual reports. Therefore, these errors remain uncorrected in the annual report and comparative statistics data compiled by our Office. Further, the District's lack of responsiveness caused delays in our Office's ability to complete the audit in a timely manner.

Delays in the availability of complete and accurate financial reports prevent District officials, the public, and other interested parties from obtaining timely information. Such delays also hinder transparency to citizens and the efforts of the State Auditor's Office to compile statistical and financial information for use by the state Legislature and others. A lack of accurate and complete filing/financial reporting further hindered our Office's ability to perform an audit.

Recommendation

We recommend the District establish internal controls to ensure accurate and complete financial reporting in accordance with state law.

District's Response

The District responded verbally: *"We recognize the criticism and are making corrections. The District is looking to hire a new Secretary and will be on-boarding and establishing processes along with maintaining required documentation."*

Auditor's Remarks

We appreciate that the District is taking to resolve these issues. We will review the condition during our next audit.

Applicable Laws and Regulations

RCW 43.09.230 Local government accounting - Annual reports - Comparative statistics

Budgeting, Accounting, and Reporting System (BARS) manual 3.1.3.20 – Internal controls

Budgeting, Accounting, and Reporting System (BARS) manual 4.1.6.50 – Reporting Requirements and Filing Instructions for Special Purpose Districts

INFORMATION ABOUT THE DISTRICT

Cowlitz County Cemetery District No. 5 operates and maintains two cemeteries: in the Kalama area; one is active, located on a ridge top north of Spencer Creek Road, and the other is inactive, located at Martin's Bluff.

An elected, three-member Board of Commissioners governs the District; Commissioners serve six-year terms. The District received annual revenue of approximately \$115,000 and \$120,000 in fiscal years 2018 and 2019, respectively. The District's primary source of revenue is property tax collections.

Contact information related to this report	
Address:	Cowlitz County Cemetery District No. 5 P.O. Box 702 Kalama, WA 98625
Contact:	Joanna Boatman, Secretary
Telephone:	(360) 673-1770

Information current as of report publish date.

Audit history

You can find current and past audit reports for Cowlitz County Cemetery District No. 5 at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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