

Schedule of Audit Findings

Whatcom County Fire Protection District No. 5 November 3, 2006

1. **Whatcom County Fire Protection District No. 5 did not have adequate internal controls over program income received through its Department of Health and Human Services Grant.**

Background

State law (RCW 52.02.020(2)) gives the authority to establish or participate in health clinics. The District established a clinic at Point Roberts and contracted for medical services with a non-profit agency in 2003. A Board was created to govern the clinic. The Board included two people each from a local citizens group, the non-profit agency and the District. The Board was given administrative oversight and decision making authority over the clinic.

The District began operating the clinic in 2003 and received a federal grant to assist in its operation. In 2006, the clinic's assets were transferred to the newly created Point Roberts Hospital District and the District stopped participating in the clinic's operations.

In the last audit, we reported a finding related to internal controls over the collection of patient fees, which are considered to be program income under the federal grant. The District allowed the clinic to collect and deposit the fees independently and did not have physical control over the fees collected or deposited.

During the current audit, we reviewed the District's internal controls and compliance with grant requirements and found the District made some improvements to its processes over the collection and safeguarding of patient fees. The improvements included gaining physical custody of the patient fees in a District-controlled bank account. However, a number of concerns continued during 2005 and 2006.

Description of Condition

The District received \$190,204 and \$180,301 in federal funds from the Health Resources and Services Administration for the operation of the clinic in 2004 and 2005, respectively. The District reported patient fee revenues of \$56,664 and \$65,212 in 2004 and 2005, respectively.

The following weaknesses were identified:

- In response to the previous audit finding, the clinic transferred approximately \$81,800 to the District in May 2005. As noted above, the clinic collected and held this money in 2003, 2004 and 2005, even though the money belonged to the District. The District did not ensure the amount transferred to it included all money collected and deposited by the clinic from 2003 to 2005.
- Fees collected in June 2005 were deposited in the clinic's bank account. The District indicated the clinic transferred the June fees to it in July 2005. However, the District did not ensure it received all fees received at the clinic in June 2005.

- After June 2005, the District did not adequately monitor the fees being collected. Clinic staff receipted the fees and made deposits to the District's bank. District staff ensured deposits were made, but there was no comparison made between receipts issued and the amount of money deposited.

Cause of Condition

The District believed it made improvements sufficient to provide adequate monitoring over patient fees.

Effect of Condition

The District cannot be assured it received all money due to it and was not in compliance with federal requirements for internal controls over program income.

Recommendation

We recommend the District improve internal controls over cash receipting.

District's Response

The Board of Commissioners will not be responding to any specifics of your findings as the grant period is over and our involvement with the Wellness Clinic has ended.

A general comment we would like to make is that we disagree with your overall assessment of our lack of financial oversight during the period that we managed the grant funds and the revenue that was generated by patient fees. We feel that we adequately addressed your previous audit concerns and managed the funds received here appropriately.

Auditor's Remarks

We thank District officials for their cooperation and assistance during the audit. Although the District does not agree with the condition stated, we believe the finding accurately reflects controls that existed during the audit period and we reaffirm the finding.

Applicable Laws and Regulations

45CFR, Subtitle A, Section 92.40, states:

(a) *Monitoring by grantees.* Grantees are responsible for managing the day to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

45CFR, Subtitle A, Section 92.25, states:

(b) *Definition of program income.* Program income means gross income received by the grantee or subgrantee directly generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period.

(2) *Addition.* When authorized, program income may be added to the funds committed to the grant agreement by the Federal agency and the grantee. The program income shall be used for the purposes and under the conditions of the grant agreement.

45CFR, SubPartC, Section 92.20, states:

(2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

(3) *Internal control.* Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

RCW 43.09.200 states:

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction.