

Schedule of Audit Findings and Responses

**Town of Lind
Adams County
January 1, 2005 through December 31, 2006**

1. The Town does not have adequate controls in place to ensure accurate financial reporting.

Background

Town management, the state Legislature, state and federal agencies and bondholders rely on the information included in financial statements and reports to make decisions. It is the responsibility of Town management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified a material weakness in controls that adversely affects the Town's ability to produce reliable financial statements.

Government Auditing Standards, prescribed by the Comptroller General of the United States, require the auditor to communicate material weaknesses, as defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

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

- The Town's Clerk-Treasurer receipts and handles cash, records cash receipts and adjustments in the computerized accounting system, buys and sells investments, makes electronic debt payments and performs month-end bank reconciliations. The Clerk-Treasurer's work is not reviewed by someone independent of these duties.
- The Town's Clerk-Treasurer is responsible for maintaining a subsidiary ledger of the billings, payments and amounts due from utility customers. These records result in summary transactions that post cash deposits and utility revenues into the general ledger used to support the financial statements. The Clerk-Treasurer's work is not reviewed to ensure utility payments posted to the subsidiary ledger represent actual cash deposits.
- The financial statements, supplemental schedules and footnotes to the financial statements are prepared by the Clerk-Treasurer without an independent review for accuracy.

Cause of Condition

The Town did not put in place adequate controls to ensure statements and schedules agreed with source accounting records. The Mayor and Council do not take an active role in the oversight of the Town's internal controls over financial reporting. Additionally, the Mayor and Council are not informed of the financial position and Town operations to the extent where they would recognize material errors in the financial statements.

Effect of Condition

Total cash reported in the financial statements could not be reconciled to the amount in the Town's bank accounts. Inadequate monitoring and oversight of the duties performed by the Clerk-Treasurer led to more than \$50,000 in utility receipts being posted to the customer utility billing subsidiary ledger and the general ledger without a corresponding bank deposit. Some utility payments remained in the Town safe, undeposited, for more than two years. We were able to determine all utility payments posted to the utility billing subsidiary ledger eventually were deposited.

In addition, the original financial statements received for audit contained presentation errors and notes that did not reconcile with figures reported in the financial statements. These errors were subsequently corrected by the Town.

Although only minor financial statement presentation errors were noted during the current audit, the deficiencies in internal controls make it reasonably possible that material misstatements could occur and not be prevented or detected by the Town in future years.

Recommendation

We recommend the Town establish and follow adequate internal controls over financial reporting and the reconciliation of financial transactions.

Town's Response

A policy will be implemented to ensure that internal controls are maintained. The Clerk-Treasurer's work will be reviewed by the mayor; and a member of the finance committee will review utility payments and deposits.

The Annual report will be reviewed for accuracy by Town Council at a regular meeting, or a special meeting called for that purpose, before submitting to the state.

The town does recognize that changes need to be made in the way the financial documents are reviewed by the Town and will begin implementing new procedures immediately to insure compliance with state law.

Auditor's Remarks

We recognize the Town's efforts to correct the reported conditions and we look forward to reviewing the improvements during our next audit.

Applicable Laws and Regulations

RCW 43.09.200 states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

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; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

Budgeting, Accounting and Reporting System Manual, Part 3, Accounting, Chapter 1, Accounting Principles and General Procedures, Section B, Internal Control, states in part:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

Government Auditing Standards, January 2007 Revision, Section 5.11, states in part:

For all financial audits, auditors should report the following deficiencies in internal control:

- a. Significant deficiency: a deficiency in internal control, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected . . .
- b. Material weakness: a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.