

Schedule of Audit Findings and Responses

Pierce Conservation District Pierce County November 18, 2008

1. The Pierce Conservation District did not have adequate internal controls over purchasing and disbursements.

Description of Condition

The District spends more than \$500,000 annually on goods and services. In our prior audit we identified weaknesses in internal controls over purchases and recommended improvements in policies and procedures. In response to our prior audit recommendations, the District Board adopted a formal purchasing policy at its September 25, 2007 meeting. During our audit:

- We identified four instances, totaling \$265,768 between September 25 and December 31, 2007, in which District personnel issued checks exceeding \$10,000 without prior Board approval. The Board authorized the District's Financial Administrator and Executive Director to make purchases up to \$10,000 without prior approval from the Board. The policy states the Board must approve all purchases over \$10,000.
- We identified 95 checks totaling \$150,020 that were distributed without either prior Board approval or subsequent Board review. The *Budgeting, Accounting and Reporting System (BARS) for Conservation Districts* allows checks to be issued before the Board approves claims if a district enacts the policies and procedures required in state law (Chapter 42.24 RCW and RCW 89.08.215). The Board is required to record the voucher/check numbers approved for payment in the minutes and review and approve the claims paid since its last regular meeting. The Board documents its review of payments by signing a report, generated by the District's Financial Administrator that does not list voucher/check numbers sequentially.
- Itemized receipts from District employees were not submitted to support the purchase of 18 meals totaling \$1,196.44. As noted in a prior audit finding, District employees do not properly document meals charged to District credit cards.
- Credit card expenditures totaled nearly \$35,000 for the audit period. The Board adopted policies allowing staff to use District credit cards only for District-related business. The Financial Administrator performs the reconciliation, reviews, and pays credit card charges, including her own. Neither the Board nor the District Manager monitors her reconciliation or credit card use. The District Manager does not submit a reconciliation of his credit card purchases and statement to the Board. District employees are not required to certify that charges are for District purposes only. The District does not reconcile gas purchases on District credit cards to vehicle use logs to ensure purchases are reasonable and allowable.

Cause of Condition

Although the District adopted formal purchasing policies in response to our prior audit recommendations, the Board failed to ensure these policies and controls were followed.

Effect of Condition

The District made payments without adequate review and approval by the Board. The Board cannot ensure District expenditures are reasonable, lawful and serve a District-related purpose.

Recommendation

District management should follow Board policies and procedures regarding purchasing and payments. Payments should not be made prior to Board approval.

The Board should review all payments and document the review.

District employees should document the public purpose of meals and provide the Board with itemized receipts. When a District employee purchases meals for others, the name of each person should be documented.

The Board also should review gasoline card receipts prior to payment to for reasonableness and document the review.

District's Response

- *The report finds four instances where checks were written exceeding the spending authority limits set by District policy of \$10,000. These expenditures were made on budgeted items where the District Board of Supervisors had previously approved contracts which included specific payment schedules. It was management opinion at the time, concurred with by previous representatives of the Washington State Auditor's Office as being appropriate, that such practices were reasonable and accountable. This report makes it clear that there is a change or difference of opinion within the State Auditor's Office however, and we will modify our practices to avoid similar findings in the future.*
- *The report finds 95 checks distributed "without Board approval or review." We do not concur with the way this finding is written. All of these payments were indeed reviewed by the Board at monthly meetings. The issue is the lack of a simple statement at the bottom of each check register signed by the appropriate Board members stating formally that they have reviewed the registers. This statement was added to our monthly Treasurer's reports the moment that the need for them was communicated to us. A more proper finding statement might be "that 95 checks were distributed without formal statements of review included upon check registers or Treasurer's Reports."*
- *The report finds lack of itemized receipts in meal documentation. In previous audits summary receipts were found to be acceptable by the State Auditor's Office. This change in the need for itemized receipts has now been made internal policy. This issue has therefore been addressed.*
- *The report finds various issues with use of credit cards. When this was communicated to us the District immediately made changes to its policies for issuance, use, and reporting of use for credit cards. We believe that all the issues related to credit cards have therefore been addressed.*

Auditor's Remarks

We appreciate the District's commitment to resolve this finding and thank the District for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit. We appreciate the District's commitment to improving controls over its

expenditure process. We could not verify that all checks issued were approved and reviewed by the Board at its monthly meetings. We reaffirm our finding.

Applicable Laws and Regulations

RCW 42.24.080 states:

All claims presented against any county, city, district or other municipal corporation or political subdivision by persons furnishing materials, rendering services or performing labor, or for any other contractual purpose, shall be audited, before payment, by an auditing officer elected or appointed pursuant to statute or, in the absence of statute, an appropriate charter provision, ordinance or resolution of the municipal corporation or political subdivision. Such claims shall be prepared for audit and payment on a form and in the manner prescribed by the state auditor. The form shall provide for the authentication and certification by such auditing officer that the materials have been furnished, the services rendered or the labor performed as described, and that the claim is a just, due and unpaid obligation against the municipal corporation or political subdivision; and no claim shall be paid without such authentication and certification: PROVIDED, That the certificates as to claims of officers and employees of a county, city, district or other municipal corporation or political subdivision, for services rendered, shall be made by the person charged with the duty of preparing and submitting vouchers for the payment of services, and he or she shall certify that the claim is just, true and unpaid, which certificate shall be part of the voucher.

The *Budgeting, Accounting and Reporting System (BARS) for Conservation Districts Manual*, pages 5-7, states in part:

To indicate Board of Supervisor's approval for payment of those vouchers audited and certified by the treasurer, the following statement must be entered in the minutes of the Board meeting:

The following voucher/warrants are approved for payment:

Voucher (check) numbers: _____ through _____ and totaling \$ _____
Payroll check numbers: _____ through _____ and totaling \$ _____

If the Board of Supervisors authorizes the procedure, the district may issue checks before the Board approves claims. To do this, the district must enact the following policies and procedures (required in Chapter 42.24 RCW and RCW 89.08.215):

1. The Treasurer and the Board designee designated to sign the checks must have an official bond. The amount should be determined by the Board of Supervisors but cannot be less than fifty thousand dollars.
2. The Board must adopt contracting, hiring, purchasing and disbursing policies that implement effective internal controls.
3. The Board must review and approve the claims paid at its next regularly scheduled public meeting.
4. If the Board disapproves some claims, the auditor and the Board designee designated to sign the checks must recognize these claims as

receivables of the district and pursue collection diligently until the amounts are either collected or the board is satisfied and approves the claims.

The Board may stipulate that certain expenditures will not be paid before the Board has reviewed the supporting documentation and approved the issue of checks in payment of those expenditures. For example, the Board may allow the district's staff to pay normal, recurring claims such as phone, payroll, utility bills, etc. But the Board may reserve for itself the discretion to approve major equipment purchases. The original copy of all vouchers or receipts must be filed in the conservation district office. The detailed accounts to which the expenditures are to be posted must be clearly designated. Supporting documentation must be retained and attached to the vouchers, and cancelled by the treasurer to prevent reuse. Vouchers and supporting documentation must be filed in a manner that allows rapid identification and retrieval of all the vouchers of a particular fund, program or account code.

RCW 43.09.285 states:

- (1) Local governments, including counties, cities, towns, special purpose districts, municipal and quasi-municipal corporations, and political subdivisions, are authorized to use credit cards for official government purchases and acquisitions.
- (2) A local government may contract for issuance of the credit cards.
- (3) The legislative body shall adopt a system for:
 - (a) The distribution of the credit cards;
 - (b) The authorization and control of the use of credit card funds;
 - (c) The credit limits available on the credit cards;
 - (d) Payment of the bills; and
 - (e) Any other rule necessary to implement or administer the system under this section.
- (4) As used in this section, "credit card" means a card or device issued under an arrangement pursuant to which the issuer gives to a card holder the privilege of obtaining credit from the issuer.
- (5) Any credit card system adopted under this section is subject to examination by the state auditor's office pursuant to chapter 43.09 RCW.
- (6) Cash advances on credit cards are prohibited.

Schedule of Audit Findings and Responses

Pierce Conservation District Pierce County November 18, 2008

2. The District did not have adequate financial and administrative controls over special assessment revenue received from Pierce County.

Background

In 2003 Pierce County passed an ordinance authorizing a special assessment of \$5 per parcel on properties within the District. Since January 1, 2004, the District received approximately \$4.8 million to fund programs to conserve natural resources within unincorporated Pierce County and the cities of Fircrest, Lakewood, Milton, Puyallup, Steilacoom, Sumner, Tacoma and University Place. The funded programs included farm planning services, technical assistance to farmers and projects to improve stream and lake water quality.

The ordinance was in effect from January 1, 2004, through December 31, 2006. It required the District to submit reports of work performed for each quarter of 2004 through 2006 to the County Oversight Board. These quarterly reports were to include information on the project work performed during the period and progress made to date, expenditure data and monitoring of performance indicators and an accounting of actual revenues compared to expenditures for the current quarter. The ordinance also required the District to follow certain procedures when accounting for revenue received from 2004 through 2006, to follow certain guidelines for charging administrative costs and to transfer funds to and from partner jurisdiction trust accounts only with approval of the County Oversight Board, the District Board and the partner jurisdiction's legislative body.

Our prior audit found the District failed to adequately comply with these requirements. Pierce County and the District entered into a new agreement effective January 1, 2007, through December 31, 2009, that was significantly modified and now lacks effective oversight by the Pierce County Council. The reduced accounting and reporting requirements provide inadequate accountability to taxpayers in the partner jurisdictions.

Description of Condition

Under this new agreement, the District is required to:

- Submit only annual reports to the County Oversight Body and County Executive with an accounting of revenue compared to expenditures for the reporting period by January 15 of the subsequent year. The Pierce County Council could not find the 2007 report that was due January 15, 2008.
- Maintain an accounting for each project/program activity (there were four in 2007). The District no longer maintains separate accounting for each partner jurisdiction.

We reviewed the 2007 annual report provided to us by the District and reportedly submitted to Pierce County by January 15, 2008. The reported balances of unexpended assessment funds were inaccurate and administrative costs exceeded the amount allowed. The balance of assessment funds received, but not yet spent as of December 31, 2007, was reported as \$462,647 instead of \$780,874. Total administrative costs charged in 2007 of \$316,265 were

25 percent of annual assessment revenue, which exceeded the 24 percent allowed under the agreement.

Cause of Condition

The District and its oversight body, the Pierce County Council, failed to establish effective administrative controls over the spending of special assessment revenue.

Effect of Condition

District accounting records provide inadequate accountability to the partner jurisdictions regarding the use of their taxpayer funds.

The District reported inaccurate expenditures of special assessment revenue to the Pierce County Council (the oversight body).

Recommendation

We recommend the District ensure program requirements are met. This should include ensuring that adequate accounting records are kept, special assessment revenue are used only for assessment-related purposes and accurate reports are prepared in a timely manner.

We also recommend the District charge administrative costs when funds are spent based on actual costs incurred.

We recommend the District's agreement include the necessary requirements to demonstrate accountability to taxpayers.

District's Response

- *The report mentions that the Pierce County Council was unable to produce the annual report for 2007, which was submitted in January of 2008. This has been a recurring issue, and we ensure that at the least the District can provide proof of report delivery upon request. We cannot be held responsible for document receipt or filing by other organizations.*
- *The report mentions the lack of separate accounting for project/program activity by jurisdiction. The District does account for funds by project/program, but not by jurisdiction. In 2007 the separate funds accounted for included Agricultural Assistance, Stream Team, Tahoma Fund, Tahoma View, and Administration. The decision to cease reporting by jurisdiction reflects negotiations and agreements between the civic leaders of the various municipalities involved. All municipal officers of all assessed jurisdictions are welcome to inspect District financial records with short notice, and to consult with District management or the Board of Supervisors regarding the work they receive in return for being party to the assessment agreement. During the formation of the 2007 ordinance and supporting documents it was considered most effective by all consulted that the assessment boundaries of the District be seen as an 'organic whole,' and it was agreed that parsing natural resource areas by artificial political boundaries would result in political winners and losers, but not necessarily overall effective gains in natural resource conservation. The various municipalities have been, in general, satisfied with the assistance that they have received in return for District presence, and District management strives to return as much or more benefit to all participating jurisdictions. We find the desire to parse revenue and expenditures and contain them within political boundaries to be counterproductive to the effective conservation of natural resources.*

- *The report mentions a discrepancy in reported amounts of \$462,647 rather than \$780,874. This discrepancy reflects changes made in financial statements in response to State Auditor's Office personnel subsequent to issuance of that report. In the future the District will work to prevent such misstatements.*
- *The report takes issue with administrative expenses of 25% rather than the 24% which is specified in agreements with the County. It has been our understanding that our Interlocal Agreement with the County related to assessment receipts and expenditures allows the District to alter program/project amounts up to 5% without notification to any of the interested parties. We do not believe that this finding is appropriate for inclusion in this report.*

In general, changes were made to our 2007-2010 Assessment documents in consultation with previous representatives of the Washington State Auditor's Office, and it now appears that these consultations disagree with more current thinking at the Auditor's Office. We will strive to prevent future findings in this area as best we can.

Auditor's Remarks

We appreciate the District's commitment to resolve this finding and thank the District for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit. We reaffirm our recommendation to improve accountability to the participating jurisdictions on the use of the assessment revenue received by the District.

Applicable Laws and Regulations

RCW 89.08.400, Special assessments for natural resource conservation, states in part:

(1) Special assessments are authorized to be imposed for conservation districts as provided in this section. Activities and programs to conserve natural resources, including soil and water, are declared to be of special benefit to lands and may be used as the basis upon which special assessments are imposed.

(2) Special assessments to finance the activities of a conservation district may be imposed by the county legislative authority of the county in which the conservation district is located for a period or periods each not to exceed ten years in duration . . .

Pierce County reauthorized a system of special assessments for the District for collection beginning in 2007 pursuant to RCW 89.08.400 with Ordinance 2006-106s. This ordinance authorized the County to enter into an inter-local agreement with the District governing the use and authorization of the system of special assessments. This inter-local agreement states in part:

(A) Scope of Work – The District shall administer the program and expenditures and perform such duties and services as are listed on Attachment "A," Proposed Resource Conservation Assessment Spending Plan and Estimate of Revenues.

(Note - Attachment A lists estimated revenues by jurisdiction (the county and cities) and estimated expenditures by four programs:

Tahoma Fund
Agricultural Assistance
Stream Team
Tahoma View)

(B) Program Reporting – The District shall produce annual reports summarizing the work performed, expenditures incurred, and revenues collected; providing an evaluation of the performance and results of the work performed according to this Agreement; and estimating the projected revenues and expenditures for the next time period. Annual reports shall be provided to the members of the Oversight Body (*the County Council*) and the County Executive. These reports shall include the following information:

- A description of work performed during the period and progress made to date, including expenditure data and monitoring data or performance indicators that reflect the effectiveness of the program elements as set forth in Attachment "A."
- Description of any adverse conditions that have affected the program objectives and/or time schedules, and actions taken to resolve these issues.
- An accounting of revenues compared with expenditures for the current reporting period and as projected for the next reporting period.
- Annual reports are due January 15 and shall cover the previous calendar year.

(C) Accounting – The District shall maintain a fund account for Resource Conservation Assessment detailing the funds (RCA Fund) collected by the Pierce County Assessor Treasurer. Separate accounting shall be made for each project/program activity identified in Attachment A.

District Administrative Fee – The District shall charge prorated monthly administrative fees against the RCA Fund for actual expenses incurred, to a maximum of 24% of gross monthly Resource Conservation Assessment revenue receipts. Administrative costs shall be linked to the specific project or program activity most closely related to their use, if possible, or prorated across all activities and jurisdictions, in the case of general operating expense.

(D) Maintenance of Records – The District shall maintain all books, documents, receipts, invoices, and records necessary to sufficiently and properly reflect the expenditures of the RCA Fund accounts. The accounting records shall provide for a separate recording and reporting for all RCA Fund receipts and expenditures. Annual State Auditor reports, if not required, shall be requested.