

Schedule of Audit Findings and Responses

Pierce Conservation District Pierce County January 1, 2007 through December 31, 2007

1. The District's internal controls over financial reporting are inadequate.

Background

District management, the state Legislature, state and federal agencies and bondholders rely on financial statement information to make decisions. It is the responsibility of District 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 District's ability to produce accurate 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 significant deficiencies in internal controls over financial reporting that, when taken together, represent a material weakness.

- District staff did not have adequate knowledge in how to prepare financial statements in accordance with requirements in the *Budgeting, Accounting and Reporting System (BARS) for Conservation Districts* manual.
- Annual reports are prepared by one individual, the Financial Administrator, without adequate management or board oversight.

Cause of Condition

The Financial Administrator has sole responsibility for preparing financial reports. She has received training and assistance and, although some improvement was noted, the financial statements received for audit were not accurate or complete.

Additionally, Board Members do not provide sufficient oversight of financial statement preparation to ensure accurate and complete reports of the District's financial information.

Effect of Condition

During our review of the District's financial statements, we found the following significant errors in the original financial statements received for audit. These errors were subsequently corrected by the District.

- Every material amount on the Statement of Revenues and Expenditures Arising from Cash Transactions was misstated:
- Reported revenue of \$1,479,405 were understated by \$123,130.

- Reported expenses of \$1,863,600 were overstated by \$1,161.
- Reported cash and investment balances did not reconcile to the District's bank statements. The reported balance of \$150,904 was understated by \$125,261.
- The misstatements above also affected the subtotals for total resources and the excess (deficit) of revenue over expenses.

The supporting detail schedules of revenue and expenditures did not reconcile with the Statements of Revenue and Expenditures Arising from Cash Transactions.

If the noted deficiencies are not addressed, it is reasonably possible that serious misstatements could occur and not be prevented or detected by the District in the future.

Recommendation

We recommend District management review financial statements after preparation and ensure the staff member responsible for preparing financial statements receives adequate training. Additionally, we recommend the Board of Supervisors takes an active role in oversight of the preparation of the District's annual report.

District's Response

- *The report finds that District staff possesses inadequate knowledge in the preparation of financial statements, and that reports are prepared without adequate management oversight. We do not concur with this assessment. In the 2006 and 2007 audits there were ending and beginning balances that did not match up as a result of software difficulties and coding errors. All of our documents are prepared with consultation of a CPA, and where discrepancies were found, corrections were immediately made. The District has been in a period of expansion of programs and funding complexity, which makes such errors almost inevitable. Our staff is overstretched at times, as is the nature of smaller and very active organizations such as ours. We do our best and correct our mistakes when they are found. We believe that the trend has been towards better and more accurate reports, and we regret that your report gives very little attention to improvements we have made in this area.*
- *The report finds misstatements on the Statement of Revenues and Expenditures arising from cash transactions. We have addressed this topic to some extent in the first bullet above. It should be added here that a small number of coding errors can lead to a large number of summary misstatements. The wording "Every material amount..." would lead the reader to believe that there are numerous errors, when in fact, only a few coding errors affect a great number of accounts. Nevertheless, we continue to work towards flawless execution of this task, and expect that future audit reports will show the results of our efforts.*

Auditor's Remarks

We appreciate the District's commitment to improving its financial report preparation process. We appreciate the steps the District is taking to resolve this issue. We will review the condition during our next audit. We thank District staff and officials for the assistance we received during the audit. We reaffirm our finding.

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, and other persons. The accounts shall show the receipt, use, and disposition of all public funds properly, and the income, if any, derived there from; 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.

Budget Accounting and Reporting System (BARS) 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, July 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 a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP such that there is more than a 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.