

# **Schedule of Federal Audit Findings and Questioned Costs**

**Riverside Fire Authority  
Lewis County  
January 1, 2009 through December 31, 2009**

**1. The Authority's internal controls are inadequate to ensure compliance with federal grant requirements.**

<b>CFDA Number and Title:</b>	97.044 Assistance to Firefighters
<b>Federal Grantor Name:</b>	U.S. Department of Homeland Security
<b>Federal Award/Contract Number:</b>	EMW-2008-FR-00105
<b>Pass-through Entity Name:</b>	NA
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$0

## **Background**

Federal regulations require the Authority to monitor sub-recipients of federal funds. The Authority is required to inform sub-recipients of all pertinent grant regulations, such as federal Office of Management and Budget Circulars A-87, A-133 and A-102. Sub-recipients are expected to follow these requirements.

## **Description of Condition**

During 2009, the Authority received \$601,317 in federal grant funds for the purchase of communications equipment. Of this, \$506,934 of equipment was passed through to 17 fire districts in the region.

The Authority had an agreement with these sub-recipients that did not include all federal requirements. The Authority did not communicate the Catalog of Federal Domestic Assistance number and other requirements.

We reported this issue as a finding in our 2008 audit. This condition continued in 2009.

## **Cause of Condition**

This is the first federal grant for the Authority that was passed through to sub-recipients. The Authority was not aware of grant requirements regarding subrecipient monitoring.

## **Effect of Condition**

Without internal controls in place to monitor its subrecipients, the Authority is not able to verify program funds were used in accordance with the grant agreement and federal requirements.

## Recommendation

We recommend the Authority establish and follow adequate controls over subrecipient monitoring to ensure compliance with federal grant requirements.

## Authority's Response

Recipient Response: *The RFA executed a Memorandum of Understanding (MOU) with all recipient fire districts prior to the distribution of equipment. The applicable sub-section of the MOU states the following regarding compliance with Federal Requirements. The RFA is responsible for the coordination, accounting, execution, and auditing of the grant deliverable requirements as defined by the Department of Homeland Security. The Grantee and host (RFA) remains accountable to DHS for compliance with all grant conditions (including loss or damage to the equipment) and therefore all sub-recipients agree to notify the RFA if there is any event that might cause a violation of any grant condition."*

*The MOU further stated that; "All participating agencies agree to provide unfettered access to said equipment by RFA and the Department Homeland Security for the purposes of accounting and auditing."*

*The RFA is not aware of any previous findings regarding this issue. The reference was made that this was an issue previously. The only reference to this issue that the RFA is aware of is reference to grant EMW-2006-FG-16866. This grant was audited at the same time as the referenced grant in this matter; therefore, previous reporting of this condition to the RFA to the best of our knowledge is inaccurate.*

Recipient Corrective Action Plan (CAP): *Upon being made aware of the additional requirements (specifically reference to U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations to include Circulars A-87 and A-102), the following actions by the recipient were immediately implemented:*

- a.) *Revisions to RFA Policy No. 109 (Non-Capitalized Assets) to include the following:*

*Grant Management Requirements: All assets funded by Federal grants and managed by the Authority shall follow Title 28 Code of Federal Regulations and Office of Management and Budget Circular A-133 (Audits of States, Local Governments, and Non-Profit Organizations, Section 300, to include Sections A-87 and A-102).*

*3.7.1 The Authority shall maintain internal control and provide reasonable assurance that it is managing Federal grant awards in compliance with laws, regulations, and the provisions of contracts or grant agreements.*

*3.7.2 The Authority shall confirm that all sub-recipients are not prohibited from contracting with, suspended, or debarred from conducting business with the federal government. For vendor contracts of \$25,000 or more and all sub-awards, the Authority must ensure the vendor or sub-recipients are not suspended or debarred. This requirement shall be met prior to the first payment to the vendor.*

*3.7.3 Property/equipment records shall be maintained that include:*

- a.) *Description of property*
- b.) *A serial number or other identification number*

- c.) Agency responsible or holding title
- d.) Acquisition date
- e.) Source of property
- f.) Percentage of federal participation in the cost of recovery (% split)
- g.) Assigned location
- h.) Use and condition of property
- i.) Ultimate disposition and sale price of the property/equipment

3.7.4 A physical inventory of the property shall be taken and the results reconciled with the property records at least once every two years.

3.7.5 A control system must be developed to ensure adequate safeguard to prevent loss, damage, or theft of the property. Any loss, damage or theft shall be investigated.

3.7.6 In regards to regional grants administered by the Authority, all sub-recipient agencies shall sign a Memorandum of Understanding (MOU) regarding any and all grant and sub-recipient accounting requirements per Federal Office of Management and Budget Circulars. A copy of the MOU shall be maintained by the Authority.

- a. The previously referenced policy requirements have been added to the AFG grant award "check list" for all grant awards that have sub-recipients.
- b. The Fire Chief and the Finance Administrator will oversee and ensure compliance with the policy and requirements as identified by the Federal Office of Management and Budget Circulars A-87, A-133, and A-102.

In closing, the RFA is confident that policy modifications and actions to improve internal controls over sub recipient monitoring as identified in the CAP will ensure compliance with federal grant requirements.

### **Auditor's Remarks**

We appreciate the steps the Authority is taking to resolve these issues. We will review the status during our next audit.

### **Applicable laws and Regulations**

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, states in part:

Section .300

The auditee shall . . .

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

Section .400

(d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes . . .

(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

# Schedule of Audit Findings and Responses

Riverside Fire Authority  
Lewis County  
January 1, 2009 through December 31, 2009

2. **The Authority's internal controls were inadequate to ensure accurate and timely financial reporting, resulting in it missing a federal deadline for an audit.**

## Background

Authority 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 Authority management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in controls that adversely affect the Authority's ability to produce reliable financial statements.

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

## Description of Condition

In 2009, the Authority, which typically is not required to have a financial statement and federal Single Audit, spent \$601,317 in federal funds for communication equipment.

We identified the following deficiencies in internal controls over accounting and financial reporting that, when taken together, represent a significant deficiency:

- The person responsible for preparing the financial statements lacked adequate technical knowledge of the Budgeting, Accounting and Reporting Systems (BARS) Manual to accurately prepare the required financial reporting.
- No one independent of the financial statement preparation performed a detailed review for accuracy prior to the financial reporting being submitted for audit.
- Although the Authority has an established procedure for reconciling its financial information to the County Treasurer's Reports, it is not effective in identifying differences between the two systems. In addition, no one oversees or monitors this process to ensure it was performed correctly.

## Cause of Condition

The Authority did not dedicate the necessary staff time or resources, including training to staff, to ensure the financial statements and Schedule of Expenditures of Federal Awards (SEFA) were prepared in a timely manner.

## Effect of Condition

The Authority did not provide us with its financial statements until October 2010. As a result, it did not meet a required federal deadline of September 30, 2010 for obtaining an audit of fiscal year 2009 grant expenditures.

In addition, the Authority did not submit its annual report to our Office within 150 days following fiscal year-end (May 30, 2010) as required by state law. It did so in October 2010.

Although the Authority did not have any financial statements errors or misstatements, these deficiencies in internal controls make it reasonably possible that serious misstatements or irregularities could occur and not be prevented or detected by the Authority in the future.

## Recommendation

We recommend the Authority dedicate the necessary time and resources to ensure:

- Individuals responsible for preparing and reviewing the financial statements have sufficient training on BARS reporting.
- An effective reconciliation of the financial information in the system to the County Treasurer Reports. In addition, someone independent and knowledgeable of the system should oversee this process.
- An independent review of the financial statements by a knowledgeable person prior to submitting them for audit. The Authority may wish to consider using a checklist or other reviewing tool for this purpose.

## Authority's Response

Recipient Response (Training): *In 2011, the Finance Administrator became a member of Washington Finance Officers Association and attended two of their sponsored classes: Cash Basis Accounting and Reporting and Federal Grant Requirements and Management.*

Recipient Response (Review for Accuracy): *The Fire Chief reviews financial statement preparation and monthly reports.*

Recipient Response (Timely Reporting): *Once the recipient recognized that the applicable timeline would not be met, two audit extension requests (August/September 2009) were submitted to the Department of Homeland Security per the Assistant State Auditors recommendation. Despite numerous attempts by the recipient, the recipient did not receive the Federal Grant close-out documentation from the (federal) grant program administrator required to properly conduct the grant closeout procedure. In addition, the RFA Finance Administrator (FA) suffered a significant injury outside the workplace resulting in her absence for nearly two months. Unfortunately, the recipient did not have additional trained staff that could fulfill the responsibilities of the FA while on disability leave. When the FA's condition allowed her to work from home, she did so. The FA actions and work activities to complete the appropriate reports and associated delays were communicated to the Assistant State Auditor.*

Recipient Corrective Action Plan (CAP): The following internal controls have been implemented to meet the auditor's recommendations. Based on said, the following actions by the recipient were immediately implemented:

**Recommendation: Individuals responsible for preparing and reviewing the financial statements have sufficient training on BARS reporting.**

*Recipient Response: Additional training has been received and will continue in the future.*

**Recommendation: There is an effective reconciliation of the financial information in the system to the County Treasurer Reports. In addition, there should be oversight of this process by someone independent and knowledgeable of the system.**

*Recipient Response: Reconciliations are being made to the county treasurer expenditure and treasurer reports and are being reviewed by the Fire Chief*

**Recommendation: There is an independent review of the financial statements by a knowledgeable person prior to submitting them for audit. The Authority may wish to consider the use of a checklist or other reviewing tool for this purpose.**

*Recipient Response: The Fire Chief is reviewing financial statements and a checklist will be developed and implemented accordingly.*

*In closing, the increase in administrative and financial duties inherent with the merging of two established fire departments was a continuing challenge to address. An additional part time employee has been added to the financial department to help with the work load issues and additional accounting software to allow financial review by the Chief Officers has been purchased.*

## **Auditor's Remarks**

We appreciate the steps the Authority is taking to resolve these issues. We will review the status during our next audit.

## **Applicable Laws and Regulations**

RCW 43.09.230 states:

The state auditor shall require from every local government financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.

Such reports shall be prepared, certified, and filed with the state auditor within one hundred fifty days after the close of each fiscal year.

The reports shall contain accurate statements, in summarized form, of all collections made, or receipts received, by the officers from all sources; all

accounts due the public treasury, but not collected; and all expenditures for every purpose, and by what authority authorized; and also: (1) A statement of all costs of ownership and operation, and of all income, of each and every public service industry owned and operated by a local government; (2) a statement of the entire public debt of every local government, to which power has been delegated by the state to create a public debt, showing the purpose for which each item of the debt was created, and the provisions made for the payment thereof; (3) a classified statement of all receipts and expenditures by any public institution; and (4) a statement of all expenditures for labor relations consultants, with the identification of each consultant, compensation, and the terms and conditions of each agreement or arrangement; together with such other information as may be required by the state auditor.

The reports shall be certified as to their correctness by the state auditor, the state auditor's deputies, or other person legally authorized to make such certification.

Their substance shall be published in an annual volume of comparative statistics at the expense of the state as a public document.

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 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.

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

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has *ultimate*

responsibility for ensuring adequate controls to achieve objectives, even though *primary* responsibility has been delegated to management.

Government Auditing Standards, July 2007 Revision – Section 5.11, provides that auditors should report significant deficiencies and material weaknesses in internal control.

Statement on Auditing Standards No. 115, issued by the Auditing Standards Board of the American Institute of Certified Public Accountants, defines material weakness and significant deficiency as follows:

- a. Material weakness: A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.
- b. Significant deficiency: A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.