

Risk Assessment Inquiry with Governing Body / Audit Committee

Below are minimum extent of inquiry, although not every question will be applicable to every person we interview. Financial Reporting questions are not required to be included if not performing a financial statement audit. Auditors are not limited to these questions nor to only asking the questions based on the audit type being performed.

Inquiry with: (name & position)		Christopher Marr, Board Treasurer	Date:	11/8/2022
Question			Summary of Response	
Financial Reporting (not required if not performing a financial statement audit)				
1	Entity management is responsible for preparing financial statements. The governing body (or audit committee) is responsible for oversight of financial reporting. Are you aware of any potential pressures, motivations or requests for management to record inaccurate information, not record information or make unsupported changes to financial records or reports?		None that he is aware of.	
2	Have you identified any business risks that might significantly affect operations or financial condition? If so, what has been done to mitigate these risks?		No business risks that might significantly affect operations or financial condition.	
3	Is there anything reported in the financial statements that seems unusual or unreasonable, based on your understanding?		No unusual or unreasonable balances reported on the financial statements.	
Compliance				
4	Are you aware of any potential or actual noncompliance with laws, regulations, grants or contracts since the last audit?		No.	
Safeguarding of Public Resources / Monitoring Activities related to Fraud - For purposes of the following questions, the term “fraud” involves actions that result in a misstatement in financial statements due to fraudulent financial reporting or misappropriation of assets.				
5	Entity management is responsible for identifying, responding to and monitoring the risks of fraud in the entity, including any specific risks that have been previously identified or brought to its attention. The governing body (or audit committee) is responsible for oversight of controls and processes established by management in these areas. How does your group oversee the management's risk assessment and monitoring of internal controls related to fraud and safeguarding of public resources (e.g. reviewing reports from management or risk managers, conversations with management or department heads, holding work sessions related to risk assessment or control monitoring results)?		In his role as the board treasurer, Chris monitors and reviews the voucher payments that were done for the month. The voucher payments are processed by King County on behalf of the PFD. Chris will perform a review of voucher payments a week before the board meeting and will follow up with the executive director on any large or unusual payments.	
6	Do you have any concerns with related party relationships or transactions?		No concerns with related party relationships. Chris noted that when the District seeks for vendors or contracts, on an occasional basis, if the executive director or any one on the board knows of a vendor or contractor from their past work experience that may be a potential vendor for the PFD, the relationship is usually disclosed prior to any agreement or contract decision is made.	
7	Does anyone report periodically to the governing body (or audit committee) about risk assessments related to fraud or safeguarding of public resources and any identified issues?		No one reports to governing board about risk assessments related to fraud. However, when an issue is identified, it is immediately discussed in an executive board session.	

Inquiry with: (name & position)	Christopher Marr, Board Treasurer	Date:	11/8/2022
Question		Summary of Response	
8	<p>Auditing standards require us to ask your views on what areas might be at highest risk for potential fraud and if you are aware of any actual, suspected or alleged fraud.</p> <p><i>We have asked this same question of management and your answer also allows us to corroborate the information they have given us. RCW 43.09.185 also requires reporting of known or suspected loss of public funds or assets or other illegal activity to our Office on an ongoing basis.</i></p>	<p>An area that is at highest risk for potential fraud is small expenditures that don't get reviewed by the board. Additionally, a high risk area is the lack of procedures involved in the authorization of executive director to make payments/reimbursements. Chris stated, there is currently no process where the board is involved in reviewing/approved small value transactions such as credit card expenditures and cash reimbursements.</p> <p>There was a fraud that occurred in 2021 and early 2022 with the PFD's office manager. Prior to the fraud, the board was notified of the employee having performance issues. After the employee had abruptly left the PFD, the executive director went through all the accounting records and discovered the employee's payroll benefits were not properly deducted. The employee did not pay their portion of benefits. Additionally, the executive director discovered the employee had conducted many unusual credit card expenditures, particularly for Amazon food and beverages. This was discovered after the employee had left the PFD. Executive Director was not aware of the credit card expenditures until he started his review of all the accounts. Chris noted that for 2022 the PFD hired an external bookkeeper to keep track of all accounting records, the bookkeeper is now the one who reviews the credit card bill to make sure expenditures are for allowable purposes.</p> <p>Fraud- Credit Card and Payroll Expenditures: In 2021 and early 2022 the District discovered the office manager had misappropriated funds. The employee used the District's credit card for personal expenses including food and beverages which were not authorized. Additionally, the PFD discovered the employee had not been paying their half of payroll benefits accurately. There is a risk that the District does not have adequate controls and procedures to minimize additional fraudulent payroll and credit card charges from occurring.</p>	

Inquiry with: (name & position)		Christopher Marr, Board Treasurer	Date:	11/8/2022
Question			Summary of Response	
9	Considering other audits that you have already had and the results of those audits, is there any area of concern you would like us to follow up on or incorporate in our audit?		<p>Best practices around policy and expenditure operations i.e) Credit cards, reimbursement for personal expenses (no approval for this), small dollar expenditures need to be communicated to board members. In general, there are areas where controls are lacking in expenditure review/approval.</p> <p>Controls over Review of Executive Director Authorization of Expenditures: Board Treasurer noted there are no policies and procedures in place to monitor reimbursements, credit card expenditures and small dollar transactions conducted by the Executive Director. There is a risk that the District does not have adequate controls and procedures in place to monitor the executive director's expenditures ensuring expenses are allowable, adequately supported and public funds are safeguarded from fraud and/or misuse.</p>	
10	Is there anything else we should be aware of?		No.	