

Stevens County Fire Protection District No. 7

General

Code: 08StevensCoNo7-AC19
Name: Stevens County Fire Protection District No. 7
Group: LGS
Type: 08-Fire Protection District
Location: Stevens
Scope: Not Applicable

Team

Lead: Angela Harris
Manager: Vivian Vandenburg

Procedures

A.1.PRG - TeamMate Administration

Procedure Step: Audit Set Up
Prepared By: AAH, 6/23/2020
Reviewed By: STE, 7/6/2020

Purpose/Conclusion.*

Purpose / Conclusion:

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Set up TeamMate audit file in accordance with TeamMate Protocol.

Testing Strategy:

All of the following steps are required in order to properly set up the TM file except for the optional step to set up global tickmarks. If the budget is less than 100 hours, auditors may skip steps 4-6 (filling out the profile and sending to TC) until the end of the audit.

1. **Add the audit team to the project** - To do this, go to the Planning tab and select Team. Then select the team from the TeamStore by clicking the "get" button.
2. **Set Project Manager and Lead** - Select the Lead and Manager from the drop down menus in the Team Tab of the Profile. The "Lead" should be the Auditor-In-Charge of the audit, and the "Manager" should be the Assistant Audit Manager supervising the audit.
3. **Fill out initial information in the Profile** - The Project Profile captures general information about the audit for the TeamCentral database. Access the Profile from the Planning tab and populate as many of the required fields in the Profile as possible at this stage of the audit. A description for each required field can be found in the TeamMate Protocol document.
4. Go to <http://saoapp/TMDV/ViewProjectErrors.aspx> and enter the project code then "Validate" to check your project for errors.
5. **Resolve any TMDV errors** - The TeamMate Data Validation (TMDV) application performs a series of edit checks on data in your project to ensure accuracy and conformity to protocol. If TMDV identifies errors for your project, resolve the errors and send to central again (if distributed) until TMDV displays that there are no records to display.

Exceptions could indicate either errors in the TeamMate profile or issue data or errors in other SAO databases. If you have confirmed that information in TeamMate is correct, contact the TeamMate Administrative Group to initiate corrections to our other databases.

6. **Set up your favorite global tickmarks (optional)** - Global tickmarks are available throughout the audit file and do not change from workpaper to workpaper. You can access the global tickmarks screen from the Planning tab.

7. **Initialize Audit** – Attempt to sign off on this step, which will trigger a dialog box asking if you would like to initialize the audit. After initialization of the audit, you may continue to add users or global tickmarks, but cannot delete any.

Policy/Standards:

See TeamMate Protocol document

Record of Work Done:

1. Added the audit team to the project
2. Set the Project Manager and Lead

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3. Filled out the audit profile
4. All projects - Checked Data Validation System for errors
5. Resolved all TMDV Errors
6. Set up my favorite global tickmarks, if needed
7. Initialized the audit file

A.1.PRQ - TeamMate Administration

Procedure Step: Project Review & Finalize
Prepared By: (None)
Reviewed By: STE, 7/6/2020

Purpose/Conclusion:

Purpose/Conclusion:

To ensure that audit documentation complies with TeamMate Protocol, the audit file is ready for finalization and archiving, and that any files outside of TeamMate are completed and reviewed.

Testing Strategy:

Replicas

Ensure that all replicas are merged into the master file and discard any replicas that will never be merged.

Review of workpapers

Review workpapers to ensure they are completed and properly signed off. You can use the Procedure Status Viewer (for all procedure steps) or the Schedule Status Viewer (for procedure summaries and attachments) to see the status of steps and attachments in the audit file. *The Viewers can be accessed from the buttons on the Navigation Bar at the bottom of the screen.*

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Coaching Notes

Verify that all coaching notes have been addressed and cleared. You can use the Coaching Notes Viewer to see the status of all Coaching Notes in the audit file. *The Coaching Note Viewer can be accessed by from the button on the Navigation Bar at the bottom of the screen.*

During the finalization process, coaching notes will be deleted. If you want to keep these notes you will need to create a report using the Reports wizard and save it outside of the TeamMate file.

Hardcopy Files and External Data

Ensure that hardcopy files referenced by the audit are completed and reviewed. Also ensure that any unnecessary documentation or files, including databases with any confidential or sensitive information, are appropriately disposed. If files or databases are needed for future periods, ensure these are appropriately secured. *See the SAO Administrative Policy on Data Security and Access.*

Project Profile

Review and update the Profile information. See the TeamMate Protocol document for definitions and instructions for each required field. *The Protocol document can be accessed from your Start Menu | All Programs | State Auditor's Office or on the Intranet on the TeamMate page.*

EIS Entity Profile

Review and update the entity profile in EIS.

Issue Review

Ensure issue content and title is exactly what was presented to the client per the Exit Document, Management Letter, or Finding. There should only be one issue for each finding, management letter item and exit comment. Additional information or notes about the issue can be documented in the "notes" tab. Any other documented issues (that were communicated verbally, at pre-exits or were later combined or dropped) should be either deleted or marked as "verbal recommendations."

Check that all required issue fields are completed and correct. See the TeamMate Protocol document for definitions and instructions for each required field. *The Protocol document can be accessed under Help | Local Guidance or on the Intranet on the TeamMate page.*

Issue Sign-Off

All issues must be reviewed and signed off by a Supervisor and/or Manager, per Protocol. The finalization process will require all issues to have a state of "reviewed."

Resolve any TMDV errors - The TeamMate Data Validation (TMDV) application performs a series of edit checks on data in your project to ensure accuracy and conformity to protocol.

- Go to the Status and Milestones tab in the profile and change project status to "Post Fieldwork"
- Go to <http://saoapp/TMDV/ViewProjectErrors.aspx> and enter the project code then "Validate" to check your project for errors.

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- If TMDV identifies errors for your project, resolve the errors and check web site until TMDV displays that there are no records to display.

Exceptions could indicate either errors in the TeamMate profile or issue data or errors in other SAO databases. If you have confirmed that information in TeamMate is correct, contact the TeamMate Administrative Group to initiate corrections to our other databases

Change Project Status

Go to the Status and Milestones tab in the profile and change project status to "Post Fieldwork"

- Enter the report date in the "Post Fieldwork draft report)" actual date field.
- REMINDER - Do NOT change the status of the project to "Issued" or the project will not get archived.

NOTE - DO NOT CHANGE THE STATUS OF THE PROJECT TO ISSUED.

Complete/Finalize Project

After the audit report has been sent to OS the audit should be finalized by the Manager. To do this, go to Project | Finalize. The finalization process will:

- Halt the process if any issues have not been reviewed;
- Warn the Manager of unreviewed workpapers and/or steps;
- Check for uncleared coaching notes;
- Finalize the project, which prevents any further changes from being made to the file.

Note: if the project is finalized and the team subsequently needs to add or modify the documentation, contact the TeamMate Administrator for assistance.

Policy/Standards.*

See TeamMate Protocol document

Record of Work Done.*

All of the following steps have been completed for this audit file:

- All outstanding replicas are merged.
- All workpapers have been reviewed.
- Coaching notes have been addressed and cleared.

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- Hardcopy files have been completed and reviewed.
- Unnecessary files and databases have been appropriately disposed of, and any files or databases needed for future periods have been appropriately secured in accordance with SAO's administrative policy on Data Security and Access.
- The audit profile has been completed.
- EIS Entity profile has been updated.
- Issue Titles and Content match what has been presented to entity.
- Issue content has been reviewed and required fields completed.
- All issues have been signed off as reviewed.
- All TeamMate Data Validation errors are resolved.
- Project Status has been changed to Post Fieldwork

The audit will now be finalized.

B.1.PRG - Permanent File

Procedure Step: Entity Operations & COSO Evaluation

Prepared By: AAH, 6/16/2020

Reviewed By: STE, 7/6/2020

Purpose/Conclusion.*

Purpose:

To gain an understanding of the entity and its operations sufficient to plan and perform the audit and identify items to consider in assessing audit risks. To gain an understanding of the five components of internal control (control environment, risk assessment, information and communications, monitoring and control activities) as they relate to the government as a whole and identify items to consider in assessing audit risks.

Conclusion:

Based on our understanding of the entity and its operations and entity-wide controls, we noted **the following** potential risks

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The District does not appear to deposit funds timely. We asked about this in our planning steps. See our testing conclusions documented here [\[Planning\]](#).

Testing Strategy:

Entity Operations and Environment

Auditors are **required** to gain an understanding of the entity and its control environment.

To document significant information about the entity, **consider** the following:

- Significant revenue streams – Does the entity supplement or depend on plot (land) sales or other local receipting (such as charges for services like water/sewer sales) or are property taxes the primary revenue stream? Review entity's Schedule 01 to help determine main revenue streams and consider question 21 from the Schedule 22 for any new revenue streams.
- Significant transactions and arrangements – Examples include contracts for services, interlocal agreements or shared service agreements. Consider Permanent Files section of the Schedule 22 (questions 9 – 17)
- Unusual management arrangements – Examples include management by third-party vendor, infrequent board meetings (i.e. once a year)
- If applicable, how many customers does the government serve (i.e. connections, parcels, acres, etc.). Consider Schedule 22 entity specific section
- Number of employees, volunteers, etc.
- Detail significant policies or procedures the government may have documented, such as procurement policies, travel policies, credit card or imprest account policies. Auditors may also want to detail important resolutions, such as resolutions establishing Board Member compensation, setting rates or fees, allowing for use of imprest accounts or credit cards, etc. (auditors are encouraged to include the resolution year/number in this information to assist future auditors).

Entity-Wide COSO Evaluation

Auditors are **required** to gain an understanding of the five components of internal control as they relate to the government as a whole.

Auditors should consider recommendations at this point for any significant issues identified, in addition to identifying red flags and evaluating the impact of overall elements on control activities in individual systems.

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NOTE: Small and medium sized governments are likely to have more informal controls than large governments. For example, management may provide oversight through direct communication with staff rather than through formal processes. Informal means of control can be adequate for entities that are small and/or uncomplicated. When auditing a small or medium sized government with a less formal control structure; consider reviewing the "[Segregation of Duties: Essential Internal Controls](#)" resource produced by the Center for Government Innovation and using the [optional template Segregation of Duties Evaluation](#). This resource may assist auditors in identifying when control deficiencies are mitigated by compensating controls and when control deficiencies indicate increased risks for consideration during the audit.

In evaluating COSO elements, auditors should **consider** the following as applicable to the entity:

- **Control Environment:** Overall tone at the top – For example, the governing body's attitude towards internal controls or receptiveness to audit recommendations. (Consider question 7 of the Schedule 22 and information gathered during review of the meeting minutes)
- **Control Environment:** Involvement and oversight by the governing body - In small governments, there is often minimal staff and they may rely heavily on the governing body's oversight. Auditors should pay special attention to the level of involvement of the governing body; consider evaluating how engaged the entire governing body is in the oversight of activities such as voucher approvals, bank statements or County Treasurer statement reviews and other key controls. Auditors should exercise a healthy professional skepticism when evaluating answers received by the government. Auditors should consider:
 - Does the governing body review vouchers issued by the county to ensure they agree to those invoices approved during their meetings?
 - Does the governing body review bank statements or County Treasurer reports for accuracy?
- **Control Environment:** Whether adequate training appears to be provided to key staff (including the governing body). (Is there evidence of attending trainings from review of minutes or expenditures?)
- **Control Environment:** Whether employees in key positions (including the governing body) appear competent to perform their duties.
- **Risk Assessment:** Small governments are likely have an ad hoc risk assessment process. Auditors should review the Schedule 22 to help determine the process for identifying risks within the entity. If the entity is larger (i.e. revenues and/or expenditures exceed \$200,000) and has a more formal board structure and oversight, or other procedures during planning identify a more structured risk assessment process, auditors should consider performing a risk assessment inquiry with management and at least one member of the governing body. In addition, if the risk assessment process is not ad hoc, consider identifying the key employees responsible for risk

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assessment at the government-wide level. An optional questionnaire is available if significant risks are noted. {*Optional - Risk Assessment Inquiry Assessment Audit Questions document - use based on risks noted*}.

Ad hoc = No process to proactively identify, assess and respond to risks. Government relies on individuals to react to their own perception or assessment of risks within their assigned roles.

Informal = unstructured, undocumented and/or unscheduled processes to proactively identify, assess and respond to risks. For example, risk assessment may be assigned as a job to an individual or group, or it may be the subject of conversation or agenda items with the governing body or at management meetings.

Formal = structured, scheduled and documented processes to proactively identify, assess and respond to risks.

- **Risk Assessment:** Auditors should consider whether the government generally appears to identify risks, reasonably assess such risks and take appropriate action. (Consider knowledge based on prior audit history and review of minutes). Auditors should specifically note if:
 - Audits are identifying risks that management should have – but failed to – identify.
 - Management tends to dismiss or overly discount the significance or likelihood of risks.
 - Management has not taken appropriate action and the reasons for not doing so (ex: insufficient resources or other limitations, lack of consensus within the government, operational difficulties, etc).
- **Information & Communications:** Auditors should specifically consider if the entity maintains their own general ledger (through a software system, excel or other means) or if the entity relies completely on the balances provided by the County.
- **Information & Communications:** Does the entity perform any kind of validation/reconciliation of the balances provided by the County to what has been approved and recorded? (consider using Schedule 22 Question 1 and 3)
- **Information & Communications:** Do official policies appear to be adequately communicated?
- **Monitoring:** Adequacy of information used for monitoring activities and how management determines reliability of this information.

Policy/Standards.

SAO Audit Policy [1310](#) Assessment Audits of Small Local Governments

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Segregation of Duties: Essential Internal Controls

Record of Work Done:

Operations and Environment

We noted the following key information about the entity's operations and environment in addition to our general understanding documented in the planning guide(s):

- The government keeps accounting records and reports on a cash basis in accordance with the [Cash Basis BARS Manual](#), which is a special purpose framework. Our understanding of the purpose, intended users and steps taken to ensure the appropriateness of this well-established framework is described in the manual.
- Significant revenue streams – [The District's primary source of revenue is derived from property taxes.](#)
- Significant transactions and arrangements – [None noted](#)
- Unusual management arrangements – [None noted.](#)
- Customers/employees - [The District is governed by a three-member Board of Commissioners, all of which receive compensation of \\$25/meeting. We further noted compensation waivers have been signed and filed with the District Secretary. The District Secretary receives salaries of \\$150/month. The District also has 23 volunteers, who receive annual stipends, and operates out of three fire stations.](#)
- **Cash Receipting** - [The District does not currently deposit funds timely \(as of June, 2020\). The District currently deposits funds monthly and up to three months, due to COVID-19. We will carry this risk to planning.](#)

COSO Evaluation

We gained an understanding of the government's control environment, risk assessment, information/communications and monitoring as relevant to our audits based on inquiry of management, observation and inspection during the course of the current and previous audits, prior audit results and procedures performed as part of planning steps.

Control Environment / Risk Assessment

We updated our understanding of the actions, policies, and procedures that establish a culture and reflect the overall attitudes of management and the governing body about internal control and our understanding of management's identification, assessment and response to relevant risks and noted the following:

- [The 2017 audit file indicated that Kim Shaw is aware of the recommendations and will be implementing changes in 2019. The Fire Chief, Joe, is very involved in District operations and ensures the District Secretary is responding quickly to audit questions. \(Commissioner Michael Mace is listed as the audit contact, but the District Secretary is Kim Shaw, who responds very quickly\).](#)
- Risk assessment is done ad hoc

Information and Communications / Monitoring

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We updated our understanding of communication processes and accounting systems. We updated our understanding of management's processes to evaluate the adequacy and effectiveness of the government's own internal controls. We noted the following:

- [The Board of Commissioners review the financial statements and revenue status reports from the County and the Expenditure lists from the Secretary on a monthly basis. The Fire Chief also reviews the expenditures paid and the financial statements for accuracy, as the Fire Chief is very involved in District operations.](#)

Control Activities

Control activities are the policies and procedures that help ensure necessary actions are taken to address control objectives. Relevant control activities are identified and evaluated separately for each system.

B.2.PRG - Assessment Planning

Procedure Step: Planning
Prepared By: AAH, 6/23/2020
Reviewed By: STE, 7/6/2020

Purpose/Conclusion.*

Purpose:

To identify potential accountability risks by performing planning and analytical procedures to formulate an audit plan for the entity.

Conclusion:

Based on our review, we noted [the following](#) additional risk areas:

- Disbursements
- Procurement
- Credit Cards
- Payroll
- Petty Cash/Imprest Funds
- Baseline Testing
- Open Accounts

[Based on our review, we noted:](#)

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- [Recommendations made as listed below:](#)
- [OPMA](#)
- [Cash Receipting](#)
- [Commissioner/Secretary Pay](#)

Testing Strategy:

The following procedures are **required** to be performed to identify and evaluate risks related to the entity and how they plan to be addressed.

Assessment Audit Planning Brainstorm

An agency-wide assessment audit planning brainstorm was held as documented in the Small Government Assessment Audit Planning Guide. The subject matter discussed included risks identified for small local government assessment audits, risks specific to certain entity-types, prioritizing those risks and strategizing audit tests to address identified risks. Risks have been documented in the Assessment Audit and entity-specific planning guides; auditors should include identified risks from the planning brainstorm as documented in the planning guides in the Review of Planning Guides step below.

Review of Planning Guides

Review the risks identified in the (1) Small Government Assessment Audits and the (2) Entity-Specific* planning guides (including appendices directed at assessment audits where applicable) and determine if they are relevant to the government being audited. ***Required risks must be evaluated in the ROWD and incorporated into planned audit procedures as applicable.*** Auditors can reference the section in the substantive/base-line testing if follow-up will be included in a required section. If not, auditors should bring the risk to the Audit Plan.

**Note: use Miscellaneous Entities planning guide if no specific guide available for your entity.*

Review of Schedule 22 - Questionnaire

Review the Schedule 22 Questionnaire (completed by the local government) to identify risks and issues related to the government's controls over assets, revenues and disbursements. Risk consideration factors could include the following among others:

- **Cash Receipting** - Auditors should be cognizant of risks related to third-party vendors to bill and process payments. Auditors should also determine if cash receipting policies comply with RCW 43.09.240 which requires deposits to be made within 24 hours of the receipt, unless the entity has a written waiver from the entity's Treasurer.

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- **Reconciliation** - Auditors should be cognizant of the reconciliation procedures performed by the entity. It is a **best practice** to have a separation of authority, recordkeeping and custodial responsibility over the entity's operations. It is also **best practice** that the reconciliation of an entity's financials be done as often as possible.
- **Safeguarding of Public Funds** - Auditors should be cognizant of risks over safeguarding of assets in reviewing the Schedule 22. Determine if the local government stated that they determined if controls are in place for safeguarding their small and attractive assets as well as any properties that they own.
- **Issues and Recommendations Identified** - If the auditor identifies issues, he/she can draft a recommendation which should be assessed for a proper reporting level.
- **Policies/Procedures** – Auditors should be cognizant of policies and procedures established by the entity. If an entity is missing a policy/procedure, auditors should evaluate the impact of the lacking policy/procedure; specifically, does the entity have that type of activity and if so, how significant is it to their operations? This evaluation/understanding will help auditors in assessing the amount of risk associated with the missing policy/procedure.

If risks are identified from any of the above considerations or others are noted during the review of the Schedule 22, auditors should incorporate those additional risks into the audit plan.

Review of EIS

Review the Entity Information Suite (EIS) on the SAO Intranet to check for helpdesk questions, loss reports, hotline referrals, prior findings, FAWF folder (from EIS>Data tab) and other relevant information. If an open hotline investigation exists; auditors should import the 'Citizen Hotline' folder from the Special Engagements cabinet of the TeamStore. If risks are identified, these should be documented and brought to the Audit Plan.

Review of Prior Audit Issues

Review prior audit issues to see if issues continue to exist or have been resolved. This is indicative and reflective of the governing body's control environment. Auditors should use Tracker to identify prior audit recommendations (and the prior audit file and/or FAWF for any verbal recommendations) and follow up with the entity about prior recommendations that the auditor is unable to determine have been resolved through review of the annual report materials. If the prior audit issue has not been resolved and is not part of a substantive/base-line procedure, bring this recommendation and audit area to the Audit Plan to ensure that follow up procedures are established.

Review of the Meeting Minutes

Since assessment audits are performed offsite, it is important for auditors to read and review the entity's meeting minutes. This provides the auditor with information on the general control environment and operations of the local government, as well as identifying risks specific to the entity for consideration during the Audit Plan. In reviewing the minutes, some of the common risk indicators and important information to note include:

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- Resolutions, ordinances or policies relevant to accountability objectives.
- Discussion of citizen, vendor, or management concerns relevant to accountability objectives.
- Any actions that appear unreasonable, unexpected or outside the scope of the entity's authority.
- Decisions in which board members are abstaining due to potential conflicts of interest.
- Debt issuance.
- Discussion of possible financial difficulties or business risks.
- Significant contracts awarded or public works projects activity or risk indicators such as:
 - Governing body approval to waive bidding requirements (ie: for sole source or emergency reasons).
 - Use of alternative public works procedures such as design-build or general contractor / construction manager procedures.
 - Discussion of vendor protests or complaints about bid procedures or results.
 - Approval of large or numerous change orders.
 - Discussion of significant cost over-runs or other problems with public works projects.
- New software or conversions.
- Situations that may trigger major liabilities or impairments, such as disasters, significant losses of capital or infrastructure assets or major lawsuits.
- Transfers or interfund loans.
- New grants, revenue sources, or rate changes.
- New cost allocation plans.
- New entities, joint ventures, programs, or activities

Consideration: If minutes provide enough detail auditors should consider selecting a month of activity and comparing the total vouchers approved per the minutes to the total vouchers issued by the County for the same month. This could provide auditors increased assurance that no additional vouchers are being processed that were not documented and approved during the governing body meetings. NOTE: Documentation may not be sufficient in the meeting minutes to perform this review.

Concurrent Review of Minutes for Compliance with the Open Public Meetings Act (OPMA)

In reviewing the minutes, auditors should be alert for any non-compliance with open meeting requirements such as:

- Absence of Quorum (*as of March 21, 2017 Board members may be allowed to use teleconference or other digital means to hold open public meetings. If this occurs, all OPMA requirements are still in effect, including requiring that the meeting is still held in an open public place (physical location) and that a quorum exists. See [AGO 2017 No. 4](#) and [MRSC guidance](#)*)
- Approval of all vouchers/payments by commissioners – this should be approved in detail (by voucher) including voucher numbers, not in a lump sum.
- Approval of payable vouchers separate from payroll (as applicable when the entity has payroll expenses)
- Official actions of governing body do not appear to be documented in the minutes

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- Actions or decisions known to have occurred are absent from minutes
- Purpose of executive sessions not identified in the minutes
- Executive sessions appear to be for unallowable purposes
- Minutes do not appear to have been taken for regular meetings, workshops, and special meetings
- Business conducted at special meetings was not for the published reason meeting was scheduled

Auditors should also be alert for executive sessions that are not for an allowable purpose. Executive sessions can only be entered for purposes outlined in [RCW 42.30.110](#) – Executive Sessions (see policy/standards tab).

Also, it is important to note that minutes should be adequately documented. If minutes are missing any of these elements a low level recommendation for improving the general documentation of meeting minutes can be considered. These elements include: entity name, meeting date/location, start and end times, approval of prior meeting minutes, motions by commissioners, documentation of commissioner discussions, or documentation of significant business discussed at meetings (such as budgets or tax levy approvals).

Note: Depending of the local government type, budgets might be required to be passed and approved.

Planning Analytical Procedures

Auditors are **required** to perform the following planning analytical procedures at a minimum for **non-school entities**:

- Trend analysis of revenues and expenditures using the attached template

Auditors would generally start with high level analyticals before considering more detailed trends for certain high risk funds or accounts.

- Trend analysis of expenditures by object code using the attached template

This trend will identify the entity's main expenditure streams.

- Baseline CAATS queries for vendors and payroll using attached template for those entities with queries in FAP

Note: The Vendor Statistics query automatically calculates the percent of the total expenditures for each vendor. Vendors who are significant based on auditor judgement should be considered higher risk and auditors should consider bringing this to the audit plan for additional testing.

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Note: some counties have not provided data for the special purpose districts, therefore some or all FAP queries may not be available at this time. If this is the case for your audit; consider the detailed disbursements listing that is a required attachment in the Schedule 22 filing and determine if a similar analysis can be performed. Brainstorm with your Supervisor on time limitations that may impact performing this manual query.

Auditors are **required** to perform the following planning analytical procedures at a minimum for **school districts**:

- Verify the completeness and accuracy of the District's data using the "WeSPAC Data Validation Summary" from FAP

Review the query and conclude on whether we can rely on the data. Note and follow up on any significant variances.

- Trend analysis of revenues and expenditures

Review the "Revenue by Fund and Detail Account" and Expense by Detail Account (all funds)" reports in FAP. Auditors would generally start with high level analyticals before considering more detailed trends for certain high risk funds or accounts.

- Trend analysis of enrollment annual averages for Head Count and FTE using the "FTE and Head Count by Year" enrollment query (change System to OSPI)

Evaluate the trend and inquire of the district regarding any large or unexpected trends in enrollment. Compare responses and trends to known events (i.e. identified during review of the minutes) and general expectations.

- Baseline CAATS queries for vendors and payroll using attached template for those entities with queries in FAP

Note: The Vendor Statistics query automatically calculates the percent of the total expenditures for each vendor. Vendors who are significant based on auditor judgement should be considered higher risk and auditors should consider bringing this to the audit plan for additional testing.

Risks identified should be documented and brought to the Audit Plan to ensure they are addressed in the baseline testing, additional risks steps or accountability folders as necessary.

Auditors should **consider** further planning analytical procedures to match the entity's circumstances, activities and risks; for example, if the entity does local receipting consider if an expected analytical procedure can be performed. These could be performed as part of planning to further eliminate risks noted or in an additional testing step (see Additional Risks Step) where applicable.

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Audit Plan

Overall Accountability Risk

Assess overall risk for safeguarding of public resources and compliance with laws, regulations and policies.

When determining overall risk, auditors should consider the number and nature of red flags identified in planning. Auditors should also consider any structural risks that could potentially affect many audit areas, such as:

- Issues with overall COSO elements, such as the control environment or information systems
- Use of the County Treasurer
- Ability to segregate duties effectively
- Major financial distress

Select Areas to Test

Identify areas selected for testing based on auditor judgement and risks noted during planning procedures in addition to the baseline tests already planned to be performed. The plan should describe each risk selected for testing (what could go wrong) and our planned audit response (further audit procedures). Audit programs from the Assessment folder, Additional Risks, in TeamStore should be used when available; additional Accountability testing strategies from the Accountability folder can be used if the Assessment folder does not include a testing strategy that addresses the identified risk or if considering expanded testing for an area. If no risks are noted, additional steps are not required to be performed.

Policy/Standards.*

SAO Audit Policy [1310](#) Assessment Audits of Small Local Governments

SAO training for Reviewing Minutes - <http://saoapp/training/saostaff/RequestInternalSelfStudy.aspx?ClassId=8919>

RCW 42.30.110 (Executive Sessions)

Executive sessions are allowed to be performed under the following areas: [Nothing contained in this chapter may be construed to prevent a governing body from holding an executive session during a regular or special meeting]

- To consider matters affecting national security

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- To consider the selection of a site or the acquisitions of real estate by lease or purchase when public knowledge regarding such consideration would cause a likelihood of increased price
- To consider the minimum price at which real estate will be offered for sale or lease when public knowledge regarding such consideration would cause likelihood of decreased price. However, final action selling or leasing public property shall be taken in a meeting open to the public
- To review negotiations on the performance of publicly bid contracts when public knowledge regarding such consideration would cause a likelihood of increased costs
- To consider, in the case of an export trading company, financial and commercial information supplied by private persons to the export trading company
- To receive and evaluate complaints or charges brought against a public officer or employee. However, upon the request of such officer or employee, a public hearing or a meeting open to the public shall be conducted upon such complaint or charge;

To evaluate the qualifications of an applicant for public employment or to review the performance of a public employee. However, subject to RCW 42.30.140(4), discussion by a governing body of salaries, wages and other conditions of employment to be generally applied within the agency shall occur in a meeting open to the public and when a governing body elects to take final action hiring, setting the salary of an individual employee or class of employees, or discharging or disciplining an employee, that action shall be taken in a meeting open to the public.

Record of Work Done:

Assessment Audit Planning Brainstorm – An agency-wide assessment audit planning brainstorm was held as documented in the Small Government Assessment Audit Planning Guide. The subject matter discussed included risks identified for small local government assessment audits, risks specific to certain entity-types, prioritizing those risks and strategizing audit tests to address identified risks. The risks identified in our brainstorm have been documented in the planning guides as required risks to assess.

Review of the Planning Guides – We reviewed the [Small Government Assessment Audits](#) and the [Fire Districts](#) Planning Guides, considering the required risks to assess and other areas of concern for the entity type:

1. **Measurement of Financial Health (Financial Condition)** - Governments have experienced a wide range of negative economic and operational effects as a result of COVID-19. We would expect that most governments have and will need to cope with reduced and/or delayed revenues and increased expenses. However, these effects may vary widely by government and will depend on a number of factors, including the government's policy or program responses to the pandemic, the extent of any offsetting decreases in other expenses, state or federal relief funding, and the strength of its financial condition to start with. This risk should be assessed for both accountability and financial audits as part of regular planning steps, and especially as part of the risk assessment inquiry. *Financial Condition is a required area to assess within the audit and will be addressed in our baseline testing, as seen here [\[Baseline Testing\]](#).*

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2. **Disbursements** - We have identified an increased risk of fraud and misappropriation in our small governments as a result of poor segregation of duties and inadequate monitoring by the governing body. Auditors should review disbursements (including payroll, if applicable) and evaluate the government's established controls for an indication of risk. Auditors should consider major events documented during the government's meeting minutes to set expectations for expenditure activity and perform testing when expectations are not met. New vendor focused queries are available FAP. *Our review identified Disbursements as a high risk area, which requires further testing. See our testing conclusions documented here [Disbursements].*
3. **Board Oversight** - Recent fraud investigations have identified an increased risk of fraud and misappropriation when there is a lack of governing board oversight of entity operations. As part of gaining an understanding of the entity's control environment, auditors should consider the extent of board oversight. For example, are they engaged and involved in oversight, or do they rely on the entity's management? Does the board review bank statements, canceled warrants, etc.? Are their control weaknesses or issues with segregation of duties? As there may be related party transactions with board members, auditors should maintain professional skepticism when performing inquiry of board members. *Our review noted the Board is reviewing expenditures and holding regular monthly meetings. It appears that the District has adequate Board Oversight and as such, we will pass for further review.*
4. **EFT Controls** - Due to the increase in the number of payroll and vendor EFT cyber related frauds, testing EFT controls is a required risk to assess for all entities we audit. Of primary importance is to discuss controls related to changing existing EFT associated bank account numbers. Individuals with the ability to change or add EFT accounts need to have clear guidance on the process to authorize these changes through a proper validation method, specifically, a follow-up phone call. The majority of these frauds are prompted through email communication, but all change requests, including mail, fax and phone calls, should be followed up with a known contact using previously known contact information and not the contact information that may be provided in the request. *Our review found that the District does have a bank account established for both its credit card and its petty cash (imprest account). We further determined that this was a high risk area within the audit which requires further testing. See our testing conclusions documented here [Petty Cash/Imprest Funds].*
5. **Sole Source Purchases** - State law requires fire districts to competitively bid for purchases costing more than \$10,000. However, a sole source exception under State law (RCW 39.04.280(1)(a)) may waive the competitive bidding requirements if the purchase is clearly and legitimately limited to a single (sole) source of supply. Our office has seen an increase in large purchases such as fire engines, ambulances, and bunker gear using the sole source exemption. Districts want to purchase the same brand of equipment for consistency and are often told there is only one vendor in the region that can sell the brand they are seeking, believing this meets the sole source exemption. However, name brand specification is not the same as the sole source exception. Name brand specification is allowable as long as the information is included in their specifications and their call for bids. The District should clearly document why only one manufacturer's equipment is necessary to meet the operational needs and why it cannot be adequately substituted by another manufacturer's equipment. *We identified procurement as an area within the audit which requires further testing. See our testing conclusions documented here [Procurement].*
6. **Compliance Requirements** - General compliance risks considered in assessment audits include:
 - **Open Public Meetings Act** - RCW 52.14.090 requires that fire districts hold regular monthly meetings. *The District held regular monthly meetings. No issues were identified. We will pass for further review.*

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- **Contract compliance** - Many districts are involved with intergovernmental agreements to provide or contract out fire or EMS services with cities or other districts. These agreements should be reviewed periodically for compliance with contract terms and to ensure both parties are still complying with their individual requirements to submit annual financial reports and receive individual audits. *Our review noted no risk of noncompliance with contracts. We will pass for further review.*
- **Procurement** - Fire districts may receive non-routine funding, such as state or federal grants or other loans to allow them to make larger capital purchases, such as a new vehicle or other upgrades. These types of activities have requirements (such as procurement laws) that may be unusual for the district which increases the risk of noncompliance. For additional information and risks see bid compliance in the Accountability section. *We identified procurement as an area within the audit that requires further testing. See our testing conclusions documented here [Procurement].*
- **Day labor** – Fire districts are not authorized to use their own employees or volunteer labor on public works projects. Districts may try to perform public works projects with volunteers or their own employees to save money, but this is outside of a fire district's authority. However, they can perform basic maintenance. For additional information and risks see day labor in the Accountability section. *We did note that the District had some public works projects done throughout the audit period that was performed by contractors and not by their own employees or volunteers. Therefore, no issues were identified. We will pass for further review.*

Review Schedule 22 – Questionnaire (*Dual-Purpose Audit Procedure – Planning and Substantive Procedures*) – We reviewed entity questionnaire responses to identify potential accountability risks, potential non-compliance with state laws and unanswered/incomplete responses for follow-up. We also reviewed responses for indicators of inadequate controls over assets, revenues and disbursements. As the entity **does not** distribute bills or receive funds, we **further reviewed** receipt-handling procedures and reconciliation independence.

Cash Receipting: After reviewing the District's cash receipting policy, we determined that the District receives funds, secures the funds until they can be deposited and deposits funds as soon as possible after receipts. **We will ask the District if they use pre-numbered preprinted receipts with the District's name printed on each and how soon funds are typically deposited after received.** After inquiring with the District, we determined that the District does use preprinted pre-numbered receipts with the District's name printed on each. However, funds are typically deposited on a monthly basis and due to COVID-19, funds are deposited every 1-3 months. Therefore, we will issue the District a **verbal recommendation**, reminding the District to deposit funds every 24 hours, or weekly if they file for the exception. Cash Receipting

Question or Issue Identified	Resolution
The District stated in the 2018 Schedule 22 Questionnaire that an addition was added to the Training Center, which would constitute as a public works project. The District also stated on the 2019 Schedule 22 Questionnaire that major construction occurred during 2019.	We reviewed the meeting minutes for a risk of noncompliance with prevailing wage and procurement requirements. After reviewing the meeting minutes, we determined that procurement was identified as an area within the audit which requires further testing. See our testing

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	<p>Risk: There is a risk that prevailing wage/bidding requirements were not met. There is also a risk of day labor, as the District may have performed this addition themselves, which is not allowable.</p>	<p>conclusions documented here [Procurement].</p> <p>We further determined that we will perform additional prevailing wage testing to ensure prevailing wages were paid for the public works projects performed, as seen here [Prevailing Wage]</p>
	<p>The District stated that they have a petty cash fund with a balance of \$75.</p> <p>Risk: There is a risk that the District does not have effective controls established. There is also a risk that the District has not developed a policy governing the use of the petty cash account.</p>	<p>Our review of the meeting minutes identified that the District transferred its petty cash account to a bank account to a bank account during the audit period. We further noted that imprest accounts (petty cash accounts held in a bank account) represent a risk of inefficient EFT controls. Therefore, further testing is required. See our testing conclusions documented here [Petty Cash/Imprest Funds].</p>
	<p>The District stated that they have 4 physical credit cards in 2018 and 5 physical credit cards in 2019.</p> <p>Risk: There is a risk that the District does not have an established policy governing the use of credit cards and internal controls may not be effective, resulting in risk of loss and misuse of public funds.</p>	<p>Our minutes review identified credit cards as an area within the audit which requires further testing. The District switched banking institutions during the audit period and may lack controls to purchasing limits. See our testing conclusions documented here [Credit Cards].</p>
	<p>The District stated that they have 10 open store accounts.</p> <p>Risk: There is a risk that the District does not have an established policy governing the use of its open store accounts, putting the District at risk of loss and misuse of public funds.</p>	<p>Due to the large number of open store accounts, we determined that further testing is needed. See our testing conclusions documented here [Open Accounts].</p>

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Review of Entity Information Suite (EIS) – We reviewed EIS for helpdesk questions, loss reports, hotline referrals, FAWF items and other relevant information:

1. **Helpdesk Questions** – None
2. **Hotline Referrals** – None
3. **Special Investigations/Loss Reports** – None
3. **FAWF Items** – None

Prior Audit Issues – We reviewed Tracker and the prior audit exit communication from the FAWF file for prior issues and recommendations, and their current status as documented at [\[Prior Audit Issue Review - Assessment Audits\]](#) and noted the following:

Filing Annual Reports - 2016 and 2017 annual reports were filed late. **Resolved:** The District filed its 2018 and 2019 annual reports timely. Therefore, no issues were identified. **We will pass for further review.**

Financial Condition - The District's Change in cash positions was declining in 2016 and 2017. **Unresolved:** We noted a decline in the District's Cash Balance Sufficiency and Change in Cash Position in 2019. We will **repeat the recommendation**, as seen here [\[Financial Condition\]](#) See here for more details [\[Baseline Testing\]](#).

Compensation of Board Members - The District continues to pay the Commissioners as contractors, avoiding paying state and federal payroll taxes. **We will review the District's detailed expenditure reports to determine if Commissioners are being compensated as contractors (not paying payroll taxes).** **Unresolved:** After reviewing the detailed expenditure reports, we determined that the Commissioners and the Secretary are being paid as contractors. Therefore, we will **repeat the recommendation**, as seen here:

[Commissioner/Secretary Pay](#)

Waivers Board Members - Commissioners receive less compensation than allowable and have not filed compensation waivers. **Resolved:** Review of the meeting minutes indicate the Commissioners have signed and filed compensation waivers with the District Secretary. *No issues were noted.* **We will pass for further review.**

Review Minutes (*Dual-Purpose Audit Procedure – Planning and Substantive Procedures*):

a. Minutes were reviewed for the following period: January 1, 2018 to December 11, 2019. See details [\[Minutes\]](#)

OPMA - See **Open Public Meetings Act** below for details.

Disbursements - We identified several risk areas related to disbursements, as indicated in our minutes review spreadsheet. Therefore, we determined that disbursements is an area within the audit which requires further testing, see our testing conclusions documented here [\[Disbursements\]](#).

Procurement/Prevailing Wage - We noted discussion regarding an addition to the Fire Station, concrete work done around the fire station, and the purchase of used vehicles. Therefore, we determined that further testing is required.

See our procurement testing conclusions documented here [\[Procurement\]](#).

See our prevailing wage testing conclusions documented here [\[Prevailing Wage\]](#).

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Credit Cards/Petty Cash - The District switched banking institutions from KeyBank to Washington Federal Bank, it was also noted that the District may be making large purchases on the credit card. We further noted that when this transfer occurred, the District also created a checking account for its petty cash fund. We determined further testing is needed.

See our credit card testing conclusions documented here [\[Credit Cards\]](#).

See our petty cash testing conclusions documented here [\[Petty Cash/Imprest Funds\]](#).

Commissioner Compensation - February 2019 minutes state "Commissioners pay at least \$50 and waiver", October 2019 minutes state a waiver has been signed, and the November 2019 minutes state that each Commissioner gets \$25/meeting attended, including any meeting in which they are doing business for the District. As the Commissioners accept less compensation than allowable and compensation waivers have been signed and filed with the Secretary, we determined that no further testing is needed. **We will pass for further review.**

Payroll - We noted payroll amounts were not documented in the meeting minutes and we were unable to determine the new Secretary's salaries. We further noted that the firemen are paid annually and there was discussion regarding the firemen's pay, but no amounts were documented. We determined that payroll is a high risk due to the lack of documentation in the meeting minutes. We will perform additional testing in this area. See our testing conclusions documented here [\[Payroll\]](#).

Financial Reporting - We noted the District received a grant from the Department of Health in 2018, as well as a loan payment that we would expect to see reported on the Schedule 09. We further noted the District stated during the April 2019 meeting that they may pass a resolution stating that only One Commissioner can approve the vouchers if no quorum can be reached, but no resolutions were included with the 2019 annual report. Financial Reporting is a required area to assess and we will bring this information to our baseline testing. See our testing conclusions documented here [\[Baseline Testing\]](#).

b. Open Public Meetings Act – We reviewed board meeting minutes for compliance with the Open Public Meetings Act (OPMA). We further reviewed executive sessions held by the governing body for compliance with the OPMA:

Our review noted that the District's meeting minutes consistently include the entity name, meeting location, meeting date, approval of prior meeting minutes and starting and ending times. However, we noted the meeting minutes lacked sufficient details of business conducted during board meetings, including documentation of motions made, seconded, and vote results approval of vouchers separate from payroll, voucher numbers and total amounts paid and documentation of commissioner comments and significant business discussed. The District had two meetings that were canceled during the audit period due to a lack of quorum in which one Commissioner approved and signed the vouchers for payment. These vouchers were not approved during the next open public meeting by the Board. Therefore, we will issue the District **recommendation** a recommendation regarding the OPMA violations [\[OPMA\]](#).

Planning Analytical Procedures

We performed an analysis of the trend of revenues and expenditures over a 5 year period at [\[Financial Trends \(non-school\) - Assessment Audits\]](#).

Financial Reporting/Financial Condition - We noted a significant decrease in beginning and ending balances, as well as trends. We will address this risk in our baseline procedures, as seen here [\[Baseline Testing\]](#).

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Revenues - We noted the District received revenues from rents and leases of \$24,554 in 2018 and \$20 in 2019. **We will ask the District for more information regarding revenues received from rents and leases.** After inquiring with the District, we determined that the revenue received from rents and leases is revenue received for responding to State and Federal fires. As the District did not respond to any State and Federal fires during the audit period, the District did not receive the additional revenue. *No issues noted.* **We will pass for further review.**

Prevailing Wage/Procurement - WE noted capital expenditures of \$56,000 and \$42,000 in 2018 and 2019 respectively, which represent a risk of noncompliance with prevailing wage and procurement requirements. We will perform additional testing. See our testing conclusions documented here [\[Prevailing Wage\]](#) and here [\[Procurement\]](#).

Disbursements - We noted trends related to supplies decreased significantly, while trends related to services increased. We further noted expenditures have been steadily decreasing, while the District's financial condition has also been declining. This represents a risk and we determined that expenditure testing is needed. See our testing conclusions documented here [\[Disbursements\]](#).

We **DID NOT** perform an analysis of baseline queries, as there was NO FAP data available for the District.

We determined that no additional analytical procedures are considered necessary at this time. We will continue to consider the need for data requests or special queries at the brainstorm and throughout the audit.

Audit Plan

Overall Risk and Planned Audit Areas

We assessed the overall risk and identified risks to be addressed in the audit as **high**, due to the lack of documentation within the meeting minutes and fluctuations in trends identified in our analytical procedures.

Per the planning procedures performed, we determined that **the following** additional risks will be included in the audit plan in addition to the standard baseline audit procedures:

Disbursements - See our testing conclusions documented here [\[Disbursements\]](#)

Procurement - See our testing conclusions documented here [\[Procurement\]](#)

Credit Cards - See our testing conclusions documented here [\[Credit Cards\]](#)

Payroll - See our testing conclusions documented here [\[Payroll\]](#)

Petty Cash - See our testing conclusions documented here [\[Petty Cash/Imprest Funds\]](#).

Financial Reporting/Financial Condition - See our testing conclusions documented here [\[Baseline Testing\]](#).

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Open Accounts - See our testing conclusions documented here [\[Open Accounts\]](#).

B.3.PRG - Baseline Testing

Procedure Step: Baseline Testing

Prepared By: AAH, 6/23/2020

Reviewed By: STE, 7/6/2020

Purpose/Conclusion:

Purpose:

To perform substantive procedures to address risks related to the local government.

Conclusion:

Based on our review, we noted:

- No further work needed; our baseline testing resulted in the following recommendations:
- Financial Condition
- Annual Report Filing

Testing Strategy:

Auditors are **required** to perform the following substantive procedures to address the most common risks associated with small entities.

Communication Log

Auditors should import the **Communication Log into the AS2: Communication Folder** and begin tracking all email and phone communication in the log. (Consider records retention rules when determining which communications to include in the log. If the communication includes requested documents or responses to audit requests/inquiry these should be included. If the communications are more transitory in nature they may not need

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to be included. Auditors should exercise their auditor judgment and can consult with their supervisor if they have questions. It is also reasonable to include an email string (back and forth communication) into the communication log to help ensure all communication is captured while limiting the number of emails to attach). The log also includes an optional contact listing that can be used if multiple contacts are used during the audit.

Document correspondence for communicating the engagement plan (entrance) and results (exit). Auditors are required to determine if additional communication or if more formal entrance and exit conferences are necessary due to entity request, or to appropriately discuss any:

- a. Significant disagreements**
- b. Significant difficulties encountered during the audit**
- c. Audit recommendations or results of the audit**

Entrance Conference/Audit Notification

Auditors should communicate with the audit liaison to discuss the following:

- Scope and timing of the audit
- Audit costs
- Expected communication
- Information about the small local government accountability office
- Information about the State Auditor's Office

Attach the documentation of audit notification/entrance correspondence (or detail phone conversation and topics discussed).

Risks Identified in Planning

Auditors should address the entity-specific risk(s) identified in planning within this section, or hyperlink to where that has been completed.

Substantiating Financial Information Reported

Non-School Assessment Audits - County Treasurer Reconciliation

Auditors are **required** to compare the Schedule 01 (obtained from LGCS) and third party documents (such as County Treasurer Reports or bank statements) for special purpose districts (optional for other small entities, based on risk and auditor judgement). This step is **required** to determine if financial data submitted to SAO materially agree to the financial activity of the local government, and **so that financial information filed by the government is reliable for auditors to use**. Auditors may note that the county data reported in FAP may be different from the county reports provided by the government when they submit their annual report. Auditors should review these discrepancies to determine if data provided is accurate. Auditor judgment should be used when determining if county data is reliable. Discrepancies may be a result of timing differences in report generating. If significant discrepancies between the county reports and annual filing are noted auditors should consider the impacts these

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discrepancies may have on their planned procedures.

To do this, obtain the 'Tie Financial Statements to GL' query from FAP which compares the entities general ledger (GL) obtained from the County data to the LGCS Schedule 01 data reported by the entity with their annual filing. ***NOTE: There are several counties where this query may not be available. If that is the case, auditors must use the C4 and county treasurer reports submitted with the Schedule 22 to perform this reconciliation. Consider using the C4 to CT Reconciliation template.***

Based on auditor judgment and considering both the nature of the government's transactions and the planned level of work to identify potential reconciling items:

- We expect that reported **beginning cash** should **match exactly** to the prior year financial statements (after considering any differences in rounding conventions between years).
- We expect to be able to reconcile reported **revenues/expenditures** to cash deposits to **within [5%]**; *auditors should consider if the dollar value is small (even if over the %) and beginning/ending cash balance within our expectations, how the variances would impact our work and conclusions*. The expected range represents an estimated reasonable allowance for the following potential reconciling items that we did not include in our reconciliation: *[list potential reconciling items that were not included in the reconciliation for efficiency purposes]*.
- We expect that reported **ending cash** should reconcile to ending balances per bank/treasurer statements to **within [5%]**.

School Assessment Audits - F196/F197 Reconciliation

Obtain the "Required Report Schools: F196/F197 Reconciliation" FAP query. This query compares the F196 Balance Sheet and Operating Statement to the F197 County Treasurer report (third party documentation). Determine whether the district's financial statements/accounting records are materially supported by County Treasurer activity. It is reasonable to expect a small variance due to potential reconciling items that are not cost-effective for the auditor to identify. Based on auditor judgment and considering both the nature of the District's transactions, we would expect to be able to reconcile the following balances to **within 10%**:

- Cash & cash equivalents, investments and warrants outstanding
- Revenue Anticipation Notes, Matured Bonds Payable and Bonds Outstanding
- Revenues and other financing sources
- Expenditures and other financing uses
- Interfund Loans and Transfers Out

Annual Report Submissions Verification

Auditors are required to determine if reports submitted to SAO are complete. Auditors should perform the following steps to determine whether the local government is in compliance with the annual report filing requirements (prescribed by the Budgeting, Accounting and Reporting Systems Manual):

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- Review the minutes to identify if any cash grants should be included on the Schedule 01 or non-cash grants that should be reported on the Schedule 16 but were not reported.
- Review the minutes and expenditure detail report to determine if loan payments were made but were not reported on a Schedule 09. *Note:* If the entity operates on registered warrants with the County Treasurer these should be reported on the Schedule 09 (Schedule of Liabilities)

Additionally, auditors should determine if the entity submitted its annual reports on time as required by RCW 43.09.230, wherein financial reports should be filed within 150 days of the government's fiscal year-end.

Note: School Districts are required to file F-196 financial statements with their ESD and OSPI in accordance with WAC 392-117-035. As long as the F-196 was used, no further procedures are necessary to determine whether all required reports have been submitted.

Suggested Level of Reporting for late filings:

Audit Issue	SAO Action
Annual Report 1-29 Days Late	Verbal recommendation
Annual Report 30-59 Days Late	Exit Item **
Annual Report 60-364 Days Late	Management Letter **
Annual Report >365 Days Late	Finding

**If multiple audit cycles, the issue can escalate – consult with and obtain approval from the Program Manager

NOTE: If auditors are proposing a lower level of reporting for an entity than outlined in the above table, the LOR spreadsheet should be completed to document the reasoning and control factors that support the lower level of reporting which should be reviewed and approved by the LGS or Team Audit Manager.

Financial Condition

Auditors should assess the financial condition of the local government. This can be done through the use of the Financial Intelligence Tool (FIT) for non-school entities, which can be accessed through the Local Government Comparative Statistics (LGCS), or the "Financial Indicators" report in FAP for school districts. The "Financial Intelligence Tool (FIT)" report will automatically generate a ratio analysis with only one manual input required – auditors will need to enter interfund loan information, if applicable, into the FIT spreadsheet for the fund balance sufficiency and change in cash position measures (auditors only need the latest year, if risks are identified prior years are optional).

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- These tools provide quantitative indicators of potential issues, however, auditors will need to critically analyze the government's financial picture to determine whether or not a ratio result represents a potential sustainability issue. **A ratio that is outside of the FIT thresholds (for non-schools) or F196 indicators (for schools) is not, by itself, an audit issue.** As described on our website, the indicators are designed as an alert to a potential situation that will need further analysis to understand.
- Auditors should be especially alert regarding any warnings related to the cash/fund balance sufficiency as this will indicate concerns with a government's reserves (i.e. savings). Governments need sufficient reserves to operate and respond to emergencies. Very low reserves (i.e. below the benchmark) often indicates an entity is already in fiscal distress or might easily become distressed should something unexpected occur.
- If a ratio or other financial measure is concerning, auditors should work with the government to evaluate the potential causes of the ratio, trend or balance. For example, a decline in cash position might appear concerning by itself, but might make sense if the government has a planned spend-down of accumulated resources, such as a planned capital project.

Auditors should also consider the [Details on the FIT Indicators](#) document published by the Center in evaluating the entity's FIT indicators.

If warning indicators are present, auditors should evaluate potential causes for these warning indicators to determine if the entity is at risk of not properly monitoring their financial health. We would expect entities to be aware of their financial situation and have a plan or be monitoring if persistent financial distress is noted. If warning indicators are a result of persistent financial distress and the entity does not appear to be monitoring their financial position auditors should consider issuing a recommendation. If warning indicators are a result of one time or unusual activities that do not represent ongoing financial distress no recommendations would be expected.

Policy/Standards:

SAO Audit Policy [1310](#) Assessment Audits of Small Local Governments

Record of Work Done:

We documented all correspondence with the audit client throughout the review at [[Communication Log - Assessment Audits](#)].

Entrance Conference – We contacted the audit liaison and discussed:

- a. Scope and timing of the audit
- b. Audit costs

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- c. Expected communications
- d. Information about the assessment audit
- e. Information about the WA State Auditor's Office

Risks Identified in Planning

- a. Disbursements**
- b. Procurement**
- c. Payroll**
- d. Credit Cards**
- e. Petty Cash**
- f. Open Accounts**
- g. Financial condition/financial reporting**

Reconciling Financial Information Reported [County and C4 Reconciliation]

We compared the [Schedule 01 to County Treasurer Reports](#), third party documents. Per our review, financial data submitted to SAO materially agree to the financial activity of the local government. We noted a variance of \$1,196 and \$1,197 in the 2018 reported beginning and ending balances. We will ask the District for a copy of the 2018 trial balance. We received a copy of the District's December 2018 trial balance, which did not provide more details. **We asked the District for more information regarding this variance.** After inquiring with the District, we determined that the error was made by the previous secretary. Both the current Secretary and the Fire Chef have investigated this variance and have been unable to determine how the previous Secretary had arrived at the amounts that were entered for the beginning and ending balances for 2018 and the beginning balance for 2019. The District further provided us with information confirming the beginning and ending balances reported on the County Treasurer reports. As this error was made by the prior Secretary and the current Secretary appears to understand the reporting requirement, we will ask the District to correct both the 2018 and 2019 annual reports and we will not issue a recommendation on this matter. **We will pass for further review.**

See the updated (corrected) Statement C-4 reconciliation here [[CORRECTED County and C4 Reconciliation](#)].

Based on auditor judgment and considering both the nature of the government's transactions and the planned level of work to identify potential reconciling items:

- We expect that reported **beginning cash** should **match exactly** to the prior year financial statements (after considering any differences in rounding conventions between years). [The Corrected C-4's beginning balances for both 2018 and 2019 match exactly. No issues noted. We will pass for further review.](#)
- We expect to be able to reconcile reported **revenues/expenditures** to cash deposits to **within 5%**. The expected range represents an estimated reasonable allowance for the following potential reconciling items that we did not include in our reconciliation: [Revenues reported in both 2018 and 2019 reconcile exactly. Expenditure reported in both 2018 and 2019 have less than a 1% variance \(\\$1 in 2018 and \\$2 in 2019. No issues noted. We will pass for further review.](#)

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We expect that reported **ending cash** should reconcile to ending balances per bank/treasurer statements to **within 5%**. Ending balance in 2018 reconciles exactly and the ending balance in 2019 has a variance of 1% (\$200). *No issues noted. We will pass for further review.*

Annual Report Submissions – We performed the following steps to determine whether the entity is in compliance with the annual report filing requirements (prescribed by the Budgeting, Accounting and Reporting Systems (BARS) Manual) and whether the submitted reports are complete:

- Reviewed the minutes to identify any cash grants that should be included on the [Schedule 01](#) but were not, or any non-cash grants that should be reported on the Schedule 16 but were not. We noted the District received a state grant from the Department of Health in both fiscal years 2018 and 2019, which were not reported on the Schedule 15. **We will ask the District if the state grant funds were expended in the year received.** After inquiring with the District, we determined that the District did expense State Grant funds from the Department of Health. However, the District did not complete the required Schedule 15 to report State grant funds expended. Therefore, we will issue the District a **recommendation**, reminding the District to ensure all Schedules are completed, as required in the annual report filing instructions. Annual Report Filing
- Reviewed the minutes and expenditure detail report to determine if loan payments were made but were not reported on a [Schedule 09](#). After reviewing the meeting minutes and the detailed expenditure reports, we determined that the District properly reported its loan payments on the Schedule 09. Therefore, *no issues were identified. We will pass for further review.*

We further determined whether the entity submitted its annual reports within 150 days of fiscal year-end as required by RCW 43.09.230:

- Annual reports [were](#) filed timely during the audit period. *No issues were identified. We will pass for further review.*
- All schedules and requested supplemental information [was not](#) included with the annual report. We noted the District's 2019 resolutions passed, as well as the bank statements associated with the petty cash account, and petty cash logs, were not included with the annual report submission. **We will request copies of the 2019 resolutions and petty cash logs.** After inquiring with the District, we were provided with the resolutions passed in 2019 and petty cash logs for 2018. However, since these resolutions and petty cash logs were not included with the District's annual report submission, we will issue the District a recommendation, reminding the District to ensure all requested supplemental financial information is included with the annual report submissions. Annual Report Filing

Financial Condition [FIT] – We utilized the [Financial Intelligence Tool \(FIT\) OR](#) to assess the entity's financial condition and ability to remain a going-concern.

- After reviewing the Financial Intelligence Tool, we determined that the District met the suggested benchmarks for all four indicators in 2018, but did not meet the suggested benchmarks for the following indicators in 2019:
Cash Balance Sufficiency: 53.8 days (suggested benchmark is 60 days)
Change in Cash Position: -33% (Suggested benchmark is greater than 0%). We asked the District for more information regarding the decrease in revenues in fiscal year 2019 of \$24,534, which was categorized as rents and leases. After inquiring with the District, we were informed that the decrease in revenue was due to the District's lack of aiding with State and Federal fires, as the District was not sent out to aid with these fires in fiscal year 2019. Therefore, we determined that the decline in the District's financial condition is due to the decline in

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revenues. However, as the District received a prior recommendation related to financial condition, we will issue the District another **recommendation**, reminding the District to monitor its financial condition to ensure future operations can be sustained. Financial Condition

B.4.PRG - Summary

Procedure Step: Summary of Additional Risks

Prepared By: AAH, 6/23/2020

Reviewed By: STE, 7/6/2020

Purpose/Conclusion.:

Purpose/Conclusion:

To document the audit areas selected for testing based on risks noted in planning and summarize the results.

Testing Strategy.:

Audit areas and Recommendations – Auditors should link to the audit plan and list the audit areas (additional risks) selected for testing. For each, conclude if issues were noted and if so, link to audit issue. Audit issues should be created and documented inside TM using the audit issue function and all applicable fields (level, category) should be completed. The Level of Reporting (LOR) spreadsheet should only be used if a management letter or finding is being proposed. Exit recommendations or verbal recommendations are not required to be included in the LOR spreadsheet due to the small size of assessment audits.

Policy/Standards.:

Record of Work Done.:

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Based on planning procedures as documented in the Audit Plan [\[Planning\]](#) we selected additional risks for testing. Audit areas and a summary of results and any related recommendations are summarized below.

- a. [\[Credit Cards\]](#) - No issues were identified based on testing performed.
- b. [\[Disbursements\]](#) - No issues were identified based on testing performed.
- c. [\[Payroll\]](#) - Audit issues were identified as seen at: [\[Commissioner/Secretary Pay\]](#)
- d. [\[Petty Cash/Imprest Funds\]](#) - Audit issues were identified as seen at: [\[Petty Cash\]](#)
- e. [\[Procurement\]](#) - Audit issues were identified as seen at: [\[Policies\]](#)
- f. [\[Open Accounts\]](#) - Audit issues were identified as seen at: [\[Policies\]](#)
- g. [\[Prevailing Wage\]](#) - Audit issues were identified as seen at: [\[Prevailing Wages\]](#)

B.4.PRG - Summary

Procedure Step: Credit Cards
Prepared By: AAH, 6/22/2020
Reviewed By: STE, 7/6/2020

Purpose/Conclusion.*

Purpose: To determine if credit card transactions are allowable, supported, and approved in accordance with Entity policy.

Conclusion: [Our testing procedures identified NO audit issues.](#)

Testing Strategy.*

Credit card controls and optional testing if risks noted

A policy is required by state law for local governments and state entities. See criteria tab for further details. Obtain and review the policy. Auditors have the option to read the policy for a general understanding or to test to make sure all legally required elements are included.

For Local Governments: Under RCW 43.09.2855, the policy must be established and must provide for the following:

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- *The distribution of the credit cards*
- *The authorization and control of the use of credit card funds*
- *The credit limits available on the credit cards*
- *Payment of bills*
- *Any other rule necessary to implement or administer the system under this statute (such as procedures for recovering disallowed charges)*

If the entity uses a debit card, auditors should exercise increased professional skepticism when scanning bank statement activity for unallowable charges.

Consider gaining an understanding of the entity's process for ensuring adequate controls exist (some of this information can be learned from reading the policy). In gaining an understanding, the auditor may **consider** the following questions:

- Is an independent party (such as the governing body) reviewing credit card statement activity?
- What kinds of expenditures are credit cards authorized for and what expenses are prohibited? (Some expenses such as cash advances and personal expenses are prohibited by state law, but entities often exclude these and others per policy).
- Are cards assigned to individuals or are the cards shared? Are shared cards properly secured at all times and is accountability maintained so that all transactions can be tied to a specific purchasing individual?
- What is the entity's process for addressing missing documentation or receipts?
- Are credit card statements received directly by an independent person for review? (Entities might also use online monitoring to review complete activity)
- If the cards are used for travel, how does the entity ensure that employees are not also reimbursed for transactions that were charged on the credit card?
- If items purchased are subject to bid laws (based on threshold and item type), how does the entity ensure compliance with state bidding laws?
- If small and attractive assets are purchased, what is their process for adding to inventory lists?
- What is the process for paying the credit card invoice (are payments made by individual card or entity-wide each month; is a revolving or petty cash fund used to make credit card payments)?
- Has the entity had any problems with excessive costs, personal charges, or unallowable use of cards? What were the problems and how were these dealt with?
- Has the entity had any other concerns or problems in the past with credit cards? How does the entity monitor for non-compliance with their policy and how do they actively enforce it?

Control objectives for credit cards:

- *Entity policy is followed*
- *Only allowable charges are made*

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- *Goods or services are actually received prior to payment being made*
- *Purchases are supported by adequate documentation*
- *Purchases do not violate bid laws*
- *Inventory or assets purchased by card are added to asset lists, as appropriate.*
- *Expenditures are correctly accounted for*
- *Accountability for all purchases is maintained (entity can identify the purchaser)*
- *Cards and numbers are adequately safeguarded to prevent unauthorized use*

Analytical Procedures

The following are analytical procedures to **consider**:

- Using Vendor Data from FAP, scan total credit card payments (by month) and look for those that are significant or unusual.
- Check for unreported cards by reconciling credit card payments per statements to payments made per FAP system
- Scan selected statements for risk indicators or policy violations, such as:
 - Auditors should be cognizant of indications of altered credit card statements, such as missing pages or alterations
 - Purchases of a type or amount that is prohibited by policy; splitting purchases to circumvent transaction limits or bidding thresholds is a fairly common problem in credit card programs
 - Review for credit limits that seem unreasonably high given level of actual activity
 - Review for cards of terminated employees to determine if any charges were incurred past the employee's termination date, whether these charges are valid, and if the card was cancelled timely
 - Purchases with high dollar amounts or that exceed bid thresholds
 - Cash advances (prohibited by state law RCW 43.09.2855)
 - Purchases that have the potential to be for a personal purpose (ie: consumer goods, personal services, local restaurants, etc)
 - Purchases made during non-working hours or days
 - Purchases of fuel

Testing Selected Charges

Consider testing selected charges for the following attributes (modify the test attributes based on identified risks):

- Charge is supported by adequate documentation to evidence validity of transaction
- Charge is approved and allowable in accordance with entity policy and state law, (state law prohibits cash advances or personal use - even if later reimbursed)
- If travel related, ensure the charge was not also reimbursed directly to the employee (compare the employee's charge card billings to travel reimbursement vouchers to ensure double billings are not present)
- If the purchase is over bid thresholds, that the purchase was appropriately bid

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- If the purchase is for items that should be included in an inventory or asset listing (including small and attractive), that the items were appropriately added to the entity's records. Consider tracing the item to ensure it is on site and for the government's use.

An optional template is available from the Team Store for documenting credit/purchase card and purchase account transaction testing if more detailed testing is necessary. Auditors should modify the testing criteria based on any risks they identified.

Auditors should consider sharing SAO's credit card best practices with entities that might benefit from them. They are located in the [resource database](#).

Policy/Standards:

Record of Work Done:

We determined that credit cards are an area within the audit that requires further testing due to the following risks identified in planning:

Schedule 22:

The District had 4 physical credit cards in 2018 and 5 physical credit cards in 2019

Minutes Review:

The District switched banking institutions from KeyBank to Washington Federal Bank in March 2019.

The District stated in its August 2019 meeting that the second half of the bill to Accurate Striping will be paid using the District's credit card.

We will ask the District for a copy of the credit card policy.

After reviewing the District's credit card policy, we determined that the District appears to have adequate controls established: Custodian of the card, requirement for retaining supporting documentation, and seeking repayment for unallowable purposes. Therefore, no issues were identified.

We will pass for further review.

We will also ask for credit card statements (in not available in EIS)

After reviewing the District's credit card statements, we determined that we would test a few selected transactions. We further determined that the majority of the District's purchases made on the credit card are related to the purchase of fuel.

See our selected transactions we have chosen for testing here [\[Credit Card Testing\]](#).

We reviewed the supporting documentation received by the client here [\[CC Reciepts 2018-2019\]](#).

After reviewing the selected transactions and supporting documentation, we determined that all transactions scanned and tested appeared to be for allowable business purposes and all supporting documentation was retained. Therefore, *no issues were identified*. **We will pass for further**

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review.

B.4.PRГ - Summary

Procedure Step: Disbursements
Prepared By: AAH, 6/23/2020
Reviewed By: STE, 7/6/2020

Purpose/Conclusion:

Purpose: To determine if purchases are allowable, supported, and approved in accordance with Entity policy.

Conclusion: Our testing procedures identified NO audit issues.

Testing Strategy:

****If the risk identified in planning is not addressed by the below testing strategy, consider additional testing options available in the TeamStore-Accountability cabinet****

Review the entity's expenditures for any unusual activity, such as transactions that indicate increased risks, as noted during planning procedures (consider results of Vendor Trend, Vendor Statistics query and others, if performed). If possible, use additional FAP or other analytical procedures to obtain or identify high risk transactions for review.

Auditors should be cognizant of any transactions that appear unusual in nature and use professional judgment to determine if an in-depth review should be performed (such as requesting specific invoices and voucher approvals). Auditors should consider using the Disbursements Review testing template from the TeamStore to document testing.

Additional ***considerations*** may including the following:

Gain a more detailed understanding of the disbursement process, considering the following:

- Does the entity have adequate segregation of duties in place over expenditure approvals and payments? (Consider questions included in the Segregation of Duties Inquiry Assessment Audit Questions from perm file)

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- Is the governing body approving invoices prior to payment?
- If the County is the entity's Treasurer; does the governing body review a report of vouchers issued/paid to the original invoices approved for payment?
- When approved (during governing body meetings), are vouchers approved in total or by invoice? (increased risk may exist if the governing body approves vouchers in total and are not reviewing individual invoices)

If additional testing is considered necessary, consider the following when testing expenditures:

Judgmentally select transactions for testing and review for the following:

- Expenditures are legal and allowable (consider federal/state requirements if applicable)
- If fictitious vendor or conflict of interest risk indicators are identified auditors should consider the following tests:
 - Utilize the [WA Secretary of State website](#) corporation search. This provides auditors with general business license information to ensure that the vendor being paid has an active business license. Auditors can also review the Governors (Owners) of the business for evaluation of a potential conflict of interest. Note: sole proprietors are not required to file with the Secretary of State; however, they should be included on the Department of Revenue (see below).
 - If auditors cannot find your vendor in the Secretary of State website, auditors can also review the [Department of Revenue](#) and click "Look up a business" under the 'I want to...' section. This website lists similar information to the Secretary of State and is where businesses should be reporting their business type activity, including for sole proprietorships.
 - If auditors cannot find vendors in the Secretary of State or Department of Revenue search, review the [Labor and Industries website](#). Click "Verify a Contractor's or Tradesperson's License" which allows you to use their tool to look up contractors/subcontractors/tradespeople for active licenses, safety or construction violations, identifies active lawsuits and confirms business owners names.
- Payment for goods or services not receipted by entity
- Conflict of interest
- Amounts paid match approved invoices
- If minutes provide enough detail, select a month of expenditure activity and compare the total vouchers approved per the minutes to the total vouchers issued by the County for the same month (may have been performed as part of planning)

If exceptions are noted, consider if expanding testing is necessary.

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Policy/Standards:

Record of Work Done:

We determined that Disbursements is an area within the audit that requires further testing due to the following risks identified in planning:

Minutes Review:

Vouchers were not approved for February 2018 (Voucher numbers 5-17)

Large expenditures of \$31,902 in May 2018 (might be related to work done on vehicles during the month)

Large expenditures of \$23,000 in September 2018 and of \$20,800 in December 2018

Mentioned the need to pay September 2019 bills by 9/6/19 but didn't hold a meeting until 9/11/19

November 2019 minutes stated that the District owed the Department \$7,223.50.

See transactions tested here [[Disbursements Review](#)]

We reviewed the supporting documentation provided by the District here [[Expenditures 2018-2019](#)].

After reviewing the supporting documentation provided by the District, we determined that the District accidentally provided us with the wrong receipt from Keyplace. We asked the District to provide the correct copy of the invoice from Keyplace, and the District was able to provide the copy of the receipt, as seen here [[Correct KeyPlace Receipt 2019](#)].

After further reviewing the selected transactions and supporting documentation, we determined that all transactions scanned and tested appeared to be for allowable business purposes and all supporting documentation was retained. Therefore, no issues were identified. **We will pass for further review.**

B.4.PRG - Summary

Procedure Step: Payroll

Prepared By: AAH, 6/23/2020

Reviewed By: STE, 7/6/2020

Stevens County Fire Protection District No. 7

Purpose/Conclusion:

Purpose: To determine whether payroll controls are adequate and to determine if payroll taxes have been paid, as the District received a prior audit recommendation related to noncompliance with payroll taxes.

Conclusion: [Our testing procedures identified the following audit issues:](#)

Commissioner/Secretary Pay

Testing Strategy:

****If the risk identified in planning is not addressed by the below testing strategy, consider additional testing options available in the TeamStore-Accountability cabinet****

To determine whether payroll controls are adequate. Auditors should **consider** the following:

- Does the entity have any policies over payroll activity?
- How are timesheets or other documents approved? Are there employees that don't have to complete timesheets?
- How is overtime documented and approved?
- *SMALL ENTITIES:* Scan payroll register for names that you do not recognize. Be cognizant of employees who are no longer with the entity as well as seasonal and part-time employees to consider if their pay appears reasonable.
- Scan total yearly gross pay by employee to determine if it appears reasonable; if salaried pay, does it agree to amounts budgeted/approved during the minutes
- All payroll related payments should be processed through payroll, not voucher system. Consider selecting additional payments from the vendor system to ensure they are not for payroll related activity.
- Review overtime payments (using FAP if possible) to determine if they appear excessive, unusual, or comparable to prior years
- Compare overtime amounts to regular payroll expense to determine reasonableness
- *SCHOOLS:* Compare a trend of FTE (certificated and classified), salary (certificated and classified), benefits and enrollment
- *SCHOOLS:* Compare a trend of FTE by program code allocation

Perform testing if risks are noted, **consider** the following testing options:

- Are payroll expenditures supported by a timesheet or other time tracking methodology?

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- Is the actual pay approved by governing body? (Does the pay agree to the initial salary/wage approved by the governing body? Was the monthly pay properly approved in the meeting minutes when payment was made?)
- Compare or reconcile actual payroll expenses with approved salaries per the minutes
- Review employees with the same address or who are related (timesheets, leave, and pay should not be approved by a related employee)

Policy/Standards:

Record of Work Done:

We determined that Payroll is an area within the audit that requires further testing due to the following risks identified in planning:

We noted discussion regarding the MOB firefighter's rates, but no actual rates were documented.

The District hired a new salary, but wages were not mentioned.

The District was not approving voucher amounts separate from payroll amounts.

The District approved paying the new Secretary, Kim Shaw, for attending the past five meetings during the November 2018 meeting and to begin full pay in December, but there was no documentation of the amount of pay that was approved.

Testing:

We will ask the District for a copy of the payroll registers.

After inquiring with the District, we determined that the District does not have payroll registers. The District explained that the Fire District is a volunteer department and did not and currently does not use payroll services. However, the Commissioners and the Secretary should be paid as employees and payroll taxes should be paid.

We will also ask the District if they have an employment contract established with the District Secretary.

After inquiring with the District, we determined that the District does NOT have a contract established with the Secretary, which indicates that the District should be paying payroll taxes from the Secretary's salaries.

We further reviewed the District's detailed expenditure report and confirmed that payroll taxes are not being paid. Therefore, we will issue the District **another recommendation**, reminding the District to ensure payroll taxes are paid to avoid exposing the District to penalties related to noncompliance with payroll taxes. Commissioner/Secretary Pay

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B.4.PRG - Summary

Procedure Step: Petty Cash/Imprest Funds

Prepared By: AAH, 6/23/2020

Reviewed By: STE, 7/6/2020

Purpose/Conclusion:

Purpose: To determine if purchases made through the petty cash fund are allowable, supported and made in adherence with District policy.

Conclusion: [Our testing identified the following audit issues:](#)

Petty Cash

Testing Strategy:

****If the risk identified in planning is not addressed by the below testing strategy, consider additional testing options available in the TeamStore-Accountability cabinet****

BARS Manual 3.8.8 Expenditures - Imprest, Petty Cash and Change Funds describes minimum requirements for operation of such funds by local governments.

Review Schedule 22 question 24-26 to obtain a list of petty cash, change and imprest funds. The year-end bank statement for each imprest/revolving fund should be attached with the entity's annual report for auditors use. Auditors should review the supplied statement for reasonableness, ***considering*** the following:

- Look for deposits that do not appear to be reimbursements and may indicate inappropriate use of the account
- Evaluate disbursement activity levels and patterns for indications of risk
- Consider the number of replenishments, or total reimbursement amount
- Verify that reconciliations are being done correctly and timely
- Consider ACH payments made from imprest accounts for indications of risk
- Cash withdrawals should not be made from imprest accounts

Stevens County Fire Protection District No. 7

- If imprest accounts are used to process expenditures and then reimbursed by the County Treasurer, ensure that no additional payments are made from the imprest account that could indicate unallowable use.

An example analysis of imprest fund disbursements, reimbursements, reconciliations and turnover is available in the TeamStore.

To evaluate and follow up on petty cash fund risks, **consider** the following:

Evaluating Controls

Inadequate segregation of duties may include the same employee/custodian performing incompatible duties such as:

- Writing and signing checks
- Approving expenditures and requesting reimbursements
- Reconciling the account

If duties are not properly segregated, consider whether there are compensating monitoring controls to ensure funds are not used improperly, such as periodic independent review of bank reconciliations, cash counts or other reviews.

Analytical Procedures (using FAP queries if available)

- Review petty cash and revolving fund expenditures for indications of risk.
- Obtain a list of reimbursements to each petty cash and imprest fund to evaluate for indications of risk.

We would expect that each account is set up as a unique vendor in the vendor master file therefore this information should be included in FAP if the County data is available.

Auditors may also consider requesting a selection of monthly petty cash logs for review if risks are noted.

Policy/Standards.:

Record of Work Done.:

We determined that Petty Cash is an area within the audit that requires further testing due to the following risks identified in planning:

Schedule 22 Questionnaire:

The District has a \$75 petty cash account

Minutes Review:

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The District created a checking account for its petty cash fund, risk of inadequate EFT controls.

Testing:

We will ask the District for a copy of the policy governing the use of the petty cash account.

After reviewing the District's petty cash policy, we determined that the District's policy includes a custodian of the petty cash fund, and also sets the balance for the petty cash fund at \$75. However, the District's policy does not include the requirement to retain and submit the supporting documentation, nor does it include a requirement to seek repayment for unallowable purchases. Therefore, we will issue the District a **recommendation**, suggesting that the District strengthen its internal controls over its petty cash fund. [Petty Cash](#)

We will also request copies of bank statements from both KeyBank and Washington Federal for each month of both years under audit, as well as petty cash logs. After inquiring with the District, we were provided with copies of all requested bank statements for both 2018 and 2019, as well as the petty cash logs for 2018.

We reviewed the petty cash logs for fiscal year 2018 and determined that the District rarely uses the petty cash account and as such, there is low risk associated with the account.

We will request copies of the bank statements associated with the petty cash fund.

See our petty cash reconciliation performed here [\[Petty Cash Reconciliation\]](#).

After reviewing the bank statements associated with the petty cash fund, we determined that the District is not using the petty cash fund held at Washington Federal Bank. The District started the fund with \$500, and the policy states that the fund shall be \$75. We noted the District began receiving an Account inactivity fee of \$5/month in September and an additional \$5 service charge each month starting October. No other charges were made through the petty cash fund. However, since the District has more funds in the account than the policy stipulates, we will address this issue in the recommendation regarding petty cash, as seen here [\[Petty Cash\]](#).

B.4.PRG - Summary

<i>Procedure Step:</i>	Procurement
<i>Prepared By:</i>	AAH, 6/19/2020
<i>Reviewed By:</i>	STE, 7/6/2020

Stevens County Fire Protection District No. 7

Purpose/Conclusion:

Purpose: To determine if District purchases were made in adherence to state procurement laws and District Policy

Conclusion: [Our testing procedures identified the following audit issues:](#)
[Policies](#)

Testing Strategy:

****If the risk identified in planning is not addressed by the below testing strategy, consider additional testing options available in the TeamStore-Accountability cabinet****

Procurement requirements (under state law and if applicable, federal laws) is an area smaller local governments often have trouble understanding. Procurement laws differ for public works as well as purchases. "Public works" is defined by RCW 39.04.010 to include all work, construction, alteration, repair or improvement other than ordinary maintenance, executed at the cost of the state or of any municipality, or which is by law a lien or charge on any property therein. "Purchases" refer to procurement of equipment, materials and/or supplies, except when in connection with a public works project. Auditors should be cognizant of a local government's expenditures and, when applicable, determine whether required procurement procedures should have been performed.

Auditors can use the "[Bidding and Procurement Planning Guide](#)" to understand the required procurement procedures for each government type. Auditors can also use the SAO/MRSC guidance for determining a local government's procurement requirement by using this [tool](#).

Additional Note:

Except for fire districts, local governments are authorized to use their own employees on public work projects up to their bid thresholds or other statutory limitations. The total cost of the public work project must include the materials, sales tax, and labor costs. State law prohibits the division of a project into units of work or classes of work to avoid the restriction of work that may be performed by day labor.

Testing considerations

- Determine and document the procurement threshold(s) for the government type under audit.
- Determine if the entity has approved policies related to procurement. If the government type under audit does not have procurement thresholds set by RCW; the entity should establish their own procurement thresholds through policy. (Auditors may also want to review the [Local Government Basic Information Spreadsheet](#) for additional information).
- Scan disbursements (consider using vendor trend or vendor statistics queries already reviewed in planning step) to identify purchases that may be applicable to procurement requirements.
- Review governing body meeting minutes for documentation and approval of procurement procedures that were performed.

Stevens County Fire Protection District No. 7

- If a risk is noted that procurement laws applicable to the entity under audit may not have been followed, select some transactions for testing: request additional supporting documentation to determine if procurement procedures were properly performed if conclusions cannot be determined based on documentation included in the meeting minutes.

Policy/Standards:

Record of Work Done:

We determined that Procurement is an area within the audit that requires further testing due to the following risks identified in planning:

Minutes Review:

- August 2018 meeting stated that the District was looking into a 1996 type 1 engine for sale and checking into a 2011 expedition, but there was no further discussion regarding these purchases.
- December 2018 meeting stated that T&M Restoration is working on the add on, also mentioned getting estimates for the front of the station, but no other bids were documented.
- January 2019 minutes mention getting a bid from an electrician, March 2019 minutes state that the electrician is to put lights and outlets up in the extension, indicating that the District hired an electrician. However, there was no documentation in the meeting minutes regarding bids received.
- Discussion regarding the concrete repairs that are needed in front of the station started in April 2019 and continued through June 2019, when the District accepted a bid of \$17,500, but did not mention how many bids were received, the prices of the other bids, or the contractor chosen to complete the work.

Testing:

We will ask the District for a copy of their procurement policy.

After inquiring with the District, we noted that the District does not have an established procurement policy.

We further noted the statutory thresholds for purchases of supplies and equipment is between \$10,000-\$40,000 and the thresholds for public works projects is between \$20,000-\$30,000. As the District did not have any purchases during the audit period that were above the upper thresholds, **we will pass for further review**. However, as the District does not currently have an established procurement policy, we will issue the District a recommendation, reminding the District to establish policies to help protect District assets from loss and/or misuse. Policies

B.4.PRG - Summary

Stevens County Fire Protection District No. 7

Procedure Step: Open Accounts
Prepared By: AAH, 6/22/2020
Reviewed By: STE, 7/6/2020

Purpose/Conclusion:

Purpose: To determine if purchases made using open store accounts are allowable, supported, and are in adherence to District policy.

Conclusion: [Our testing procedures identified the following audit issues:](#)
[Policies](#)

Testing Strategy:

Open store accounts may include local grocer, office or maintenance supply stores, local gas stations, etc.

Control considerations include:

- Does the entity have a policy/procedure over the account use?
- What approvals are required to use the store account? (Pre-approval or authorization, subsequent review after purchases are made)
- Does the entity perform an independent review of the statements (prior to payment) which includes a reconciliation of receipts retained from the purchaser compared to the statement?

Testing considerations:

- Scan FAP Vendor Trends or Vendor Statistics queries (performed during planning) by monthly payments for significant activity and select a month for testing to ensure purchases supported by a receipt and were reviewed in accordance with approved policy.

Policy/Standards:

Record of Work Done:

Stevens County Fire Protection District No. 7

We determined that Open Accounts are an area within the audit that requires further testing due to the following risks identified in planning:

The District stated that they have 10 open store accounts, which represents a high risk.

We will ask the District for a copy of the policy governing the use of open store accounts.

After inquiring with the District, we determined that the District does not have an established policy governing the use of its open store accounts and as such, we will issue the District a **recommendation.** Policies

We will also ask the District for a list of their open accounts.

After inquiring with the District, we determined that the District has the following open store accounts:

Oxarc, Colville Do-It Center, Napa and Les Schwab.

After reviewing the District's expenditures, we determined that the District uses Oxarc frequently and as such, we will test an expenditures related to Oxarc. All other vendors are not used frequently.

7/17/2019 - Oxarc - \$142.31 - Invoice was provided in our expenditure review request, as seen here [Expenditures 2018-2019].

After reviewing the selected transaction and supporting documentation, we determined that the rental for cylinders from Oxarc appeared to be for allowable business purposes and the supporting documentation was retained. Therefore, no issues were noted. **We will pass for further review.**

B.4.PRG - Summary

Procedure Step: Prevailing Wage

Prepared By: AAH, 6/23/2020

Reviewed By: STE, 7/6/2020

Purpose/Conclusion:

Purpose: To determine if the entity is in compliance with the prevailing wage requirements.

Conclusion: Our testing procedures identified the following audit issues:

Stevens County Fire Protection District No. 7

Prevailing Wages

Testing Strategy:

****If the risk identified in planning is not addressed by the below testing strategy, consider additional testing options available in the TeamStore-Accountability cabinet****

RCW 39.12 mandates that the entity be in compliance with the prevailing wage requirements; however, Conservation Districts, Irrigation Districts and Diking Districts have some limited exemptions for these requirements. If the local government is using a management company, inquire if the management company is paying employees prevailing wages for work performed to the local government.

Note: there are some exceptions where paying prevailing wages at Conservation Districts are not required. Information to evaluate this can be found on the [Procurement Resource page](#). Diking, Drainage and Reclamation Districts are also exempted as long as they meet certain requirements. Irrigation Districts have also been exempted from prevailing wage requirements on specific projects listed in WAC 296-127-030. Auditors should ensure they've reviewed the Procurement planning guide, in addition to the applicable planning guide for specific exceptions to prevailing wage laws.

If applicable, for larger public works projects, auditors should use the Department of Labor and Industries' website at (<http://www.lni.wa.gov/TradesLicensing/PrevWage/IntentAffidavits/View/default.asp>) to determine if an *Intent to Pay Prevailing Wages* or an *Affidavit of Wages Paid* have been filed with the Department of Labor and Industries. Note: Entities are no longer required to retain intents/affidavits for their own records; auditors obtaining copies from the website as noted above is sufficient for testing.

Note: Sole owners of their own businesses who perform the actual work themselves on public works projects are not required to pay themselves the prevailing wage rates.

Testing considerations include:

- Identify projects that are applicable to prevailing wage requirements
- Review prevailing wage intents/affidavits from the Labor & Industries website as noted above.

Policy/Standards:

Record of Work Done:

Stevens County Fire Protection District No. 7

We determined that prevailing wage is an area within the audit that requires further testing due to the following risks identified in planning:

Minutes Review

We reviewed the District's meeting minutes and noted the District had two major public works projects during the audit period, which require further testing:

Addition to Fire Station

Concrete in front of the fire station

We reviewed the L & I website and search for prevailing wage intents and affidavits from the District and noted NO affidavits or intents that were filed.

Therefore, we will ask the District how they ensured prevailing wages were paid.

After inquiring with the District, we determined that the District did not ensure prevailing wages were paid, as the District was unaware of the requirement to pay prevailing wages for public works projects. The District put the job out for bid, Accurate Striping was the only one who responded, and the District accepted their bid. However, all public works projects require prevailing wages to be paid. Therefore, we will issue the District a **verbal recommendation**, reminding the District to ensure prevailing wages are paid for all public works projects. Prevailing Wages

B.5.PRG - Concluding

Procedure Step: Concluding

Prepared By: AAH, 7/1/2020

Reviewed By: STE, 7/6/2020

Purpose/Conclusion:

Purpose:

To determine if the assessment audit has been properly completed, to prepare the audit report, and to communicate the results of our audit with management and those charged with governance.

Conclusion:

We determined that the assessment audit has been properly completed, prepared the audit report, and communicated the results of our audit with management and those charged with governance.

Stevens County Fire Protection District No. 7

Testing Strategy:

Auditors are **required** to perform the following procedures to determine whether the assessment audit has been properly completed and to summarize results to be included in our audit report.

Concluding Procedures

- Verify that all accountability work is completed and marked as prepared and reviewed.
- Evaluate whether procedures and documentation were sufficient to address risks identified in planning.
- Document items for FAWF
 - Auditors should document any significant information that might be relevant to future audit periods. If certain areas or risks were cycled to a future audit, ensure this expectation is documented in a FAWF note. *Example risk indicators that might be relevant for future periods include: bond compliance, grant application that might result in expenditures that exceed the single audit threshold, significant procurement.*
 - Export the final exit email into the FAWF folder for next auditor to have access to the verbal recommendations made for follow-up during the next audit.
 - Determine if client's audit cycle/scope requires adjustment.

Audit Issue	SAO Action
No audit issues or exit items only	No change – Audit to stay with assigned team
Management letter/finding – late filing	No change – Audit to stay with assigned team
Management letter/finding – all issues except non-filing	First follow-up audit – audit to stay with assigned team Second cycle/repeat audit issue – Evaluate with AM and AD to determine if audit should be changed to on-site audit and transferred to a local team if assigned to LGS
Revenues regularly exceed \$300,000 threshold	Consult with LGS AM and AD and/or local team AD for approval to keep as assessment audit or transfer to accountability audit (Evaluation should be performed to determine if risks being identified during the audit can be adequately addressed by the assessment audit program or if additional on-site testing should be performed.)

Stevens County Fire Protection District No. 7

Assessment Audit Report

- Prepare the audit report using ORCA and the ARS manual, and submit through the ARL.
- **Update** the Description of Entity sections with the entity.
- Import the appropriate Exit Letter from the Store and prepare the letter (attached to the project) to send as part of the Exit Conference, below.

Exit Conference

Auditors are **equi**red to communicate the results of the audit with management and/or those charged with governance before the audit report is issued. This may be done via phone or email as described in [Audit Policy 1310](#). The correspondence should be documented in the Communication Log. Auditors are required to determine if additional communication or a more formal entrance and exit conferences are necessary due to entity request, or to appropriately discuss any:

- a. Significant disagreements**
- b. Significant difficulties encountered during the audit**
- c. Audit recommendations or results of the audit**

Policy/Standards:

SAO Audit Policy [1310](#) Assessment Audits of Small Local Governments

Record of Work Done:

Concluding Procedures

- We verified that all accountability work is completed and has been reviewed by the supervisor.
- We have concluded that procedures and documentation were sufficient to address risks identified.
- Where applicable, significant information and areas or risks cycled to a future audit have been documented in a FAWF note [\[FAWF\]](#).
- We exported the final exit email communication, which includes the verbal recommendations made, into the FAWF at [\[FAWF\]](#).

Assessment Audit Report

We **have** drafted the assessment audit report in ORCA and submitted it through ARL for distribution. The Exit Letter [\[Exit Letter - Assessment\]](#) has been drafted and prepared to send during the Exit Conference.

Stevens County Fire Protection District No. 7

Exit Conference

We communicated the results of our audit with management and/or those charged with governance. See correspondence under **AS2: Communication Log.**

Issues

ISS.1 - OPMA		
<i>Prepared By:</i>	AAH, 6/4/2020	<i>Issue</i> The District's meeting minutes do not consistently include sufficient detail of business conducted at Board meetings including documentation of motions made, seconded and vote results, documentation of commissioner comments and significant business discussed, approval of vouchers separate from payroll, and voucher numbers and total amounts paid. We further noted two meetings that were canceled due to a lack of quorum, but vouchers were signed and approved by one Commissioner. We recommend the District improve its documentation of Board meeting minutes to avoid limiting public access to Board Member discussions about the District's use of public funds, as required by state law (RCW 42.30.035). We recommend the District ensure the minutes include the Board-approved voucher numbers and total amount paid, as required by state law (RCW 42.24.180) and the <i>Budgeting, Accounting and Reporting System</i> (BARS) manual. We further recommend the District ensure all action and final action taken at meetings is done so by a quorum of Commissioners. If a quorum is not present, state law (RCW 42.30.090) will allow the District to adjourn the meeting to a stated time and place. The District can access the MRSC website for more information regarding the Open Public Meetings Act (MRSC-OPMA).
<i>Reviewed By:</i>	STE, 7/6/2020	
<i>Type:</i>	Accountability	
<i>Category:</i>	Open Public Meetings	
<i>Reporting Level(s):</i>	Exit Item	
<i>Impact</i>		
<i>Cost Savings:</i>		
<i>Questioned Costs:</i>		
NOTES		

Stevens County Fire Protection District No. 7

ISS.3 - Financial Condition		
<i>Prepared By:</i>	AAH, 6/5/2020	<i>Issue</i> Our review of the District's financial condition noted a decline in the District's cash balance sufficiency and change in cash position. Cash balance sufficiency is a ratio that shows the number of days that the District could operate solely on its ending cash and investments balance. The decline in the District's cash balance sufficiency hinders the District's ability to manage emergencies and unanticipated needs. Change in cash position shows the extent to which cash increased or was used up during the year. A decline in a cash balance imply that the District's expenditures are greater than its revenues during the year. The decline in the District's financial condition puts the District at risk of not being able to meet its financial obligations and maintain current service levels. We continue to recommend the District monitor its financial condition to ensure future operations can be sustained. This is a repeat recommendation made in the prior audit.
<i>Reviewed By:</i>	VAV, 7/1/2020	
<i>Type:</i>	Accountability	
<i>Category:</i>	Financial Condition	
<i>Reporting Level(s):</i>	Exit Item	
<i>Impact</i>		
<i>Cost Savings:</i>		
<i>Questioned Costs:</i>		
NOTES		
ISS.4 - Cash Receipting		
<i>Prepared By:</i>	AAH, 6/17/2020	<i>Issue</i> During our review of the District's cash receipting process, we noted the District normally deposits receipts once a month. We recommend the District deposit funds within 24 hours of receipt, as required by state law (RCW 43.09.240). If this is not practical, we recommend the District request an exception from the County Treasurer, as allowed by the statute. Depositing regularly significantly reduces risk associated with locally receipted
<i>Reviewed By:</i>	VAV, 6/30/2020	
<i>Type:</i>	Verbal Recommendation	
<i>Category:</i>	Cash Receipting	

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<i>Reporting Level(s):</i>	revenues.
<i>Impact</i>	
<i>Cost Savings:</i>	
<i>Questioned Costs:</i>	
NOTES	

ISS.5 - Commissioner/Secretary Pay		
<i>Prepared By:</i>	AAH, 6/17/2020	<i>Issue</i> Our review found that the District is paying the Commissioners as contractors, in violation of state and federal payroll regulations and unduly exposes the District to penalties for late payment of payroll taxes and noncompliance. We continue to recommend the District report Commissioner and employee payments as wages and pay applicable payroll taxes. This is a repeat recommendation made in the prior audits.
<i>Reviewed By:</i>	STE, 7/6/2020	
<i>Type:</i>	Accountability	
<i>Category:</i>	Payroll/Personnel	
<i>Reporting Level(s):</i>	Exit Item	
<i>Impact</i>		
<i>Cost Savings:</i>		
<i>Questioned Costs:</i>		
NOTES		

ISS.6 - Annual Report Filing

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<p><i>Prepared By:</i> AAH, 6/17/2020</p> <p><i>Reviewed By:</i> VAV, 7/1/2020</p> <p><i>Type:</i> Verbal Recommendation</p> <p><i>Category:</i> Annual Report Filing</p> <p><i>Reporting Level(s):</i></p> <p><i>Impact</i></p> <p><i>Cost Savings:</i></p> <p><i>Questioned Costs:</i></p>	<p><i>Issue</i></p> <p>Our review noted that the District did not file a Schedule 15 for fiscal years 2018 and 2019 to report their state grant expenditures. We further noted the District did not provide required supplemental financial information with the annual report, such as the 2019 resolutions passed and petty cash logs, as required in the annual report filing instructions.</p> <p>We recommend the District take steps to ensure annual report submissions include all requested supplemental financial information and all schedules are completed accurately, as required in the annual report filing instructions.</p>
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ISS.7 - Policies	
<p><i>Prepared By:</i> AAH, 6/19/2020</p> <p><i>Reviewed By:</i> STE, 7/6/2020</p> <p><i>Type:</i> Accountability</p> <p><i>Category:</i> Safeguarding of Assets/Property</p> <p><i>Reporting Level(s):</i> Exit Item</p> <p><i>Impact</i></p> <p><i>Cost Savings:</i></p> <p><i>Questioned Costs:</i></p>	<p><i>Issue</i></p> <p>Our review found that the District does not have written policies or procedures governing the use of its open store accounts, and purchasing of supplies and equipment (procurement policy).</p> <p>We recommend the District develop written policies to protect District assets from loss and misuse, and assist the District in complying with state procurement laws (RCW 52.14.110 and RCW 40.14.070).</p>

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NOTES

ISS.8 - Petty Cash

<i>Prepared By:</i>	AAH, 6/23/2020	<i>Issue</i>
<i>Reviewed By:</i>	VAV, 7/1/2020	<p>Our review noted the District was using their petty cash/imprest account incorrectly. Specifically, the District's petty cash policy establishes the petty cash fund at \$75 and review of the bank statements revealed that the District has \$500 established in the petty cash fund and is not replenishing the account to the established amount each month. Further, the District's policy governing the use of the petty cash/imprest account lacks key elements, such as the requirement to retain and submit supporting documentation, as well as seeking repayment for unallowable purchases.</p> <p>We recommend the District use the petty cash account in adherence to the District's policy and in compliance with the BARS manual (section 3.8.8).</p>
<i>Type:</i>	Accountability	
<i>Category:</i>	Safeguarding of Assets/Property	
<i>Reporting Level(s):</i>	Exit Item	
<i>Impact</i>		
<i>Cost Savings:</i>		
<i>Questioned Costs:</i>		

NOTES

ISS.9 - Prevailing Wages

<i>Prepared By:</i>	AAH, 6/23/2020	<i>Issue</i>
<i>Reviewed By:</i>	STE, 7/6/2020	<p>During our review of the District's public works project for asphalt work, we noted the District did not comply with the prevailing wage requirements.</p> <p>We recommend the District comply with prevailing wage provisions of state law (RCW 39.04.020 and RCW 60.28.010), which requires:</p>
<i>Type:</i>	Verbal Recommendation	
<i>Category:</i>	Procurement/Bid/Prevailing Wage	

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<i>Reporting Level(s):</i> <i>Impact</i> <i>Cost Savings:</i> <i>Questioned Costs:</i>	<ul style="list-style-type: none">• All contracts for public works state the hourly prevailing wage rate(s) as determined by the state Department of Labor and Industries and a requirement that workers not be paid less than the specified hourly rate.• The District receives a "Statement of Intent to Pay Prevailing Wages" from the contractor and every subcontractor.• The District refrains from making any payments until all statements of intent have been received.• The District receives an "Affidavit of Wages Paid" from the contractor and every subcontractor before retainage is released.
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