Columbia County

General

Code: 06Columbia-AC17-SA17
Name: Columbia County
Group: Tri-Cities
Type: 06-County
Location: Columbia
Scope: Accountability, Financial, SA

Team

Lead:
Manager:

Procedures

A.1.PRG - TeamMate Administration

Procedure Step: Audit Set Up
Prepared By: MDR, 6/28/2018
Reviewed By: DHO, 7/2/2018

Purpose/Conclusion:

Columbia County

Purpose / Conclusion:
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 erorrs 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

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.PRG - TeamMate Administration

Procedure Step:	Project Review & Finalize
Prepared By:	MDR, 9/19/2018
Reviewed By:	DHO, 9/19/2018

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.

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 Admnistrative 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.*

Issue Review
Ensure issue content 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.
- If TMDV identifies erorrs 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 issuance date in the "Issued (Final Report)" 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.
- 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.
- 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 - Accountability Planning - Local Govt

Procedure Step: Engagement Letter

Prepared By: MDR, 8/14/2018

Reviewed By: GLW, 8/16/2018

Purpose/Conclusion:

Purpose / Conclusion:
To confirm that a common understanding of the terms of the audit engagement exist with the government.

Testing Strategy:

To confirm our understanding with the government, auditors are **required** to perform the following procedures:

- Choose the appropriate engagement letter template from TeamMate and modify it for the scope of the audit and any special needs.

Auditors should consider the need to confirm any critical scheduling or deadline issues, access to information at key service providers or component units or other matters that may be necessary to avoid or address prior audit difficulties.

- Have the engagement letter signed by at least the audit contact and a key oversight official (e.g. the chief executive or a member of the governing body or its audit committee). Auditors should consider whether others within the entity should also sign the engagement letter.

The team should consider whether signatures by a representative of the governing body, the chief executive and/or a member of the audit committee would be most appropriate for the circumstances and whether others in the organization should also sign. In making this judgment, auditors should consider the risk of miscommunication or lack of communication about the audit within the government, whether deadlines may not be met, and the likelihood and nature of any audit difficulties.

- Determine most appropriate time to obtain a signed engagement letter, but not later than the entrance conference date. Auditors should print the engagement letter for signature to ensure it is not modified.

Normally the engagement letter would be signed on the first day of fieldwork. However, it may be more appropriate to sign later after preliminary meetings about scheduling or at the entrance conference to facilitate signing by the governing body.

Note that delay or refusal to sign the engagement letter would ***not*** *preclude us from continuing with the audit, since our audit authority is based on statute and our own policy. However, in such circumstances, auditors should proceed with caution and consult with their manager and deputy to determine the effect on the audit and the most appropriate response.*

Contact TAS with questions or for assistance with modifications to the engagement letter.

Changes to the Engagement Letter:
Auditors should carefully review management requests for major changes to engagement terms. To consider and respond to any requested changes, auditors are required to perform the following additional procedures:

- Understand management's reasoning and objective for the change.
- Discuss the requested change with their manager and, as appropriate, their deputy and Team Audit Support.
- Auditors should not agree to changes that are not reasonably justified, including a request **during an audit** for a change in engagement type to one with a lower level of assurance.
- Changes to engagement terms **during an audit** should be documented in a new engagement letter or addendum (the addendum template is available in the Store) in accordance with Policy 2140 and 1220. Include the new engagement letter or addendum in the audit documentation and an explanation in the Record of Work Done.
- Update audit plan and related steps to reflect the changes as appropriate.

Auditors should also complete a BUCO for changes to the audit period, scope or budget to update Audit Number information.

Policy/Standards:

Columbia County

Policy 2140 - Engagement Letters
AU-C 210 – Terms of Engagement

Record of Work Done:

We developed an engagement letter using our template and considering the scope and factors affecting the audit (Engagement Letter - Local Govt).

We also considered who at the government should sign the letter and the most appropriate time to obtain the signed letter, considering the circumstances of the audit and our understanding of entity operations and the control environment.

We obtained the signed engagement letter as shown at Signed Engagement Letter - ColCounty. No further work is considered necessary.

B.1.PRG - Accountability Planning - Local Govt

Procedure Step:	Review Annual Report
Prepared By:	MDR, 7/10/2018
Reviewed By:	GLW, 7/17/2018

Purpose/Conclusion:

Purpose:
To determine compliance with annual report filing requirements and identify items to consider in assessing audit risks.
Conclusion:
We determined that filing requirements were met.
Based on our review of the annual report, we noted the following potential accountability risks:

- The County self-insures for Unemployment Compensation. The County received and paid 1 claim in FY17, totaling $4,590. No specific risk identified, but we have not reviewed this in the last two years, so we will review this area during our FY17 audit. There is a risk the County does not have sufficient reserves for future claims.

Testing Strategy:

To review the annual report, auditors are **required** to perform the following procedures:

- Check the Data tab of EIS to determine whether the annual report was filed by the statutory deadline.

Contact Christy Raske with questions on reporting levels for annual report filing issues. When governments fail to file their annual report or are so late that it is not available at the beginning of the audit, this may also require an increase in audit budget and represent a difficulty that should be discussed at the exit conference.

- If the government has not yet filed, request they do so to meet requirements of RCW 43.09.230 and in order to ensure the most efficient, effective audit process.
- If the government has filed, auditors should review the following reports:
    - Attached schedules | Schedule 15 – State Grant Expenditures
    - Attached schedules | Schedule 17 – Public Works and Day Labor (cities and counties)
    - Attached schedules | Schedule 21 – Risk Management
    - Attached schedules | Schedule 22 – Annual Audit Assessment (if applicable)
- If the government reports on a cash basis, auditors should also review the Yellow Flag report to determine if reported financial information is reliable enough to use for analytical procedures.

If the cash basis government is only receiving an accountability audit, teams should consider following up on significant yellow flags or performing other procedures to verify data accuracy, such as tracing reported figures to the GL or County Treasurer reports. If significant misstatements are identified, teams should ask the government to review and resubmit corrected figures.

If governments have any questions or difficulty with online filing or updating their online filing, direct them to contact Duane Walz of Team LGS for assistance.

Policy/Standards:

BARS requires corrections to annual reports up to the audit completion
BARS manual 4.8.1.20 requires updates to annual reports for any subsequent adjustments up to the time of audit completion. After issuance of the audit report, if any errors are identified they should be recorded in the next period as a prior period adjustment.
RCW 43.09.230 requires annual reports to be submitted to SAO
"The state auditor shall require from every local government financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class. Such reports shall be prepared, certified, and filed with the state auditor within one hundred fifty days after the close of each fiscal year. ..."
Other Entity-Specific Reporting Requirements

- **Hospital Districts** - On December 6, 2005, our office issued a letter to all public hospital districts informing them that we would not consider hospitals reporting one month late (by June 30) to be a significant issue and, accordingly, would not report such late submissions as management letter or finding. This practice is due to our recognition of deadlines that Hospitals must meet to submit Medicare cost reports.

- **Housing Authorities (RCW 35.82.230)** – Authorities must file a report of its activities for the preceding year with the creating City or County.
- **Risk Pools (RCW 48.62.091(4))** – Annual report to State Risk Manager and auditor
- **Transportation Benefit Districts (RCW 36.73.160(2))** – Districts must issue an annual report to the public indicating the status of transportation improvement costs, transportation improvement expenditures, revenues, and construction schedules.

Record of Work Done:

To review the annual report, auditors are **required** to perform the following procedures:

- **Check the Data tab of EIS to determine whether the annual report was filed by the statutory deadline.**

We checked the Data tab of EIS and determined the annual report was filed by the statutory deadline. The report was due 5/30/2018 and was submitted on 5/30/2018.

- **If the government has <u>not yet filed</u>, request they do so to meet requirements of RCW 43.09.230 and in order to ensure the most efficient, effective audit process.**

Not applicable.

- **If the government has filed, auditors should review the following reports:**
    - *Attached schedules | Schedule 15 – State Grant Expenditures*

We noted the County received $2,321,583 in state grants. This represents 19% of total annual revenues for the County ($12,530,242) and is a significant revenue stream. State Grant revenues decreased by 1% from the prior year. State grants were reviewed during the FY16 audit with no issues noted. We noted grantes material to the financial statements here (<u>Material Compliance Requirements</u>) and will review these grants here (<u>State Grants</u>).

- *Attached schedules | Schedule 17 – Public Works and Day Labor (cities and counties)*

Not applicable.

- *Attached schedules | Schedule 21 – Risk Management*

The County self-insures for Unemployment Compensation. The County received and paid 1 claim in FY17, totaling $4,590. No specific risk identified, but we have not reviewed this in the last two years, so we will review this area during our FY17 audit. There is a risk the County does not have sufficient reserves for future claims.

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Attached schedules | Schedule 22 – Annual Audit Assessment (if applicable)
Not applicable.

- **If the government reports on a cash basis, auditors should also review the Yellow Flag report to determine if reported financial information is reliable enough to use for analytical procedures.**

We reviewed the Yellow Flag Report and noted the following errors:

- Schedule 1 - We noted 6 errors, all of which were due to BARS Accounts having multiple names, but only one name being allowed to be shown on the financial statements. Because of this, it is uncertain whether the BARS Account used was allowable. Potential risk of missclassified transactions. No specific accountability-related risks identified.
- Debt: Beginning Outstanding Check - We noted a variance of $3,366,285 due to FY16's ending Pension Liability balance not being included in FY17's beginning Pension Liability balance. Risk of the County not fully reporting Pension Liability. This balance will be reviewed during the financial statement ausit here: Presentation and Disclosure (<u>Review Presentation & Disclosure</u>).
- Fund Balance: Ending Check - We noted a net variance of $39. This amount is not material to the financial statements. No specific accountability-related risks identified.
- Interfund Activity Check - We noted a variance of $1,071 due to Transfers In being higher than Transfers Out. This amount is not material to the financial statements. No specific accountability-related risks identified.
- State Treasurer Distribution Check - We noted a variance of $11,466 due to the County reporting less for Leasehold Excise and Timber Excise Tax than the State reported. Potential risk of the County under-reporting taxes. This balance will be reviewed during Cash Reconciliation (<u>Baseline Testing</u>).

<u>B.1.PRG - Accountability Planning - Local Govt</u>

Procedure Step: Understanding Entity & Environment
Prepared By: MDR, 7/18/2018
Reviewed By: DHO, 7/26/2018

Purpose/Conclusion:

<u>Purpose:</u>

Columbia County

To gain an understanding of the government's operations, environment and entity-wide COSO elements and identify items to consider in assessing audit risks.

Conclusion:
We gained an understanding of the entity and its environment sufficient to plan and perform the audit. Based on our review of the planning guide and other procedures, we noted the following potential accountability risks:

Risks Noted from Planning Guides:
General Counties

- Restricted Funds consist of Overhead Costs, Internal Service Funds (Inequitable Billing and Unallowable Disbursements), County Road Fund, Building Permit Fees, and Interfund Loans and Transfers. The County had no reserved cash for ER&R, Planning Special Assessment, or County Road. The County had $14,457 in Reserved Current Expense and $23,161 in Reserved Hotel/Motel Tax. The County received an exit recommendation regarding ER&R rates in a previous audit. This item was included in the 2016 FAWF, and further, the County hired a Forensic Accountant in 2017 to perform an independent review of ER&R rates. We have not yet reviewed the results of that engagement. The risk is that these funds are being used inappropriately. The risk is that the ER&R funds result from inequitable billings.

Assessor

- Revaluation and Physical Inspection Cycles (Assessor). Counties are required to establish a revaluation schedule (revaluation plan) that results in all taxable real property within the county being revalued annually and physically inspected at least once every 6 years. The Assessor's office should have documentation of this schedule and records of actual revaluations and inspections available for audit. This area has not neen reviewed in at least 8 years. Potential risk that the County does not perform revaluations of real property within the required 6-year cycle.
- Timely Appraisal of New Construction (Assessor). The objective of testing this area is to determine whether appraisals of new construction occurred in a timely manner (by the statutory deadline). This area has not neen reviewed in at least 8 years. Potential risk that the County does not perform appraisals of new construction within the required 1-year of permit issuance.
- Uniform Personal Property Assessment (Assessor). Determine whether the county performed adequate discovery procedures to identify business personal property owners and all business personal property. This does not appear to have been reviewed in the last 8 years. Potential risk that the County does not perform adequate discovery procedures to identify business peronsonal property owners and all business personal property.
- Reporting Guidelines (Assessor). One of the biggest challenges facing most county assessors and treasurers is updating their procedures and systems to meet increasing workloads. As a result, county assessors continue to struggle to meet statutory deadlines. This does not appear to have been reviewed in the last 8 years. Potential risk that the County has not been meeting statuatory deadlines due to increasing workloads.

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Treasurer

- Reporting and Receipting (Treasurer). County treasurers have historically struggled to implement adequate controls over accounting entries, cash receipting, and key software functions. This area has not been reviewed for at least 8 years (beyond the Cash Reconciliation FS Audit Step). Potential risk that controls over accounting entries, cash receipting, and key software functions are inadequate.

Courts

- The most important accountability risk for courts is misappropriation – court operations include billing, adjustments, collections, receipting, disbursements and trust account management. Due to the nature of court transactions, the highest risk is for misappropriation of receipts via adjusting / deleting cases or substituting for another revenue stream. The following are common control weaknesses found in courts that greatly increase misappropriation risks: inadequate segregation of duties, lack of monitoring of transactions and/or audit reports, and lack of reconciliation between check register, bank statement, and JIS for trust accounts. This area was last reviewed in FY14, with the Monthly Audit Report Review section resulting in an exit item. Potential risk of lack of monitoring of audit reports.

Police/Sheriff

- Confidential Funds ("investigative" or "drug-buy"). Law enforcement agencies normally maintain "confidential funds" (also known as "investigative funds" or "drug-buy funds") for use in undercover operations. Purchases are often of a high risk nature and support is confidential, creating a challenge for effective oversight. This was an audit issue in FY14. Potential risk of unsupported purchases due to confidentiality factor.
- Seized Property Reporting. Law enforcement agencies have the statutory authority to seize property associated with illegal activities. Seized and forfeited property needs to be reported to the state along with a remittance of a portion of the proceeds. Poor controls or documentation increases the risk of inaccurate or incomplete reporting and remittance to the State. The County reported $0 in Confiscated and Forfeited Property (account 3693000) in FY2017. The last reported amount was $16 in 2013. Potential risk that the County is not reporting seized property associated with illegal activity.
- Citations. Citations are the source documents for court billing and receipting and are subject to specific statutory requirements related to recordkeeping, timeliness of filing, and monthly audits. When requirements are not followed, it can lead to lost revenue or create control problems for court billing and receipting. This was an audit issue in FY14. Potential risk that filing requirements are still not being met.
- Safeguarding of Property held in Custody. Law enforcement agencies have custody of valuable property held as either: evidence, found or seized/forfeited. Statewide experience has indicated that this property is high risk for misappropriation, especially when there are inadequate controls to record, track, assign accountability and verify the disposition of these items. When auditing evidence rooms, audit effort should be focused on items at risk of theft, such as money, jewelry, weapons, and drugs. This was an audit issue in FY16. The County switched to a new system (New World) resulting in lost property documentation. Potential risk that property is not adquately recorded, tracked, and disposed.

- Disposition Methods for Unclaimed or Forfeited Property: Forfeited or unclaimed property may be destroyed (if it has no value or is illegal to possess), returned to owner, traded-in, sold, donated, or retained for departmental use. Per T. Quigg from the Sheriff's Dept, the County has disposed of many items from the property room in 2017 Potential risk that proper disposition methods were not followed and/or approval for disposition was not acquired or retained.
- Seizure and Forfeiture Reporting. If items have been seized and subsequently forfeited, the law enforcement agency becomes the legal owner of the property. However, the department must report all forfeitures to the State Treasurer each calendar quarter and remit a portion of the value of forfeited property to the State Treasurer by January 31st of each year. The County reported $0 in Confiscated and Forfeited Property (account 3693000) in FY2017. The last reported amount was $16 in 2013. The County has also disposed of many bicycles and firearms recently. Potential risk that the County is not reporting forfeited property.

Conclusions based on our evaluation of entity operations and entity-wide COSO elements are documented in the corresponding permanent file steps.

Testing Strategy:

The following procedures are **required** to be done:

- **Review the applicable planning guide(s)**

Any required risks to assess that are listed in the planning guide must be identified as a red flag and evaluated at the planning conference brainstorm for applicability and significance.

- **Update the "Entity Operations" step in the permanent file**
- **Update the "Entity-Wide COSO Evaluation" step in the permanent file**
- **Maintain a current understanding of significant internal control systems by:**
  - Identifying significant internal control systems
  - Determining when systems were last reviewed
  - Noting a red flag for any significant systems that have not been recently addressed as a consideration for the audit plan.

Significant internal control systems include controls over the largest parts of the governments revenues, expenditures, assets or liabilities that are subject to substantial risks of fraud, loss, abuse or noncompliance. Typically, such systems would be addressed at least every 3-4 years. However, the need to update our understanding is a judgment dependent on the circumstances of each *entity and engagement and should therefore be considered along with all other red flags as part of the brainstorm and planning process.*

- Review and update government profile information in EIS

In addition to required risk assessment procedures performed in other planning steps and general inquiry, observation and inspection as part of on-site fieldwork, **consider** additional procedures, based on the government's size, complexity and anticipated risk and the auditor's experience. Additional procedures may include:

- Inquiry with management and other key employees. For example, auditors may ask about any significant events or changes occurring since the prior audit (ex: new debt, major construction, new software, etc).
- Scan the entity's budget and/or comprehensive plan.
- Review recent Client Helpdesk questions submitted by the government, which can be viewed in Helpdesk tab of EIS.
- Review list of resolutions passed during the period.
- Review the entity's website.
- Tour facilities.
- Identify significant sources of restricted funds.
- Review list of contracts awarded or contract activity reports.
- Identify significant revenue and expenditure streams.
- Identify cash receipting locations.
- Obtain a list of petty cash, change funds and imprest funds.
- Scan bank account and investment statements or financial statement notes to evaluate investment activity and the types of investments and accounts used.
- Review Public Disclosure Commission filings for elected officials or request information on personal or family businesses and land holdings from appointed officials and/or key employees.
- Scan Schedule 21 in the entity's annual report. Annual report information in LGCS can be accessed from the data tab of EIS.

Policy/Standards:

SAO Audit Policy 4210 - Planning Accountability Audits

Record of Work Done:

<u>Procedures Performed to Update Understanding</u>

To gain an understanding of the government's operations, environment and entity-wide COSO elements, we performed the following procedures:

- Reviewed applicable planning guides:

    - Counties_General
    - County_Assessor_and_Property_Tax
    - Courts
    - Jail
    - Police_Sheriff
- General inquiries and discussion with the audit liaison
- General observation and inspection while working on site
- Gained an understanding of the government's operations and environment, including identification of the reporting entity, key operational information and significant accounting practices. Our understanding is documented in the Permanent File section of the audit. (BARS Cash Basis)
- Gained an understanding of internal control components (based on the COSO framework) for the government as a whole. Our understanding is documented in the Permanent File section of the audit. (BARS Cash Basis)
- Identified and evaluated key software applications in the Permanent File section of the audit. (Key Software Applications - Local Govt)
- Gained an understanding of the significant internal control systems, including determination of when systems were last reviewed and identification of any red flags that have not been recently addressed. Our understanding is documented [AC History Matrix].
- Reviewed and updated government profile information in EIS.

Significant Events, Changes and Issues Noted:

No significant events or changes occurred during the audit period.

Risks Noted from Planning Guides:
General Counties

- Restricted Funds consist of Overhead Costs, Internal Service Funds (Inequitable Billing and Unallowable Disbursements), County Road Fund, Building Permit Fees, and Interfund Loans and Transfers. The County had no reserved cash for ER&R, Planning Special Assessment, or County Road. The County had $14,457 in Reserved Current Expense and $23,161 in Reserved Hotel/Motel Tax. The County received an exit recommendation regarding ER&R rates in a previous audit. This item was included in the 2016 FAWF, and further, the County hired a Forensic Accountant in 2017 to perform an independent review of ER&R rates. We have not yet reviewed the results of that engagement. The risk is that these funds are being used inappropriately. The risk is that the ER&R funds result from inequitable billings.
- County Fairgrounds. The risk is that interfund loan procedures are not followed (if fair fund borrows from general fund). We reviewed the notes to the Finanacial Statements and confirmed with Sharon Richter that the County does not have interfund loans with the County Fairgounds. Risk that funds receipted at fairgrounds are not adequately safeguarded and/or deposited with the County Treasurer timely. The County has received recommendations in prior audits regarding the cash receipting at the

Fairgrounds. During the 2016 audit, the County received an exit recommendation regarding the lack of written policies and procedures for cash receipting at the Fairgrounds. The County was unable to reconcile cash receipted to deposits. There is a further risk that the County has not developed policies or procedures and continues to be unable to reconcile the receipts and deposits at the Fairgrounds. We will issue a recommendation. E - County PoliciesLOR Summary

- County Road Levy Diversion and Allowable Uses. Not applicable (less than 8,000 citizens).
- County Administered External Investment Pools. The risk is that the County improperly classifies these Investment Pools as agency funds versus a separate fund. This appears to be a financial statement risk which we will document here (Understanding Entity & Environment).
- Awarding Bids through Purchase Cooperatives. Purchase requirements not being met due to piggybacking agreements where the original entity does not meet the piggybacking entity's purchase requirements. We found in our Minutes review that the County has interlocal agreements with Columbia County Public Health ($1,220), City of Dayton ($51,642), Columbia County Public Transportation ($150), Garfield County ($4,172), and King County ($2,897.52). We did not identify any interlocal agreements for purchases.

Assessor (We last reviewed Assessor Exemptions and Deferrals in FY14 with no issues noted. DOR last reveiwed Assessor Levy Limits in 2013, with a new audit due in 2018)

- Revaluation and Physical Inspection Cycles (Assessor). Counties are required to establish a revaluation schedule (revaluation plan) that results in all taxable real property within the county being revalued annually and physically inspected at least once every 6 years. The Assessor's office should have documentation of this schedule and records of actual revaluations and inspections available for audit. This area has not neen reviewed in at least 8 years. Potential risk that the County does not perform revaluations of real property within the required 6-year cycle.
- Timely Appraisal of New Construction (Assessor). The objective of testing this area is to determine whether appraisals of new construction occurred in a timely manner (by the statutory deadline). This area has not neen reviewed in at least 8 years. Potential risk that the County does not perform appraisals of new construction within the required 1-year of permit issuance.
- Uniform Personal Property Assessment (Assessor). Determine whether the county performed adequate discovery procedures to identify business personal property owners and all business personal property. This does not appear to have been reviewed in the last 8 years. Potential risk that the County does not perform adequate discovery procedures to identify business peronsonal property owners and all business personal property.
- Uniform Real Property Assessment (Assessor). Determine whether real property assessments were in compliance with RCW 84.40.030, which requires that properties be assessed at 100% of their true and fair value. This does not appear to have been reviewed in the last 8 years. Potential risk that real property assessments were not in compliance with RCW 84.40.030, which requires that properties be assessed at 100% of their true and fair value. This appears to be outside of our scope.
- Exemptions (Assessor). We would expect the assessor's office to perform periodic discovery procedures to identify properties that no longer qualify for an exemption (ex: review obituaries, property transactions, contacting property owners after a set number of

years, etc.). Our primary accountability concern in this area would be that the county has adequate internal controls in place to apply and monitor exemptions. We reviewed exemptions in FY14 with no issues noted.

- Reporting Guidelines (Assessor). One of the biggest challenges facing most county assessors and treasurers is updating their procedures and systems to meet increasing workloads. As a result, county assessors continue to struggle to meet statutory deadlines. This does not appear to have been reviewed in the last 8 years. Potential risk that the County has not been meeting statuatory deadlines due to increasing workloads.

Treasurer (we have not reviewed this area in at least the last 8 years)

- Reporting and Receipting (Treasurer). County treasurers have historically struggled to implement adequate controls over accounting entries, cash receipting, and key software functions. This area has not been reviewed for at least 8 years (beyond the Cash Reconciliation FS Audit Step). Potential risk that controls over accounting entries, cash receipting, and key software functions are inadequate.
- Tax Allocations and Distributions (Treasurer). Distributions are done automatically by the computer, so any testing of this area would entail testing of the automated controls over this process. Due to increasing workloads, counties are relying more on software for calculations apportioning the levy to individual properties based on assessed value, and the disbursement of receipts to the appropriate districts. This area has not been reviewed for at least 8 years. Potential risk that the County relies on key software to perform calculations without verifying that the calculations are correct and/or are based on correct data tables. As the County has switched to a new software system as of January 2018, we will consider this for review in future audits as any potential recommendations would no longer be applicable. FAWF

Courts (We last reviewed Court Bail Bonds in 2012, resulting in an exit item. We last reviewed Court District monthly audit report review in 2014 resulting in an exit item. We last reviewed Court - District non-cash adjustments, Court - District-Trust accounts, Court - Superior non-cash adjustments, and Court - Superior Trust Accounts in 2014 with no issues noted.)

- The most important accountability risk for courts is misappropriation – court operations include billing, adjustments, collections, receipting, disbursements and trust account management. Due to the nature of court transactions, the highest risk is for misappropriation of receipts via adjusting / deleting cases or substituting for another revenue stream. The following are common control weaknesses found in courts that greatly increase misappropriation risks: inadequate segregation of duties, lack of monitoring of transactions and/or audit reports, and lack of reconciliation between check register, bank statement, and JIS for trust accounts. This area was last reviewed in FY14, with the Monthly Audit Report Review section resulting in an exit item. Potential risk of lack of monitoring of audit reports.
- Jury Expenses. Stipends, mileage for jury members and witnesses are often paid through a separate system. The system often includes different controls and processes than the city's or county's normal accounts payable processes. This does not appear to have been reviewed in the last 8 years. Potential risk that Jury Expenses lacks adequate controls to safeguard public resources (County funds). As the County is so small, Jury Expenses would include minimal activity. We will pass on further review.

- Bail payments made by credit card - courts that allow bail payments by credit card and later refund the bail using a check are exposing public funds to the risk that the credit card activity was fraudulent (in which case, the court has reimbursed an expense that it was never paid in the first place). This does not appear to have been reviewed in the last 8 years. Potential risk that bail payments made by credit card are being refunded by check when the credit card activity was fraudulent. As the County is so small, there would be minimal activity in this area. We will pass on further review.

Jail (we have not reviewed these areas in at least the last 8 years)

- Billings to other Jurisdictions for jail services (RCW 70.48.090 and 70.48.440). We would expect at least some billing activity for all jails for inmates detained by the city or county police and later transported to other jurisdictions (federal, state or local). In addition, RCW 70.48.090 allows for cities and counties to contract with other counties and cities for jail services (sometimes referred to as "boarding contracts"). The calculation of such billings can be difficult. If the city or county does not have a good system in place to generate the billings, they may contain systematic or clerical calculation errors.
- Work Release Program Payments (RCW 70.48.210, 380). Essentially, inmates request to work outside of jail (returning to serve their sentence after work hours) or request to be transferred to a work release facility (like a farm or camp or other special facility). Such programs are established by policy, so details vary. Earnings from work release inmates may be collected by the jail where they may deduct certain fees first (e.g.: 10% of wages earned or a daily fee for room and board) and any court ordered restitution or victim compensation before remitting remaining funds to the recipient. The payment or daily fee will be based on a calculation determined by policy and is collected by the jail according to the inmate's pay schedule. The risk is that the funds are not properly collected/assessed or monitored. Not applicable. Columbia County does not operate a work release program. Will pass further review.
- Bail. Jails may receipt bail money after-hours when the court is closed. Bail must be receipted against court approved bail orders, so if the jail is allowed to receipt these funds, the Clerk's office will send bail orders to the jail so they always have a list of all bail orders. When bail money is receipted at the jail, it must be deposited and then reported to the court for entry into JIS.
- Commissary. Auditors should determine whether commissary services are provided by the government, through a contracted vendor or through a third-party receipting vendor. If provided by the government, auditors should evaluate sales volume and commissary inventory and consider testing inmate accounts and inventory based on the evaluation. If provided by a contracted vendor, auditors should evaluate the contract and consider testing for contract compliance. Regardless of who is providing commissary services, we would not expect inmates be able to purchase non-personal hygiene commissary items on credit.
- Inmate Telephone Fees. Jails typically provide a method for inmates to make either collect telephone calls or calls using authorized pre-paid accounts (similar to calling cards). We would expect jails to have agreements with the phone and pre-paid service providers which clearly establish the amount of proceeds due to the local government. Phone and pre-paid service providers typically remit these payments via check or they may use a third-party receipting vendor to accept credit cards or other electronic payments.
- Booking fees (RCW 70.48.390). Governing units may assess a booking fee which is based on the jail's actual booking costs or $100, whichever is less at the time of booking. Fee is payable immediately from the money's taken at time of booking; of if the person has no funds on possession, then jail can notify the court and assess the fee.

- Medical Reimbursements (RCW 70.48.130(4 & 5)). As part of the booking process, information concerning the inmate's ability to pay for medical care must be identified. If the inmate has insurance or has the ability to pay, the jail may obtain reimbursement. Consider reviewing the jail's policy on recovering medical costs and determine if the policy is being followed.
- Kitchen (Food) Inventory. Many jails contract with private vendors for the supervision of food preparation and/or purchasing of food for inmates and staff. Auditors should evaluate these contracts and consider testing invoices for both contract compliance *and* supporting documentation.
- Inmate Property in Custody. All personal property, whether confiscated, in the possession of the inmate or maintained by the institution should be inventoried, with a continuous log maintained that identifies the property as well as the custodial personnel who have access to the personal property area. At time of release, all personal property should be returned to the inmate.
- Pharmaceutical Inventories. Supplies of medications are kept on-site for the delivery and administration of medications for inmates. If managed by jail personnel, we would expect all medications – especially class II narcotics – be secured (user access, storage, etc) and subject to inventory controls (tracked using software/inventory logs, authorization, wasting/disposal, annual audits, etc). Risks include both theft and misuse of drug inventories by personnel as well as invalid purchases that are subsequently diverted. However some jail facilities have elected to contract with a third party vendor to receive, inventory, and distribute medications to inmates. Consider reviewing the contract/agreement to verify each parties rights and responsibilities regarding the safeguarding and security over these items.

Due to the County/County Jail being so small (only ~4,000 citizens / 11 cells respectively), and the revenue trend also being very low (under $20,000), the County Jail appears to be a low risk area. We will pass on further review.

Police/Sheriff (we last reviewed Sheriff Citations in 2014 resulting in an exit item. We last reviewed Sheriff Investigative Funds in 2014 resulting in an exit item. We last reviewed Sheriff Property Room in 2016 resulting in an exit item.)

- Confidential Funds ("investigative" or "drug-buy"). Law enforcement agencies normally maintain "confidential funds" (also known as "investigative funds" or "drug-buy funds") for use in undercover operations. Purchases are often of a high risk nature and support is confidential, creating a challenge for effective oversight. The Sheriff's department investigative fund is $1,904. This was an audit issue in FY14. Potential risk of unsupported purchases due to confidentiality factor.
- Seized Property Reporting. Law enforcement agencies have the statutory authority to seize property associated with illegal activities. Seized and forfeited property needs to be reported to the state along with a remittance of a portion of the proceeds. Poor controls or documentation increases the risk of inaccurate or incomplete reporting and remittance to the State. The County reported $0 in Confiscated and Forfeited Property (account 3693000) in FY2017. The last reported amount was $16 in 2013. Potential risk that the County is not reporting seized property associated with illegal activity.
- Citations. Citations are the source documents for court billing and receipting and are subject to specific statutory requirements related to recordkeeping, timeliness of filing, and monthly audits. When requirements are not followed, it can lead to lost revenue or create control problems for court billing and receipting. We reviewed amounts reported in accounts 352-356 (fines and penalties) and

noted a total of $30,778 in 2017 which is a 14% ($5,082) decrease from 2016. This was an audit issue in FY14. Potential risk that filing requirements are still not being met.

- Safeguarding of Property held in Custody. Law enforcement agencies have custody of valuable property held as either: evidence, found or seized/forfeited. Statewide experience has indicated that this property is high risk for misappropriation, especially when there are inadequate controls to record, track, assign accountability and verify the disposition of these items. When auditing evidence rooms, audit effort should be focused on items at risk of theft, such as money, jewelry, weapons, and drugs. This was an audit issue in FY16. The County switched to a new system (New World) resulting in lost property documentation. Potential risk that property is not adquately recorded, tracked, and disposed.
- Local Receipting. Inaccurate and/or unsupported billings and collection. Revenues may be collected in-house or through a third-party receipting vendor. Auditors should evaluate cash receipting performed by agencies and consider testing as appropriate. We reviewed the Court (JIS) Cash Receipt Summary Report available in FAP and noted $148,666 was receipted in 2017 to District Court. Amounts reported in 2016 were $450,320 and included both District and Superior Courts (70% decrease). We queried Courts in FAP and looked at all Revenue trends including "courts". All trends appeared reasonable. The sudden decrease in funds receipted appears to be due to a PY typo. This appears to be a low risk area.
- Misappropriation - this risk is much higher when there are not adequate cash receipting controls.
- Small and Attractive Assets. LEAs often maintain small and attractive assets, such as firearms, safety equipment, cameras, cell phones, GPS units, radios, and laptops. These items should be tracked and monitored to ensure resources are properly accounted for and used for valid public purposes. It does not appear that this area has been reveiwed in the last 8 years. Due to the size of the County, this is most likely a low risk area.
- Interlocal Agreements. While the cost or value of police services can be difficult to determine, SAO has noted issues in the past with counties trying to entice cities to contract with them by offering terms that clearly understate the cost to the county or overstate the value of assets transferred from the city to the county as part of the deal. During our review of the minutes (Columbia County Minutes Review), we identified one interlocal agreement between City of Dayton and Columbia County for Code Enforcement Services. However, the amount is not material to the FS ($9,555). We will pass on further review.
- Disposition Methods for Unclaimed or Forfeited Property: Forfeited or unclaimed property may be destroyed (if it has no value or is illegal to possess), returned to owner, traded-in, sold, donated, or retained for departmental use. Per T. Quigg from the Sheriff's Dept, the County has disposed of many items from the property room in 2017 Potential risk that proper disposition methods were not followed and/or approval for disposition was not acquired or retained.
- Seizure and Forfeiture Reporting. If items have been seized and subsequently forfeited, the law enforcement agency becomes the legal owner of the property. However, the department must report all forfeitures to the State Treasurer each calendar quarter and remit a portion of the value of forfeited property to the State Treasurer by January 31st of each year. The County reported $0 in Confiscated and Forfeited Property (account 3693000) in FY2017. The last reported amount was $16 in 2013. The County has also disposed of many bicycles and firearms recently. Potential risk that the County is not reporting forfeited property.
- Procurement for undercover vehicles. There is a risk that proper procurement processes were not followed.

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B.1.PRG - Accountability Planning - Local Govt

Procedure Step: FS & SA Audits Performed by Others

Prepared By: MDR, 6/28/2018

Reviewed By: DHO, 7/2/2018

Purpose/Conclusion:

Purpose:
To identify potential accountability risks to consider in the planning conference brainstorm from audits performed by other auditors.
Conclusion:
We identified no financial statement or single audit work performed by an external CPA.

Testing Strategy:

Auditors are **required** to review the following for information relevant to accountability audit objectives.

AUDITS PERFORMED BY OTHERS
STEP 1: Identify financial and/or single audits performed by external auditors.

Determine if an entire financial statement and/or single audit(s) of the entity was performed by other auditors. Ensure the following required steps have been completed in compliance with SAO Audit Policy 3510 for use of external auditor's work. Note: Review work may have been performed by another team, depending on the location of the CPA firm. Prior to performing the following steps, verify the status of the CPA review.

- Discuss with Audit Manager; has review been performed, if not who will be performing review.
- Team performing review will create a new audit number and set up a separate TeamMate file for the CPA Audit Report Review.
- In the separate TM file, the team performing review will use the CPA Audit Report Review steps in the Special Engagements folder in the Store.
- This TeamMate file must be completed prior to planning the accountability audit (code time to "CPAP").

- If unable to complete the review in time for planning the accountability audit, re-evaluate the timing of the accountability audit and/or discuss the timing with your Assistant Director.

If part of the financial statement audit is performed by other auditors review the SAO financial statement audit to identify the scope. SAO Audit Policy 3510 requires staff to review the CPA workpapers if the portion of the primary government audited is 1) significant to the primary government (such as a Utility fund to a City) **and** 2) in lieu of an SAO audit. For CPA audits that do not meet these criteria no workpaper review is required. However, we still need to consider the audit results and any potential impact.

STEP 2: Review identified audits for work and exceptions.

Auditors should perform the following steps as they relate to the accountability audit objectives.

When the external audit is of the entire financial and/or single audit or a significant portion of the primary government:

- Obtain the TM file for the CPA Audit Report Review.
- Review the Concluding Step in the TM file.
- Review the CPA Review Checklist. Questions on checklist to specifically review for accountability audit objectives:
    - questions 10 & 22 – list of material compliance requirements identified and testing performed
    - questions 12 & 21 – list of significant risks identified and testing performed
    - question 13 - material accounts selected for testing, assertions, significant systems
    - question 26 – any known or likely misstatements missed
    - question 34 – conclusion on entity's going concern
    - questions 35, 36, 37 – misstatements identified
    - question 43 – report modifications
    - questions 44 & 45 – evidence of fraud, noncompliance or abuse
    - questions 46, 47, 48 – audit results, significant deficiencies, material weaknesses, other recommendations
    - question 51 – any other areas tested that leverage potential risks in our audits
    - question 52 – any other issues or red flags that should be considered in our audits
- Review the Close Out Letter for any concerns with the audit documentation or report.

For audits of part of the primary government (not significant and not in lieu of an SAO audit):

- Obtain a copy of the audit report. If the SAO financial statement audit has been completed it should be in the related TM file.
- Review the Audits Performed by Others step (in f/s planning).

STEP 3: Document scope and results of identified audits, identifying areas of risk or areas that can be leveraged.

Auditors should document the following as they relate to the accountability audit objectives.

- Briefly document the scope and results of the other audit. (Such as fiscal year, opinion issued, findings, other recommendations, etc.)
- Document areas of risk to consider in the accountability audit based on review of the items in Step 2 (red flags).
- Document areas addressed by external auditors that potentially minimize risk for the accountability audit based on review of the items in Step 2.

Policy/Standards:

Review Work of Others planning guide

SAO Audit Policy 4210 - Planning Accountability Audits

SAO Audit Policy 3510 – Use of External Auditors' Work for Local Government Audits

Record of Work Done:

We noted the following information relevant to the accountability audit:

Financial Statement Audits:

We identified no financial statement audit work performed by an external auditor.

Single Audits:

We identified no single audit work performed by an external auditor.

B.1.PRG - Accountability Planning - Local Govt

Procedure Step: Other Engagements & FAWF

Prepared By: MDR, 7/19/2018

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Reviewed By: DHO, 7/26/2018

Purpose/Conclusion:

Purpose:
To identify potential accountability risks to consider in the planning conference brainstorm from other engagements and the FAWF.

Conclusion:
Based on our review of other engagements and the FAWF, we noted the following potential risks

- Property Room - e
  - The County switched to a property tracking system (Spillman) in 2016, and property records were lost between July 2016 and January 2017. Internal audits of the property room have not occurred since 2015. We spoke with T. Quigg from the Sheriff's Office, who explained that the property room has undergone multiple internal "mini" audits to determine whether the items can be disposed of, as well as ensuring that documentation is accurate. Per T. Quigg, the Sheriff's Dept is getting ready to do an internal audit in 2018 when the Sheriff retires and a new one comes on. Potential risk that records in the Property Room are not accurate and that proper documentation was not retained for disposals.
- ER&R - The County received an exit item during the prior audit for lack of review and adequate documentation regarding overhead rates for ER&R. Additionally, during inquiry a Commissioner voiced his concern over current ER&R charges. Further, the County approved new ER&R rates for 2016. During our analysis of vendor payments, we noted that total payments to ER&R increased 18% from 2015 to 2016. The risk exists that cost allocation rates may not be fair and equitable. Additionally, ER&R rental rates and processes may result in unallowable shifting of restricted resources (one fund benefiting another, as prohibited by RCW 42.09.210). Because we cannot review the vendor trend for FY17 due to lack of documentation, the ER&R payments are a high risk area. Potential risk that unallowable payments occurred for ER&R. Potential risk that ER&R rates are not fair or equitable.

- During the Entrance Conference held on 8/2/2017 we were informed that the County hired Forensic Accountant, Tom Sawatski in 2017 to perform an independent review and analysis of ER&R rates. As a result we will FAWF this item to avoid duplicating efforts/work performed by others. During our inquiry with Sharon Richter, Auditor, we were not informed of this independent review of ER&R rates. Potential risk that ER&R review resulted in unfair or inequitable rates.

We noted the following recurring issues from the Prior Audit Issue Review that have resulted in recommendations:

- Procurement - Professional Services - ML

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- The County has continually not followed procurement standards for a vendor offering professional mental health services. Recommendations were issued in prior years, so in FY16 the recommendation was raised to a Management Letter. We followed up with Merle Johnson, Commissioner on this issue, and he stated that per RCW 39.04.280 the County is within their right to not go out for competitive bids. He also stated that they would be creating a Resolution (with Port Townsend as an example) for the agreement with Blue Mountain Counseling. The risk is that the County still has not created a Resolution for Blue Mountain Counseling to be the provider for Mental Health Services without bid. Because the County still does not have a Resolution in place for their Sole Source Procurement Exception, we will issue a recommendation. Finding - Sole Source Procurement Resolution FinalLOR Summary

- Bonus Payments - e

  - The County decided to give a half day off on December 24, 2015 without proper resolutions or policies being in place. We spoke with Merle Johnson, Commissioner regarding this issue and he stated that the County Attorney advised them that their actions were allowable. The County has also changed their policy to support such payments. The BoCC has not been able to provide a copy of the new policy. We will issue a recommendation. E - County PoliciesLOR Summary

- Procurement - Written Policy - e

  - The County does not have a written policy on procurement procedures or conflicts of interest. We spoke with Lisa Ronnberg from Public Works, and she stated that they have since recommended a policy to the County Attorney regarding procurement, which is scheduled to be approved in 2018. We obtained the proposed policy (Procurement Policy Draft - 070318) and noted that it went over procurement procedures and also covered conflicts of interest. As this policy is not yet in effect, we will issue a recommendation. E - Federal Procurement PoliciesLOR Summary

  - Fair - Cash Receipting - e

  - Fair Workers were not properly tracking or reconciling amounts that were owed to the County for fair entrance. We spoke with Sharon Richter, Auditor who stated that their office has worked with the fairgrounds to ensure proper cash receipting practices, specifically with deposit slips. Potential risk that the fairgrounds have failed to maintain proper cash receipting practices. As the County's last issue with Fairgrounds Cash Receipting was an exit item due to minimal variances, and considering that prior issues identified were Findings, we will pass on further review. However, we will issue a recommendation regarding policies as a best practice. E - County PoliciesLOR Summary

- Gifting of Public Funds - e

  - The County waived fees for use of the youth building 3 times, though there is no policy describing situations in which it is reasonable/allowable to do so. We spoke with Merle Johnson, Commissioner regarding this issue and he stated that the County has updated their policy regarding the waiving of rental fees. The BoCC has not been able to provide a copy of the new policy. We will issue a recommendation. E - County PoliciesLOR Summary

Testing Strategy:

Review of the financial statement and/or single audit work performed by external auditors is done in the step Audits Performed by Others.

Auditors are **required** to review the following for information relevant to accountability audit objectives:

FAWF
Review Future Audit Work File (FAWF) items.

OTHER AUDITS, ENGAGEMENTS & STUDIES
STEP 1: Identify other engagements that may be relevant to accountability audit objectives by:

- Checking the Entity Information Suite (EIS) "Reports" tab to identify prior SAO audits and special investigations.
- Checking the Entity Information Suite (EIS) "Special Investigations" tab to identify prior and in-progress SAO audits and special investigations.
- If applicable, inquiry with internal auditors and reviewing results of internal audit work to identify any potential risks. However, reliance may not be placed on the work of internal auditors unless requirements of audit policy 3520 are followed.
- Inquiry with management to identify any non-SAO audits, engagements or studies related to accountability audit objectives.

STEP 2: Review identified engagements that relate to accountability audit objectives for relevant work and exceptions. Auditors should specifically consider:

- Exceptions from the prior accountability audit.
- Prior accountability audit scope (from plan, exit document or audit history matrix).
- Whistleblower or hotline investigations (note: open investigations should be coordinated with Jeana Gillis for Hotline and Jacque Hawkins-Jones for Whistleblower).
- Fraud investigations (note: open investigations should be coordinated with Sarah Walker)
- Scope and issues from the financial statement and single audit, if applicable. This analysis will be documented in the Audits Performed by Others step for any part of the financial or single audit done by a CPA firm.

Auditors should consider areas tested during the financial statement audit that also relate to accountability risks, such as revenue or expenditure testing that addresses accountability risks, testing for the rights & obligations assertion, testing related party transactions, cost allocation plans, self-insurance, extraordinary transactions, debt covenants, etc.

- Work of internal auditors, if applicable (see Audit Policy 3520 for requirements on use of work of internal auditors).

- Other non-SAO audits, attestation engagements or studies that directly relate to accountability audit objectives (see Audit Policy 3530 for requirements on use of grant or oversight agency work as audit evidence).

STEP 3: Follow up on any relevant recommendations or findings to determine whether corrective actions were implemented. Follow-up procedures may be performed at this point or incorporated into the audit plan and referenced in this step.

Policy/Standards:

SAO Audit Policy 3410 – Follow Up on Previous Audits

SAO Audit Policy 4210 - Planning Accountability Audits

Record of Work Done:

We noted the following information relevant to the accountability audit:

Future Audit Work File items:

Since the conclusion of the last audit, we monitored for any potentially relevant media reports, correspondence and observations from other audits and statewide activities. We reviewed the FAWF for items relevant to the accountability audit and noted the following accountability specific risks: (2016 FAWF)

- Sharon Richter, County Auditor and Audrey McLean, County Treasurer will be retiring at the end of 2018. As this is at the end of FY18, we will add this to the 2017 FAWF for review in the next audit. FAWF

- New Accounting System - The County is implementing a new accounting system in Jan 2017 by Tyler Technologies called InCode. All major accounting systems and processes will be effected including general disbursements, payroll, cash receipting, financial statement preparation etc. The County ended up switching accounting systems in 2018 rather than 2017. We will add this to the 2017 FAWF for review in the next audit. FAWF

- ER&R - The County received an exit item during the prior audit for lack of review and adequate documentation regarding overhead rates for ER&R. Additionally, during inquiry a Commissioner voiced his concern over current ER&R charges. Further, the County approved new ER&R rates for 2016. During our analysis of vendor payments, we noted that total payments to ER&R increased 18% from 2015 to 2016. The risk exists that cost allocation rates may not be fair and equitable. Additionally, ER&R rental rates and processes may result in unallowable shifting of restricted resources (one fund benefiting another, as prohibited by RCW 42.09.210). Because we cannot review the vendor trend for FY17 due to lack of documentation, the ER&R payments are a high risk area. Potential risk that unallowable payments occurred for ER&R. Potential risk that ER&R rates are not fair or equitable.

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- During the Entrance Conference held on 8/2/2017 we were informed that the County hired Forensic Accountant, Tom Sawatski in 2017 to perform an independent review and analysis of ER&R rates. As a result we will FAWF this item to avoid duplicating efforts/work performed by others. During our inquiry with Sharon Richter, Auditor, we were not informed of this independent review of ER&R rates. Potential risk that ER&R review resulted in unfair or inequitable rates. We obtained the draft report here (FW ERR Rate Assessment).
- Property Room - The Sheriff's Department converted evidence tracking software from Spillman to New World in 2016. Between July 2016 and Jan 2017, items tracked in Spillman were not updated as returned/destroyed due to the data migration. Additionally, regularly scheduled internal audits have not been conducted by the Department. The last audit was performed in 2015. When converting to new software, an entity should ensure the accuracy and completeness of data transferred to the new system, that the new software is working correctly and that user accounts and security settings in the new system are appropriate. The risk exists that Spillman data converted to New World may not be accurate and complete and/or a physical audit may not be performed timely to detect discrepancies between Spillman and New World data. (See prior audit issue below)

- Procurement – Professional Services – During our review of minutes on August 27, 2017 we noted that the BOCC approved by motion the Behavioral Services Agreement with Blue Mountain Counseling for the Columbia County Human Services delivery for 7/1/2017-6/30/2018. The County has received two management letters and an exit item related to the procurement of the BMC contract which the County claims is sole source but lacks documentation justifying the sole source determination. The risk exists the renewed contract was not procured in accordance with RCW 39.04.280(1)(a) for bidding exemptions and does not meet federal procurement requirements. (See prior audit issue below)

Prior Accountability Audit Exceptions:

We reviewed the last accountability audit evaluated prior audit issues as documented in Prior Audit Issue Review and noted the following:

- Procurement - Professional Services - ML
    - The County has continually not followed procurement standards for a vendor offering professional mental health services. Recommendations were issued in prior years, so in FY16 the recommendation was raised to a Management Letter. We followed up with Merle Johnson, Commissioner on this issue, and he stated that per RCW 39.04.280 the County is within their right to not go out for competitive bids. He also stated that they would be creating a Resolution (with Port Townsend as an example) for the agreement with Blue Mountain Counseling. The risk is that the County still has not created a Resolution for Blue Mountain Counseling to be the provider for Mental Health Services without bid. Because the County still does not have a Resolution in place for their Sole Source Procurement Exception, we will issue a recommendation. Finding - Sole Source Procurement Resolution FinalLOR Summary
- Property Room - e

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    - The County switched to a property tracking system (Spillman) in 2016, and property records were lost between July 2016 and January 2017. Internal audits of the property room have not occurred since 2015. We spoke with T. Quigg from the Sheriff's Office, who explained that the property room has undergone multiple internal "mini" audits to determine whether the items can be disposed of, as well as ensuring that documentation is accurate. Per T. Quigg, the Sheriff's Dept is getting ready to do an internal audit in 2018 when the Sheriff retires and a new one comes on. Potential risk that records in the Property Room are not accurate and that proper documentation was not retained for disposals.
    - Fair - Cash Receipting - e
    - Fair Workers were not properly tracking or reconciling amounts that were owed to the County for fair entrance. We spoke with Sharon Richter, Auditor who stated that their office has worked with the fairgrounds to ensure proper cash receipting practices, specifically with deposit slips. Potential risk that the fairgrounds have failed to maintain proper cash receipting practices. As the County's last issue with Fairgrounds Cash Receipting was an exit item due to minimal variances, and considering that prior issues identified were Findings, we will pass on further review. However, we will issue a recommendation regarding policies as a best practice. E - County PoliciesLOR Summary
- Bonus Payments - e
    - The County decided to give a half day off on December 24, 2015 without proper resolutions or policies being in place. We spoke with Merle Johnson, Commissioner regarding this issue and he stated that the County Attorney advised them that their actions were allowable. The County has also changed their policy to support such payments. The BoCC has not been able to provide a copy of the new policy. We will issue a recommendation. E - County Policies LOR Summary
- Procurement - Written Policy - e
    - The County does not have a written policy on procurement procedures or conflicts of interest. We spoke with Lisa Ronnberg from Public Works, and she stated that they have since recommended a policy to the County Attorney regarding procurement, which is scheduled to be approved in 2018. We obtained the proposed policy (Procurement Policy Draft - 070318) and noted that it went over procurement procedures and also covered conflicts of interest. As this policy is not yet in effect, we will issue a recommendation. E - Federal Procurement Policies LOR Summary
    - Citations - e
    - The County was not filing citations with the Court in a timely manner. We spoke with T. Quigg from the Sheriff's Department and he stated that the County has switched all but one deputy, who is in process of switching, to their new automated system (New World). This eliminates delays in citations. Potential risk that deputies have not successfully been switched over to Sector and that citations have continued to not be filed with the Court in a timely manner. We asked to see the monthly audit reports from New World, and were told that the reports could be generated for us. Audit Reports should be retained for review, not generated as needed. We will issues a recommendation. E - Citations - Document Retention

- Gifting of Public Funds - e
    - The County waived fees for use of the youth building 3 times, though there is no policy describing situations in which it is reasonable/allowable to do so. We spoke with Merle Johnson, Commissioner regarding this issue and he stated that the County has updated their policy regarding the waiving of rental fees. The BoCC has not been able to provide a copy of the new policy. We will issue a recommendation. E - County PoliciesLOR Summary

Citizen Hotline:
We checked EIS for any relevant citizen hotline referrals and noted no risk indicators.

Fraud / Loss Reports:
Governments are required by law to notify our office of any known or suspected fraud, losses or illegal acts. We checked EIS for any relevant loss reports or investigations and noted no risk indicators

Financial and Single Audit:

The government does receive a financial audit. We reviewed the most recent financial audit. No accountability specific risks identified, other than the risks noted above.

The government does receive a single audit. We reviewed the most recent fedderal audit. No accountability specific risks identified.

Internal Audits:
We identified no relevant internal audit function.

Other Engagements:
We inquired with Sharon Richter on July 3, 2018 regarding other audits or engagements that may be relevant to the accountability audit and noted that none were identified other than the ER&R Rate Review noted above.

B.1.PRG - Accountability Planning - Local Govt

Procedure Step: Minutes
Prepared By: MDR, 7/12/2018
Reviewed By: GLW, 7/17/2018

Columbia County

Purpose/Conclusion:

Purpose:
To identify potential accountability risks to consider in the planning conference brainstorm by reviewing minutes of the governing body.

Conclusion:
Based on our review of minutes, we noted **the following** potential risks:

- Pre-separation meeting held to discuss the Board's decision to separate employment with Brad Gallardo. Potential risk of employment separation due to incompetency/errors, misappropriation of assets, other HR issues, etc.
- Approval to allow Don Foley to be eligible for the Emergency Leave Bank (request by Sheriff Rocky Miller). Potential risk that Emergency Leave Bank eligibility was not allowable per County policy.
- Approval of request from the Blue Mountain Heritage Society to waive the fees for the Youth Building for a community event. Potential risk that waiving of rental fees was not allowable per County policy and a gifting of public resources.
- Bids received for the 2017 Emulsiphied Asphalt Contract: Idaho Asphalt Supply Inc from Hauser ID for $163,374 and Western States Asphalt from Spokane WA for $147,625. Referred bids to Engineer for analysis and recommendation. Authorization for Chair to sign. Potential risk that procurement/bidding requirements were not followed/met appropriately.
- Bids received for the 2017 Plant Mix Contract: Poe Asphalt from Clarkston WA for $150,000; Central WA Asphalt from MF OR for $147,375; Humbert Asphalt Inc from MF OR for $149,750. Referred bids to Engineer for analysis and recommendation. Authorization for Chair to sign. Potential risk that procurement/bidding requirements were not followed/met appropriately.
- Bid was missed when 2017 Emulsified Asphalt Contracts were presented and accepted previously. Lowest bidder was Albina Asphalt, to whom the bid was awarded. Potential risk that procurement/bidding requirements were not followed/met appropriately.
- Bids received for the 2017 Chemical Bid: Crop Production Services from Boise ID and Wilbur Ellis from WW WA. Referred to the Engineer for analysis and recommendation. Authorization of Chair to sign. Potential risk that procurement/bidding requirements were not followed/met appropriately.
- Bids received for the 2017 Pavement Markings Contract: Stripe Rite Inc from Kennewick WA for $53,807.82; Stripeco from Clarkston WA for $55,859.23; Apply-A-Line from Pacific WA for $64,422.60; Road Products Inc from Spokane WA for $65,485.14; Specialized Pavement Markings from Tualatin OR for $63,953.08; LJ Hilton Inc from Tumwater WA for $58,800.00; Hicks from Brooks OR for $73,688.48. Referred to the Engineer for analysis and recommendation. Authorization the Chair to sign. Potential risk that procurement/bidding requirements were not followed/met appropriately.
- Bids received for the 2017 Road Stabilization Contract: Roadwise Inc from Spokane WA $53,511.41 and Envirotech Services from Greeley CO for $43,189.20. Referred to the Engineer for analysis and recommendation. Auhtorization of Chair to sign. Potential risk that procurement/bidding requirements were not followed/met appropriately.

- Movement to offer a $50 wellness incentive to employees participate and complete the County Wellness Incentive Program. Potential risk that employees received the incentive without completing the County Wellness Program.
- Bids received for the newspaper of record contract: The Times from Waitsburg WA for $4.95 per single column inch and Dayton Chronicle from Dayton WA for $7.36 per single column inch. Deferred awarding the bid to May 1 to review the bids. Potential risk that procurement/bidding requirements were not followed/met appropriately.
- Waive of Youth Building Fees for the American Red Cross Blood Drive on April 27. Potential risk that waiving of rental fees was not allowable per County policy and a gifting of public resources.
- Bid awarded to The Times from Waitsburg WA for the Newspaper of Record for a period of 1 year beginning July 1, 2017 and ending June 30, 2018. Potential risk that procurement/bidding requirements were not followed/met appropriately.
- Lisa Caldwell addressed issues with payroll and timesheets in her department. Potential risk that timesheet policies/procedures were not being followed.
- Auhtorization of waiver of golf course fees for the Wellness Program Golf Fun Night on June 27. Potential risk that waiving of rental fees was not allowable per County policy and a gifting of public resources.
- Bid awarded to Barker Inc from Dayton WA for the Tucannon Road Project. Potential risk that procurement/bidding requirements were not followed/met appropriately.
- Adoption of Resolution 2017-09 for surplus property (traffic counters). Potential risk that property was not deemed as surplus per County policy.
- Adoption of Resolution 2017-10 for surplus property (brush mowers). Potential risk that property was not deemed as surplus per County policy.
- Meagan Bailey (Planning/Building Dept) applied for the Valerie Savinski Grant ($2,000) for improvements to the white barn at the fairgrounds. Potential risk that, if awarded, the use of restricted funds would be for unallowable purposes.
- Approval of the request from Friends of the Fairgrounds to waive the fees for the youth building and arena for fundraising events to be held. Potential risk that waiving of rental fees was not allowable per County policy and a gifting of public resources.
- Separation of employment with Greg Abramson effective immediately. Potential risk of employment separation due to incompetency/errors, misappropriation of assets, other HR issues, etc.
- Authorization of $10,000 of the affordable housing homelessness funds for Project Timothy. Potential risk that restricted funds are not being used for allowable purposes.

Testing Strategy:

Auditors are **required** to review minutes from the beginning of the period through the end of the audit.

Auditors should check with the AIC to determine if there are any known risks or items to look for. **Examples of risk indicators** and important information to note for an accountability audit are as follows:

- 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 awarded contracts or public works projects or risk indicators such as:
    - Governing body approval to waive bidding requirements for purchases or public works projects (ex: 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

Compliance with Open Public Meetings Laws:
During the review of minutes auditors should be alert for any apparent non-compliance with open public meetings requirements, such as:

- Absence of quorum
- Official actions of governing body do not appear to be documented in minutes
- Actions or decisions known to have occurred are absent from minutes
- Purpose of executive sessions not identified in minutes

- Executive sessions appear to be for unallowable purposes
- Minutes do not appear to have been taken for regular meetings, workshops or special meetings
- Business conducted at special meetings was not for the published reason meeting was scheduled

Policy/Standards:

SAO Audit Policy 4210 - Planning Accountability Audits
RCW 42.30 and 42.32 describe requirements related to Open Public Meetings

Record of Work Done:

We reviewed the minutes at Columbia County Minutes Review. We noted the following potential risks:

- Pre-separation meeting held to discuss the Board's decision to separate employment with Brad Gallardo. Potential risk of employment separation due to incompetency/errors, misappropriation of assets, other HR issues, etc.
- Approval to allow Don Foley to be eligible for the Emergency Leave Bank (request by Sheriff Rocky Miller). Potential risk that Emergency Leave Bank eligibility was not allowable per County policy.
- Approval of request from the Blue Mountain Heritage Society to waive the fees for the Youth Building for a community event. Potential risk that waiving of rental fees was not allowable per County policy and a gifting of public resources.
- Bids received for the 2017 Emulsiphied Asphalt Contract: Idaho Asphalt Supply Inc from Hauser ID for $163,374 and Western States Asphalt from Spokane WA for $147,625. Referred bids to Engineer for analysis and recommendation. Authorization for Chair to sign. Potential risk that procurement/bidding requirements were not followed/met appropriately.
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- Bid was missed when 2017 Emulsified Asphalt Contracts were presented and accepted previously. Lowest bidder was Albina Asphalt, to whom the bid was awarded. Potential risk that procurement/bidding requirements were not followed/met appropriately.
- Bids received for the 2017 Chemical Bid: Crop Production Services from Boise ID and Wilbur Ellis from WW WA. Referred to the Engineer for analysis and recommendation. Authorization of Chair to sign. Potential risk that procurement/bidding requirements were not followed/met appropriately.
- Bids received for the 2017 Pavement Markings Contract: Stripe Rite Inc from Kennewick WA for $53,807.82; Stripeco from Clarkston WA for $55,859.23; Apply-A-Line from Pacific WA for $64,422.60; Road Products Inc from Spokane WA for $65,485.14; Specialized Pavement Markings from Tualatin OR for $63,953.08; LJ Hilton Inc from Tumwater WA for $58,800.00; Hicks from Brooks OR for $73,688.48. Referred to the Engineer for analysis and recommendation. Authorization the Chair to sign. Potential risk that procurement/bidding requirements were not followed/met appropriately.

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- Bids received for the 2017 Road Stabilization Contract: Roadwise Inc from Spokane WA $53,511.41 and Envirotech Services from Greeley CO for $43,189.20. Referred to the Engineer for analysis and recommendation. Auhtorization of Chair to sign. Potential risk that procurement/bidding requirements were not followed/met appropriately.
- Movement to offer a $50 wellness incentive to employees participate and complete the County Wellness Incentive Program. Potential risk that employees received the incentive without completing the County Wellness Program.
- Bids received for the newspaper of record contract: The Times from Waitsburg WA for $4.95 per single column inch and Dayton Chronicle from Dayton WA for $7.36 per single column inch. Deferred awarding the bid to May 1 to review the bids. Potential risk that procurement/bidding requirements were not followed/met appropriately.
- Waive of Youth Building Fees for the American Red Cross Blood Drive on April 27. Potential risk that waiving of rental fees was not allowable per County policy and a gifting of public resources.
- Bid awarded to The Times from Waitsburg WA for the Newspaper of Record for a period of 1 year beginning July 1, 2017 and ending June 30, 2018. Potential risk that procurement/bidding requirements were not followed/met appropriately.
- Lisa Caldwell addressed issues with payroll and timesheets in her department. Potential risk that timesheet policies/procedures were not being followed.
- Auhtorization of waiver of golf course fees for the Wellness Program Golf Fun Night on June 27. Potential risk that waiving of rental fees was not allowable per County policy and a gifting of public resources.
- Bid awarded to Barker Inc from Dayton WA for the Tucannon Road Project. Potential risk that procurement/bidding requirements were not followed/met appropriately.
- Adoption of Resolution 2017-09 for surplus property (traffic counters). Potential risk that property was not deemed as surplus per County policy.
- Adoption of Resolution 2017-10 for surplus property (brush mowers). Potential risk that property was not deemed as surplus per County policy.
- Meagan Bailey (Planning/Building Dept) applied for the Valerie Savinski Grant ($2,000) for improvements to the white barn at the fairgrounds. Potential risk that, if awarded, the use of restricted funds would be for unallowable purposes.
- Approval of the request from Friends of the Fairgrounds to waive the fees for the youth building and arena for fundraising events to be held. Potential risk that waiving of rental fees was not allowable per County policy and a gifting of public resources.
- Separation of employment with Greg Abramson effective immediately. Potential risk of employment separation due to incompetency/errors, misappropriation of assets, other HR issues, etc. Planning Department, Building Inspector. Must speak to Prosecuter for rationale.
- Authorization of $10,000 of the affordable housing homelessness funds for Project Timothy. Potential risk that restricted funds are not being used for allowable purposes.

Columbia County

B.1.PRG - Accountability Planning - Local Govt

Procedure Step: Planning Analytical Procedures
Prepared By: MDR, 7/12/2018
Reviewed By: DHO, 7/13/2018

Purpose/Conclusion:

Purpose:
To identify potential accountability risks to consider in the planning conference brainstorm by performing planning analytical procedures.

Conclusion:
Based on our planning analytical procedures, we noted **the following** potential risks:

- The County is unable to provide us with a complete digital list of expenditures by vendor for 2017. They can only provide totals for vendors with names beginning with A-C. Sharon Richter, Auditor is able to provide a hard copy of all vendor expenditures that she says is the complete list. It is 12 pages long with approximately 37 vendors per page. We are concerned that Sharon is unable to run the report, and we have no way of knowing if the list she provided is complete (several vendors and amounts are crossed off in pencil). Potential risk that the County is paying invalid vendors or hiding invalid transactions.
- We confirmed with Sharon Richter that the County has credit cards (since approximately 2004, though in previous audits it was thought there were none). Around 20% of employees at the County have a credit card. Potential risk of inappropriate use of credit cards, inadequate credit card policy, or unallowable expenditures.
- We identified 21 new employees hired in 2017. There is a risk these employees are not valid.
- We noted that for one employee, our PY vendor trend was off for 2016 (was $27,215.91; should be $36,213.19) and 2015 (was $33,650.19; should be 31,901.25) because it only included pay for one department he worked in. Verified payroll amounts with W-2 for 2015, 2016, and 2017. The risk is there may be other employees whose payment information is not correct via the support provided to us.

Testing Strategy:

Auditors are **required** to perform planning analytical procedures to identify risk.

Columbia County

Auditors are encouraged to develop analytics to match the entity's circumstances, activities and risks. The following are **examples** of common planning analytical procedures:

- Trend analysis of revenues and expenditures

Auditors would generally start with high level analyticals (such as revenues by fund and 2-digit BARS or expenditures by fund and object) before considering more detailed trends (ie: to sub-account) for certain high risk funds or accounts.

- Total payments by vendor
- Total payroll by employee
- Trend payroll by department or type of pay (ie: overtime, recognition leave, time loss, exchange time, etc)
- Total amounts passing through petty cash funds, imprest accounts and/or credit cards
- Surprise cash counts

CAATS Considerations

When analytical procedures involve CAATS, the following documentation guidelines should be followed:

- Databases should not be included in TeamMate. Only relevant query results should be included in audit documentation. This can be done with imported report documents, copied query excerpts, narrative description of queries and results, or other means.
- When used as audit evidence, auditors should document where and how they obtained data and how they verified or were reasonably assured of the completeness and accuracy of the data.

FAP data is not validated in detail by Team Local ISA. Data validation testing strategy workpapers are available on Local ISA's data validation document page.

Policy/Standards:

Planning AP differs from AP used as a substantive test in that the purpose of the procedure is discovery rather than substantiation. Although expectations of some sort are necessary for effective AP, expectations used for planning AP are often very general and do not need to be documented. Expectations may be derived from events or changes in activity noted during other planning steps, budgets, prior year figures, figures for comparable entities, or general understanding of relationships between activities and financial figures.

SAO Audit Policy 4210 - Planning Accountability Audits

Record of Work Done:

We performed the following analytical procedures to identify risk:

Columbia County

- Trend analysis of revenues and expenditures [Rev-Exp Trend]
  - Both revenues and expenditures increased by approximately $29M, with expenditures increasing approximately $400K more than revenues. This increase was due to the County now being required to report resources collected and held for special purpose districts in a custodial capacity. We noted no accountability-specific concerns.

- Trend analysis of total payments by vendor [2017 Vendor Trend]
- The County is unable to provide us with a complete digital list of expenditures by vendor for 2017. They can only provide totals for vendors with names beginning with A-C. Sharon Richter, Auditor is able to provide a hard copy of all vendor expenditures that she says is the complete list. It is 12 pages long with approximately 37 vendors per page. We are concerned that Sharon is unable to run the report, and we have no way of knowing if the list she provided is complete (several vendors and amounts are crossed off in pencil). Potential risk that the County is paying invalid vendors or hiding invalid transactions.
- This area was last reviewed in FY16 with no issues noted.
- We confirmed with Sharon Richter that the County has credit cards (since approximately 2004, though in previous audits it was thought there were none). Around 20% of employees at the County have a credit card. Potential risk of inappropriate use of credit cards, inadequate credit card policy, or unallowable expenditures.

- Trend analysis of total payroll by employee [2017 Payroll Trend]
  - We noted that total payroll decreased 6% from 2016 to 2017. We highlighted employees with an annual increase greater than 30% and followed up with Cathy Abel to determine the reason for the significant increase. We noted that the majority of employees with the largest increases were due to being hired mid year in 2016, which would account for the significant increase in 2017, or employees who went from part time to full time. Additionally, Payroll was last reviewed in 2016 which resulted in an exit item for bonus payments with no policy. We identified 21 new employees hired in 2017. There is a risk these employees are not valid. No other issues were noted. Based on our analysis, we did not identify any red flags to address. We will pass on further review.
  - We noted that for one employee, our PY vendor trend was off for 2016 (was $27,215.91; should be $36,213.19) and 2015 (was $33,650.19; should be 31,901.25) because it only included pay for one department he worked in. Verified payroll amounts with W-2 for 2015, 2016, and 2017. The risk is there may be other employees whose payment information is not correct via the support provided to us.

Columbia County

Procedure Step: Risk Assessment Inquiry

Prepared By: MDR, 7/5/2018

Reviewed By: DHO, 7/9/2018

Purpose/Conclusion:

Purpose:

To identify potential accountability risks to consider in the planning conference brainstorm from inquiry with management.

Conclusion:

Based on our inquiry, we noted **no** potential risks.

Testing Strategy:

Auditors are **required** to use the attached workpaper to inquire with the following key personnel, at minimum:

- Appropriate members of management with overall responsibility for financial and operational matters.

Generally, this will be the chief executive officer (e.g.city manager, mayor, superintendent) and the chief financial officer (e.g. finance officer, business manager, clerk/treasurer). But it may be or include deputy officers or members of the governing body depending on the structure of responsibilities and oversight or due to potential conflicts of interest or lack of segregation of duties. Auditors need to use professional judgment to determine the appropriate persons to communicate with depending on the circumstances.

- A member of the governing body or audit committee, as applicable.
- Internal audit personnel, if applicable

Also **consider** inquiries of others.

For example, the human resource manager, key accounting staff, facility manager, prosecuting attorney or managers responsible for operation of significant components or functions of the government. Also, consider talking with employees who may be able to corroborate information from management or others.

Inquiry should be performed using the following **guidelines**:

- Inquiry should be done in person whenever possible, rather than by phone or email.
- Due to the potential sensitivity of certain questions, auditors should be careful to ask them in a professional manner.

- The inquiry should be a conversation - auditors should be prepared to explain terms, rephrase questions in their own words and ask follow-up questions.

Auditors should be prepared to prompt the auditee with follow-up questions regarding potential risks described in the planning guide, identified in prior audits or identified in other planning steps.

- The workpaper describes the minimum extent of the inquiry as a whole, although not every question will be applicable to every person interviewed. Also, auditors should consider additional questions about identified risks or controls as necessary.

Document response details in the attachment and a summary of significant items in the record of work done and/or conclusion.

Policy/Standards:

SAO Audit Policy 4110 - Objectives and Authority for Accountability Audits

SAO Audit Policy 4210 – Planning Accountability Audits

Record of Work Done:

We performed risk assessment inquiries with the following individuals at Risk Assessment Inquiry Questions:

Sharon Richter, Auditor
Merle Johnson, Comissioner

We noted no accountability-specific risks from this inquiry relating to the 2017 audit. During our risk assessment inquiry with the Commissioner, he indicated the Auditor and Treasurer converted to a new software system in 2018. This does not affect our 2017 audit, however we will place this in our FAWF (FAWF).

B.1.PRG - Accountability Planning - Local Govt

Procedure Step:	AC Brainstorm
Prepared By:	MDR, 7/18/2018
Reviewed By:	DHO, 7/26/2018

Columbia County

Purpose/Conclusion:

Purpose:
To discuss and evaluate accountability risks among key members of the audit team in order to develop the overall audit strategy.

Conclusion:
The audit team has evaluated the risks and developed the overall audit strategy. During the course of our brainstorm, we noted no new risks that were included in the plan.

Testing Strategy:

Auditors are **required** to perform all the following steps:

Brainstorming Discussion (Planning Conference)
Hold a planning conference brainstorm with key members of the audit team. To allow the brainstorming process to effectively evaluate and finalize scope decisions and design further audit procedures:

- All planning steps should be completed and reviewed prior to brainstorm.
- The AIC should be prepared with a proposed priority of risks to include in the audit.
- The planning conference brainstorm should take place in person or on the phone.
- Use professional judgment in determining which audit team members should be included in the discussion. The brainstorm should include, at minimum, the key members of the audit team. Normally, this would be the AIC, Supervisor and Audit Manager. This could also include other members of the current audit team, member of the team that performed the CPA Review, the prior AIC, specialists or program manager or others. Managers should consider the experience of the AIC and Supervisor and the size and risk of the audit in determining who should attend and the timing and extent of brainstorming discussion.

At a minimum, the discussion is **required** to include the following topics:

Understanding of Entity:
Consider how our understanding of the entity, its environment and its operations might affect and inform our accountability audit. What types of risks are most important to address? What areas are most susceptible to fraud, loss, abuse or noncompliance? Are there any significant systems that haven't been reviewed in the last 3-4 years or our understanding needs to be updated?

Audits Performed by Others:
Consider the scope and results of audits performed by external firms and/or by SAO and how these audits might affect and inform our accountability audit. Were there indications of risk that we should consider in our accountability audit? What is the best way to address these risks? Was there work performed that could be leveraged to minimize risks in the accountability audit?

Results of Planning Steps:
Review the results of planning procedures. Does planning indicate a low, moderate or high risk audit?

Red Flags:
Discuss each red flag identified by planning and consider the need for further audit procedures.

Results of Analytical Procedures:
Discuss risk indicators or unexpected relationships noted in planning analytical procedures. Do any unusual or unexpected relationships identified indicate risks of fraud, loss, abuse, noncompliance or financial distress?

Other Information and Experience:
Discuss any major changes occurred; any unusual events or transactions identified. Does any other information or experience with the entity indicate risks of fraud, loss, abuse or noncompliance?

Responses to Audit Risks:
Determine the best way to respond to identified risks. Consider the relevance and potential impact of the risks identified, as well as necessary resources.

Importance of maintaining professional skepticism:
Supervisors should emphasize the need to maintain professional skepticism throughout the audit and highlight any areas of potential concern or where special care or consideration may be needed.

Discussion among the engagement team about risks should continue throughout the audit. Auditors do not need to document every discussion, but should consider documenting any additional key brainstorming discussions, particularly if there were major re-evaluations or updates to the audit plan.

Follow up with other members of audit team
Information and decisions discussed may be relevant to work performed by other members of the engagement team not involved in the discussion, specialists or other auditors performing a portion of the audit. The AIC should communicate relevant matters as necessary with

auditors not involved in the brainstorming discussion.

Communicate risks or information relevant to other SAO audits
Appropriately communicate information or risks identified in the planning that may affect or be better addressed with a different type of engagement (for example, a financial statement audit), a future engagement, an engagement of another local government or state agency, or by other parties, such as regulatory bodies or law enforcement.

Policy/Standards:

SAO Audit Policy 4110 -Objectives and Authority for Accountability Audits

SAO Audit Policy 4210 - Planning Accountability Audits

Record of Work Done:

Brainstorm
Date: 7/1/18
How: discussion among key members of the engagement team via in-person meeting.
Attendees: Megan Rexin, Debbie O'Leary, Ginny Waltman

We discussed accountability risks identified in previous planning steps to determine priorities for areas to audit.

Subject Matter Discussed (as detailed in testing strategy):

- Our understanding of the entity
- Audits performed by others
- Results of planning steps, including:
    - All red flags identified in other planning steps
    - Results of analytical procedures
    - Other information and experience with the entity
- Audit responses to risks
- Importance of maintaining a questioning mind and exercising professional skepticism

Decisions Reached:
Overall risk and responses are documented in the AC Audit Plan Accountability Audit Plan.

Columbia County

B.1.PRG - Accountability Planning - Local Govt

Procedure Step:	AC Audit Plan
Prepared By:	MDR, 7/18/2018
Reviewed By:	DHO, 7/26/2018

Purpose/Conclusion:

Purpose:
To finalize our overall audit strategy and audit plan to address identified risks in the accountability audit.
Conclusion:
See documented plan in the *Record of Work Done* and attached Accountability Audit Plan.

Testing Strategy:

Overall Accountability Risk
Assess overall risk for safeguarding of public resources and compliance. Planning should reflect the overall risk assessment in staffing, supervision, audit budget and the overall level of testing.

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 accountability areas selected for testing. The plan should describe each risk selected for testing (what could go wrong) and our planned audit response (further audit procedures).

Changes to Audit Plan:
Document both the original plan and any changes made during the course of the audit. Document changes to the original plan in either the "Changes to Audit Plan" step or in the Record of Work Done (e.g.: using a different font color for changes or listing changes in a separate section at the end of the plan). For changes that result in a new engagement letter or addendum in accordance with policy 2140 and 1220, refer to the Engagement Letter step in Teammate.

Determine Staffing & Budget
Staffing
Identify the AIC and AAM of the audit in the Team tab of the Profile, considering the knowledge, skill, and ability of personnel assigned significant audit responsibilities and the appropriate level of supervision.

Determine whether assigned staff are independent with respect to the entity under audit (Policy 3110). Consider whether assigned staff collectively possesses adequate professional competence for the tasks required (Policy 3140). If the audit will require the use of a specialist with expertise in a field other than accounting or auditing (Policy 3230), describe the planned nature and extent of reliance.

Reliance on Work of Others or in Other Audits
If work of external auditors (Policy 3510), internal auditors (Policy 3520) or in other SAO audits is expected to be used as audit evidence, the plan should describe the anticipated nature of this reliance.

Budget
Develop a detailed audit budget, considering risks, staffing and other circumstances. Initial budget information is available in TABS. Inform your supervisor and audit manager if TABS is not correct so that changes can be requested.

Policy/Standards:

SAO Audit Policy 4110 -Objectives and Authority for Accountability Audits

SAO Audit Policy 4210 - Planning Accountability Audits

Record of Work Done:

Overall Accountability Risk and Planned Audit Areas
We assessed the overall risk and identified risks to be addressed in the accountability audit as documented in the attached Accountability Audit Plan spreadsheet Accountability Audit Plan.

Columbia County

Staffing & Budget
Staffing - The auditor in charge, supervisor and all assistants are listed in the Team tab of the Profile. We have planned the audit staffing to ensure that all staff are adequately supervised.

We considered whether specialized skills are needed in performing the audit and determined that assigned personnel are independent and collectively have the technical knowledge, skills and experience necessary to perform the audit.

Reliance on work of others - We considered the potential for reliance on other SAO audits or the work of external auditors or internal auditors. We **do not** plan to rely on other SAO audits or work of others.

Budget - We updated the budget for this audit number in TABS and developed a detailed audit budget as documented in Columbia County Audit Budget.

B.1.PRG - Accountability Planning - Local Govt

Procedure Step:	AC Entrance Conference
Prepared By:	MDR, 8/6/2018
Reviewed By:	DHO, 8/6/2018

Purpose/Conclusion:

Purpose / Conclusion:
To communicate our audit responsibilities and the planned scope and timing of the audit to management and the governing body.

Testing Strategy:

If no entrance conference was held, explain the situation in the record of work done (and the Entrance Conference Explanation Field in the custom tab in the profile). The record of work done must describe how the required information above was communicated to management and those charged with governance.
BEFORE the Entrance Conference:

- If not clearly evident from the governance structure, determine "those charged with governance" for purposes of audit communication and document our conclusion.

  Those charged with governance are those responsible for overseeing the strategic direction of the government and fulfillment of the government's objectives and obligations. In some governments, multiple parties may be charged with governance, including oversight bodies contracting for the audit, members or staff of legislative committees, boards or audit committees. The auditor's evaluation would consider how the government delegates authority and establishes accountability for management.

- Communicate with management who will conduct and attend the Entrance conference.
- Set up the Entrance conference at a time convenient for client and SAO staff.
- Invite elected officials to the Entrance conference (see template letter available in the SAOStore).
- Prepare the Entrance conference handout the using the required template available in the SAOStore. The template must be adjusted as necessary for each audit.

DURING the Entrance Conference:

Present and discuss information on the entrance conference handout to ensure there is a clear understanding of the following areas: Scope and timing of the audit, including the month we expect to issue our report; reporting levels for audit recommendations; audit costs; audit staffing; expected communications; and other information considered important to the audit.

AFTER the Entrance Conference:

- Attach the entrance conference handout and any other documents that were presented.
- Document the conference attendees (SAO and client) as well as the date of the conference.
- Document any significant conversations that might result in a change in our risk assessment or audit plan.
- Send copies of the entrance document to any elected officials who were not able to attend the conference, unless the governing body uses a finance/audit committee for contact with the auditor.

Policy/Standards:

SAO Audit Policy 2130 - Inviting Officials to Entrance and Exit Conferences

SAO Audit Policy 2210 - Conducting Entrance Conferences

Record of Work Done:

Invitations:

Columbia County

We invited officials to the Entrance Conference via email (see at Entrance Conference Confirmation).

Entrance Conference:
The entrance conference handout is documented at Entrance Conference. The following people attended the official entrance conference, held in accordance with Audit Policy 2210:

- Norm Passmore, Chairman of BoCC
- Michael Talbott, Commissioner
- Merle Jackson, Commissioner
- Sharon Richter, Auditor
- Anne Higgins, Accounting Staff
- Audrey McLean, Treasurer
- Megan Rexin, Audit Lead
- Debbie O'Leary, Asssistant Audit Manager

In addition to the topics shown on the entrance conference handout, the following items were also discussed:

- Investment Trust Funds: addressed during financial planning at BARS Cash Basis Planning.

B.2.PRG - BARS Cash Basis Planning

Procedure Step: Engagement Letter
Prepared By: MDR, 7/2/2018
Reviewed By: DHO, 7/2/2018

Purpose/Conclusion:

Purpose / Conclusion:

To confirm that a common understanding of the terms of the audit engagement exist with the government.

Testing Strategy:

To confirm our understanding with the government, auditors are **required** to perform the following procedures:

- Choose the appropriate engagement letter template from TeamMate and modify it for the scope of the audit and any special needs.

Auditors should consider the need to confirm any critical scheduling or deadline issues, access to information at key service providers or component units or other matters that may be necessary to avoid or address prior audit difficulties.

- Have the engagement letter signed by at least the audit contact and a key oversight official (e.g. the chief executive or a member of the governing body or its audit committee). Auditors should consider whether others within the entity should also sign the engagement letter.

The team should consider whether signatures by a representative of the governing body, the chief executive and/or a member of the audit committee would be most appropriate for the circumstances and whether others in the organization should also sign. In making this judgment, auditors should consider the risk of miscommunication or lack of communication about the audit within the government, whether deadlines may not be met, and the likelihood and nature of any audit difficulties.

- Determine most appropriate time to obtain a signed engagement letter, but not later than the entrance conference date. Auditors should print the engagement letter for signature to ensure it is not modified.

Normally the engagement letter would be signed on the first day of fieldwork. However, it may be more appropriate to sign later after preliminary meetings about scheduling or at the entrance conference to facilitate signing by the governing body.

*Note that delay or refusal to sign the engagement letter would **not** preclude us from continuing with the audit, since our audit authority is based on statute and our own policy. However, in such circumstances, auditors should proceed with caution and consult with their manager and deputy to determine the effect on the audit and the most appropriate response.*

Contact TAS with questions or for assistance with modifications to the engagement letter.

Initial Audits (SAO did not audit the prior year):

For initial audits, auditors are required to perform the following additional procedures:

- Request that management authorize the predecessor auditor to respond fully to inquiries related to their prior engagement. If management refuses to make the authorization, or authorizes only a limited response, auditors should inquire as to the reasons and consider the effect on the audit.
- Consider the effects of the predecessor auditor's response, or non-response, on the audit.

The auditor's conclusion and any red flags should be documented in this step.

Changes to the Engagement Letter:
Auditors should carefully review management requests for major changes to engagement terms. To consider and respond to any requested changes, auditors are required to perform the following additional procedures:

- Understand management's reasoning and objective for the change.
- Discuss the requested change with their manager and, as appropriate, their deputy and Team Audit Support.
- Auditors should not agree to changes that are not reasonably justified, including a request **during an audit** for a change in engagement type to one with a lower level of assurance.
- Changes to engagement terms **during an audit** should be documented in a new engagement letter or addendum (the addendum template is available in the Store) in accordance with Policy 2140 and 1220. Include the new engagement letter or addendum in the audit documentation and an explanation in the Record of Work Done.
- Update audit plan and related steps to reflect the changes as appropriate.

Auditors should also complete a BUCO for changes to the audit period, scope or budget to update Audit Number information.

Policy/Standards:

Policy 2140 - Engagement Letters
AU-C 210 – Terms of Engagement

Record of Work Done:

We developed an engagement letter using our template (Engagement Letter - Local Govt) and considering the scope and factors affecting the audit.

Please see Engagement Letter planning step at Engagement Letter for complete details.

B.2.PRG - BARS Cash Basis Planning

Columbia County

Procedure Step: Obtain Draft Statements from LGCS

Prepared By: MDR, 7/2/2018

Reviewed By: DHO, 7/3/2018

Purpose/Conclusion:

Purpose/Conclusion:
To obtain final draft financial statements for audit.

Testing Strategy:

To obtain final draft financial statements, auditors are **required** to perform the following procedures:

- Check the Data tab of EIS to determine whether the annual report was filed by the statutory deadline. If the government has not yet filed, request they do so to meet requirements of RCW 43.09.230 and in order to ensure the most efficient, effective audit process.

Contact Christy Raske with questions on reporting levels for annual report filing issues. When governments fail to file their annual report or are so late that it is not available at the beginning of the audit, this may also require an increase in audit budget and represent a difficulty that should be discussed at the exit conference.

- If the government has filed, confirm that statements, schedules and notes in the annual report are the final official versions for reporting purposes. If not, request that the government update the annual report so we can use the statements, schedules and notes from it for audit. **After confirming with the government, auditors should use the statements and schedules in LGCS.**

Filing the annual report generates a print-ready C4, C5, Schedule of Liabilities and Schedule of Expenditures of Federal Awards, as applicable. Governments can view, print and update the generated statements and schedules in the Client Portal.

Auditors can access these statements and schedules from LGCS. If governments did not file online, they may still log in to the Client Portal and view or update information after their manual filing has been processed. However, they may have red flags to clear before they are able to generate statements and schedules. In this case, we would expect such items to be resolved prior to the audit, since red flags imply misstatements.

Submissions may be unlocked and re-submitted by the government as many times as necessary until an audit report for that period is entered in ARTS. AICs are included on email notifications of all submissions, unlocks and re-submissions as soon as the audit starts and the TM file is sent to TeamCentral.

- If the government does not want to use the generated financial statements and schedules from the annual report for their audit, auditors should notify Bryndon Ecklund and Duane Walz of the situation for assistance in considering how to proceed

If governments have any questions or difficulty with online filing or updating their online filing, direct them to contact Duane Walz of Team LGS for assistance.

Policy/Standards:

Self-study"2016 BARS Cash Basis Update" online training class available in the SAO Training System

BARS requires corrections to annual reports up to the audit completion
BARS manual 4.8.1.20 requires updates to annual reports for any subsequent adjustments up to the time of audit completion. After issuance of the audit report, if any errors are identified they should be recorded in the next period as a prior period adjustment.

RCW 43.09.230 requires annual reports to be submitted to SAO
"The state auditor shall require from every local government financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class. Such reports shall be prepared, certified, and filed with the state auditor within one hundred fifty days after the close of each fiscal year. ..."

Other Entity-Specific Reporting Requirements

- **Hospital Districts** - On December 6, 2005, our office issued a letter to all public hospital districts informing them that we would not consider hospitals reporting one month late (by June 30) to be a significant issue and, accordingly, would not report such late submissions as management letter or finding. This practice is due to our recognition of deadlines that Hospitals must meet to submit Medicare cost reports.
- **Housing Authorities (RCW 35.82.230)** – Authorities must file a report of its activities for the preceding year with the creating City or County.
- **Risk Pools (RCW 48.62.091(4))** – Annual report to State Risk Manager and auditor
- **Transportation Benefit Districts (RCW 36.73.160(2))** – Districts must issue an annual report to the public indicating the status of transportation improvement costs, transportation improvement expenditures, revenues, and construction schedules.

Record of Work Done:

To obtain final draft financial statements, auditors are **required** to perform the following procedures:

- Check the Data tab of EIS to determine whether the annual report was filed by the statutory deadline. If the government has not yet filed, request they do so to meet requirements of RCW 43.09.230 and in order to ensure the most efficient, effective audit process.

We checked the Data tab of EIS and determined that the annual report was filed by the statutory deadline of 5/30/18. The report was submitted on 5/30/18.

- If the government has filed, confirm that statements, schedules and notes in the annual report are the final official versions for reporting purposes. If not, request that the government update the annual report so we can use the statements, schedules and notes from it for audit. **After confirming with the government, auditors should use the statements and schedules in LGCS.**

The County uses the online reporting method. We confirmed with Sharon Richter, Auditor, that statements, schedules and notes in the annual report are the final official versions for reporting purposes and will be used for our financial statement audit.

B.2.PRG - BARS Cash Basis Planning

Procedure Step: Understanding Entity & Environment

Prepared By: MDR, 7/18/2018

Reviewed By: DHO, 7/26/2018

Purpose/Conclusion:

Purpose:

To identify potential financial statement risks to consider in the planning conference brainstorm by gaining an understanding of the entity's operations, environment and entity-wide COSO elements.

Columbia County

Conclusion:

Based on our understanding of the entity, environment and entity-wide COSO elements, we noted **the following** potential risks:

- Restricted Funds consist of Overhead Costs, Internal Service Funds (Inequitable Billing and Unallowable Disbursements), County Road Fund, Building Permit Fees, and Interfund Loans and Transfers. The risk is that these funds are being used inappropriately. See specific risks below for Overhead Costs and Building Permit Fees.
  - **1. Overhead Costs;** process may not be guided by an overhead cost allocation plan that allocates costs reasonably and equitably across funds and departments or supported by adequate documentation. The County received an exit item during the FY14 audit for lack of review and adequate documentation regarding overhead rates for ER&R. Additionally, the County hired a Forensic Accountant in 2017 to perform an independent review of ER&R rates. The County approved new ER&R rates for 2016. We were not able to perform an analysis of vendor payments for ER&R due to lack of documentation, but we noted from the FY16 audit that total payments to ER&R increased 18% from 2015 to 2016. The risk exists that cost allocation rates may not be fair and equitable. Additionally, ER&R rental rates and processes may result in unallowable shifting of restricted resources (one fund benefiting another, as prohibited by RCW 42.09.210).
- County Administered External Investment Pools. We noted that the County had an investment pool with $32M in additions and $34M in deductions. Risk that the County may be improperly reporting an external investment pool on the fiduciary statements and not disclosing the appropriate required notes and disclosures of the pool. We reviewed this item at (as dictated by the planning guide) and found that the County mislabeled their "Fiduciary Fund Resources and Uses Arising from Cash Transactions" statement with "agency funds" instead of "investment trust funds". We will address this issue during Presentation and Disclosure. Further, it appears that the amounts were also recorded within Court Remittances and Agency Remittances within the accounting system, which is not allowable as these funds are not the County's funds. Risk of material misstatement on the FS.
- GL Reconciliation. The period-end financial reporting process (which includes all steps associated with converting the general ledger or other source accounting records into the financial statements) can be an area of risk at Counties due to the coordination needed between the County Auditor, County Treasurer and other departments, such as public works. If multiple general ledgers are used (for example, the auditor's GL and treasurer's GL), these ledgers should be reconciled. Potential risk that Auditor and Treasurer records were not reconciled.

Conclusions based on our evaluation of entity operations and entity-wide COSO elements are documented in the corresponding permanent file steps.

Columbia County

Testing Strategy:

The following procedures **are required** to be performed:

- **Review the applicable planning guide(s)**
- **Review and update the "Entity Operations" step in the permanent file**
- **Review and update the "Entity-Wide COSO Evaluation" step in the permanent file**
- Review and update government profile information in EIS

In addition to required risk assessment procedures performed in other planning steps and general inquiry, observation and inspection as part of on-site fieldwork, **consider** additional procedures based on the government's size, complexity and anticipated risk and the auditor's experience. Additional procedures may include:

- Review recent Client Helpdesk questions submitted by the government. Any accounting and auditing questions and answers can be viewed in Helpdesk tab of EIS.
- Inquire with management, key staff or other personnel. For example, inquiry as to any significant events and changes occurring since the prior audit.
- Tour facilities.
- Review the entity's website.
- Obtain a list of facilities, departments and/or programs to better understand the nature and scope of activities.
- Review organization chart.
- Review list of resolutions passed during the period.
- Review list of contracts awarded or contract activity reports.
- Scan the entity’s budget, annual report or comprehensive plan for discussion or indications of significant changes at the entity.
- Review applicable BARS manual or other documents referenced in the planning guide.

Policy/Standards:

SAO Audit Policy 6210 – Planning Financial Statement Audits

SAO Audit Policy 6230 – Understanding Internal Control and Assessing Control Risk

Record of Work Done:

Procedures Performed to Update Understanding

To gain an understanding of the government's operations, environment and entity-wide COSO elements, we performed the following procedures:

- Reviewed planning guide:
    - Counties_General
- General inquiries and discussion with the audit liaison
- General observation and inspection while working on site
- Gained an understanding of the government's operations and environment, including identification of the reporting entity, key operational information and significant accounting practices. Our understanding is documented in the Permanent File section of the audit.
    - BARS Cash Basis
- Gained an understanding of internal control components (based on the COSO framework) for the government as a whole. Our understanding is documented in the Permanent File section of the audit.
    - BARS Cash Basis
- Identified and evaluated key software applications in the Permanent File section of the audit.
    - Key Software Applications - Local Govt
- Reviewed and updated government profile information in EIS.

Significant Events, Changes and Issues Noted:
No significant events or changes noted for the year.

Risks Identified from Planning Guide:

- Restricted Funds consist of 1) Overhead Costs, 2) Internal Service Funds (Inequitable Billing and Unallowable Disbursements), 3) County Road Fund, 4) Building Permit Fees, and 5) Interfund Loans and Transfers. The risk is that these funds are being used inappropriately.
    - **1. Overhead Costs;** process may not be guided by an overhead cost allocation plan that allocates costs reasonably and equitably across funds and departments or supported by adequate documentation. The County received an exit item during the FY14 audit for lack of review and adequate documentation regarding overhead rates for ER&R. Additionally, the County hired a Forensic Accountant in 2017 to perform an independent review of ER&R rates. The County approved new ER&R rates for 2016. We noted from the FY16 audit that total payments to ER&R increased 18% from 2015 to 2016. The ER&R fund received $216,860 in charges for services and $1,011,196 in Miscellaneous Revenue in 2017. The risk exists that cost allocation rates may not be fair and equitable. Additionally, ER&R rental rates and processes may result in unallowable shifting of restricted resources (one fund benefiting another, as prohibited by RCW 42.09.210).
- **2. Internal service funds**; The County currently has four internal service funds: ER&R, Risk Pool Fund, IT/Server Maintenance Fund, and Unemployment Fund.

Inequitable billing: There is a risk that charges to participating funds are not equitable and fair. Costs should be charged in proportion to the level of benefit provided to each fund or department. Total Charges for Goods and Services for all internal service funds was $419,546 in 2016 and $414,426 in 2017, of which 52% was received by ER&R. Total internal service fund CGS represents 31% of CGS for all funds in 2016 and 28% of CGS for all funds in 2017. We have identified ER&R as a separate accountability risk which we will bring to the brainstorm.

Unallowable disbursements: There is also a risk that expenditures could be charged to these funds that do not relate to the program or services being provided. Total expenditures (operating & non operating) for all internal service funds totaled $2,047,494 or 13% in 2016 and $1,017,519 or 10% in 2017 respectivly. Based on our review, we do not consider this risk to be significant. Will pass further review.

- **3. County Road funds -** This fund can have significant reserves and there can be a risk of funds being diverted to other purposes either through accounts payable and payroll transactions, or transfers out. The County Road Fund (101) had no reserved beginning or ending cash and investments for both 2016 and 2017. Transfers out of this fund were $15,000 in 2016 and $20,000 in 2017. Based on our review, we do not consider this risk to be significant. Will pass further review.
  - **4. Building permit fees -** Fees collected to fund future costs may not be identified as restricted. Funds may not be spent for their intended purpose. The County collected $42,850 and $35,973 in revenue from buillding and land use permit fees in 2016 and 2017 respectively (account 322.10.00). Revenue is coded to Planners Special Assessment Fund (138), which is a Restricted Fund.
  - **5. Interfund loans and transfers -** These funds should be repaid within three years, otherwise they may be considered a permanent diversion of funds. We reviewed the notes to the financial statements (2016 and 2017) and noted Note 5 included interfund loan activity. We noted all previous balances as of 1/1/2016 were repayed during 2016. This included new loans made during 2015. As of 12/31/2016 the County had two interfund loan balances for which the loan was made in 2016. We noted that of the two 1/1/2017 interfund loan balances, only one was repaid during 2017 (Solid Waste borrowing from County Road). The other loan (Solid Waste borrowing from ER&R) was not repaid. There was also one new loan in 2017 (County Road borrowing from ER&R). There were two interfund loan balances as of 12/31/2017. Based on our review, we do not consider this risk to be significant. Will pass further review.
- County Fairgrounds. We reviewed the Notes to the FS and found that were no interfund loans to County Fairgrounds.
- County Road Levy Diversion and Allowable Uses. Not applicable (less than 8,000 citizens).
- County Administered External Investment Pools. We noted that the County had an investment pool with $32M in additions and $34M in deductions. Risk that the County may be improperly reporting an external investment pool on the fiduciary statements and not disclosing the appropriate required notes and disclosures of the pool. We reviewed this item at County Required Risk - Fiduciary Funds - External Investment Pool (as dictated by the planning guide) and found that the County mislabeled their "Fiduciary Fund Resources and Uses Arising from Cash Transactions" statement with "agency funds" instead of "investment trust funds". We will address this issue during Presentation and Disclosure. Further, it appears that the amounts were

also recorded within Court Remittances and Agency Remittances within the accounting system, which is not allowable as these funds are not the County's funds. Risk of material misstatement on the FS.

- Awarding Bids through Purchase Cooperatives. Purchase requirements not being met due to piggybacking/interlocal agreements where the original entity does not meet the piggybacking entity's purchase requirements. We found in our Minutes review that the County has interlocal agreements with Columbia County Public Health ($1,220), City of Dayton ($51,642), Columbia County Public Transportation ($150), Garfield County ($4,172), and King County ($2897.52). None of these amounts are material to the FS, so we will pass on further review.
- GL Reconciliation. The period-end financial reporting process (which includes all steps associated with converting the general ledger or other source accounting records into the financial statements) can be an area of risk at Counties due to the coordination needed between the County Auditor, County Treasurer and other departments, such as public works. If multiple general ledgers are used (for example, the auditor’s GL and treasurer’s GL), these ledgers should be reconciled. Potential risk that Auditor and Treasurer records were not reconciled.

B.2.PRG - BARS Cash Basis Planning

Procedure Step: FS Audits Performed by Others

Prepared By: MDR, 6/28/2018

Reviewed By: DHO, 7/2/2018

Purpose/Conclusion:

Purpose:

To identify potential financial statement risks to consider in the planning conference brainstorm from audits performed by other auditors.

Conclusion:

We identified no financial statement audit work performed by an external auditor.

Testing Strategy:

Auditors are **required** to review the following for information relevant to financial statement audit objectives:

AUDITS PERFORMED BY OTHERS

Columbia County

STEP 1: Identify financial statement audits performed by external auditors.

If **part** of the audit was performed by an external auditor, auditors are required to perform the following in compliance with SAO Audit Policy 6240 for group audits.

- Use the External Auditor Performs Part of the Audit step available in TeamStore under Financial Statements | Rely on Work of Others (code time to "CPAR").
- For instances where there are multiple component audits, determine the significance of each audit
- This work should be started as soon as possible during planning to document the materiality and scope of the work and how it will impact the audit as a whole.

If **part** of the audit was performed by an external auditor **in lieu of an SAO audit** and it is **significant** to the primary government, auditors are required to perform the above steps in compliance with SAO Audit Policy 6240 **and** the following steps in compliance with SAO Audit Policy 3510 for use of external auditor's work.

- Create a new audit number and set up a separate TeamMate file for the CPA Audit Report Review.
- In the separate TM file, use the step CPA Audit Report Review in the Special Engagements folder in the Store.
- Complete this TeamMate file as soon as possible during planning the audit (code time to "CPAP") to document the materiality and scope of the work and how it will impact the audit as a whole.

If the external audit report is not available during planning, once received auditors will need to consider whether any information in the report changes our planning decisions or would have an impact on our audit. Auditors should note this in the ROWD.

STEP 2: Review identified audits for work and exceptions.

Auditors should perform the following steps as they relate to the financial statement audit objectives.

Group audits (audit policy 6240)

- Complete steps 1 – 4 in the Rely on Work of Others folder.

Use of External Auditors Work (audit policy 3510)

- Complete steps 5-10 in the Rely on Work of Others folder for each significant component. *Note*: Follow the instructions in step 6 for the CPA Audit Report Review.
    - Obtain and review the TM file for the CPA Audit Report Review.
    - Review the CPA Review Checklist.
    - Review the Close-Out Letter for any concerns with the audit documentation or report.

STEP 3: Document scope and results of identified audits, identifying areas of risk or areas that can be leveraged.

Auditors should document the following as they relate to the financial statement audit objectives.

- Briefly document the scope and results of the other audit. (Such as fiscal year, opinion issued, findings, other recommendations, etc.)
- Document areas of risk to consider in the primary government financial statement audit based on review of the items in Step 2 (red flags).
- If applicable, document areas addressed by external auditors that potentially minimize risk for the financial statement audit based on review of the items in Step 2.

Policy/Standards:

Review Work of Others planning guide

SAO Audit Policy 6240 – Group Audits

SAO Audit Policy 3510 – Use of External Auditors' Work for Local Government Audits

Record of Work Done:

We noted the following information relevant to the financial statement audit:

Financial Statement Audits:

We identified no financial statement audit work performed by an external auditor.

B.2.PRG - BARS Cash Basis Planning

Procedure Step:	Other Engagements & FAWF
Prepared By:	MDR, 7/5/2018
Reviewed By:	DHO, 7/5/2018

Columbia County

Purpose/Conclusion:

Purpose:
To identify potential financial statement risks to consider in the planning conference brainstorm from other engagements and the FAWF.

Conclusion:
Based on our review of other audit work and the FAWF, we noted **no** potential risks from prior audit issue review:

Testing Strategy:

Auditors are **required** to perform the following procedures to identify information relevant to the financial statement audit:

FAWF
Review Future audit work file (FAWF) items.

OTHER AUDITS, ENGAGEMENTS & STUDIES
STEP 1: Identify other audits or engagements that may be relevant to financial audit objectives by:

- Checking the Entity Information Suite (EIS) "Reports" tab to identify prior SAO audits and investigations.
- Checking the Entity Information Suite (EIS) "Special Investigations" tab to identify prior and in-progress investigations.
- If applicable, inquiry with internal auditors or review results of internal audit work to identify any potential risks. However, reliance may not be placed on the work of internal auditors unless requirements of audit policy 3520 are followed
- Inquiry with management to identify any non-SAO audits, engagements or studies related to financial audit objectives

STEP 2: Review identified engagements that may relate to financial audit objectives. Auditors should specifically consider:

- Prior financial statement audit, including:
  - Reported issues.
  - Corrected and uncorrected misstatements - auditors should specifically evaluate whether any uncorrected misstatements will affect the current statements. If so, follow up with management to determine whether the misstatements have been corrected. Document this consideration and your conclusion in this step and document any uncorrected prior-year misstatement with a current effect in the Aggregation of Misstatements worksheet
  - Report modifications
  - Depending on experience with the entity, the auditor may consider reviewing the prior audit's material balance spreadsheet and/or other documentation to see the audit approach and key planning decisions from prior audits (ex: inherent and control risk assessments, etc.)

- If part of the audit is performed by other auditors refer to the Audits Performed by Others step in planning. This work should be started as soon as possible during planning in order to ensure sufficient coordination of work.
- If part of the audit is performed in another SAO audit, add the Rely on Other SAO Work step from the Rely on Work of Others folder in the Store in accordance with Audit Policy 6240. This work should be started as soon as possible during planning in order to ensure sufficient coordination of work.
- Scope and issues from our most recent accountability audits.

Auditors should consider areas tested during the accountability or single audit that also relate to financial statement risks, such as revenue or expenditure testing that addresses relevant assertions, analysis of financial health, confirmation of grant awards and expenditures, testing cost allocation plans, self-insurance, extraordinary transactions, debt covenants, etc. NOTE: if work from our Office's concurrent accountability or single audit is relied on as substantive testing for the financial statement audit (that is, more than just risk assessment information in planning), it must be (1) properly referenced in the financial audit documentation, (2) address the financial statement period and risks, and (3) be completed prior to the financial statement report date.

- Other non-SAO audits, attestation engagements or studies done that directly relate to financial statement audit objectives. See Audit Policy 3530 related to grant or oversight agency work and Audit Policy 3520 for additional requirements for use of the work of internal auditors as substantive audit evidence.

STEP 3: Follow up on any relevant recommendations or findings to determine whether corrective actions were implemented. Follow-up procedures may be performed at this point or incorporated into the audit plan and referenced in this step.

Policy/Standards:

SAO Audit Policy 3410 – Follow Up on Previous Audits

SAO Audit Policy 6210 – Planning Financial Statement Audits

Record of Work Done:

Future Audit Work File items:

Since the conclusion of the last audit, we monitored media reports, correspondence and observations from other audits and statewide activities for any potentially relevant information. We reviewed the FAWF for items relevant to the financial audit and noted the following:

- New note disclosure required regarding Alignment of Fidcuciary Funds with GAAP. We reviewed the C-5 and found that it included the required note disclosure. We will pass on further review.

Prior Financial Audit Exceptions and Uncorrected Misstatements:

We reviewed the last financial statement audit and prior audit issues (Prior Audit Issue Review), and noted the following:

Columbia County

Cash Reconcilliation - exit

- Variances in revenues ($-1,698,147), expenditures ($-917,249, and cash & investments ($-90,439). We will follow up on this during our cash reconciliation (Baseline Testing)

No uncorrected misstatements noted.

Group Audits:
We identified no component auditors.

Accountability and Single Audits:
Our office performs regular accountability audits for compliance with state law and local policies, safeguarding of resources and controls over these matters. This work provides risk assessment information about the likelihood and magnitude of such risks as they may affect financial reporting. We reviewed the last accountability audit and noted no risk indicators.

The government receives a single audit. No indicators from our prior year (FY15) single audit that might affect the financial audit were identified.

Citizen Hotline:
We checked EIS for any relevant citizen hotline referrals and noted no risk indicators

Fraud / Loss Reports:
Governments are required by law to notify our office of any known or suspected fraud, losses or illegal acts. We checked EIS for any relevant loss reports or investigations and noted no risk indicators.

Internal Audits:
We identified no relevant internal audit function.

Other Engagements:
We inquired with Sharon Richter, Auditor on July 3, 2018 regarding other audits or engagements that may be relevant to the financial audit and noted there were none.

B.2.PRG - BARS Cash Basis Planning

Procedure Step: Minutes

Columbia County

Prepared By: MDR, 7/18/2018
Reviewed By: DHO, 7/26/2018

Purpose/Conclusion:

Purpose:
To identify potential financial statement risks to consider in the planning conference brainstorm by reviewing the minutes.

Conclusion:
Based on our review of minutes, we noted the following potential risks:

- Adoption of Resolution 2017-24 in the matter of an interfund loan between ER&R and County Road. Potential risk that the interfund loan is not accounted for correctly on FS.
- Emergency Mgmt Budget for 2017 is currently short by $10,000. Potential risk of unallowable/misclassified expenditures.

Testing Strategy:

Auditors are **required** to review minutes from the beginning of the period through the end of the audit.
Auditors should check with the AIC to determine if there are any known risks or items to look for. **Examples of risk indicators** and important information to note for a financial audit are as follows:

- Debt issuances, retirements, refundings, etc.
- Changes in revenue streams (ex: major new grant awards, etc.)
- Construction projects or other large contracts or commitments
- Changes to rates charged for services
- Changes to terms on major intergovernmental contracts
- Changes affecting payroll expectations (ex: COLAs, other pay raises, FTE levels, etc.)
- Creation of new entities or joint ventures
- Significant changes in operations
- Implementation of new accounting software or major upgrades

- Major litigation or concerns about compliance with laws, regulations, contracts, grants or bond covenants
- Quorums are present for budget and budget amendments approval, if necessary

Note: if minutes were reviewed in planning the Accountability Audit, make sure to either link to that review or copy and paste the relevant financial information to this step.

Policy/Standards:

SAO Audit Policy 6210 – Planning Financial Statement Audits

Record of Work Done:

We reviewed the minutes at Columbia County Minutes Review. We noted the following potential risks:

- Movement to offer a $50 wellness incentive to employees participate and complete the County Wellness Incentive Program. Potential risk that wellness incentives were not properly calculated/applied to payroll, and thus, payroll was overstated. Due to the number of employees at the County, the result of any overstatement would not be material to the FS. We will pass on further review.
- Adoption of Resolution 2017-09 for surplus property (traffic counters). Potential risk that revenues from sale of surplus property are not classified correctly. We reviewed reported revenue from surplus property and found that it was not material to the FS. We will pass on further review.
- Adoption of Resolution 2017-10 for surplus property (brush mowers). Potential risk that revenues from sale of surplus property are not classified correctly. We reviewed reported revenue from surplus property and found that it was not material to the FS. We will pass on further review.
- Adoption of Resolution 2017-24 in the matter of an interfund loan between ER&R and County Road for $50,000. Potential risk that the interfund loan is not accounted for correctly on FS. We found that this loan was identified in the Notes to the FS. We will pass on further review.
- Approval of memo from Meagan Bailey as interim Planning Director with compensation provided in the amount of a $500 per month management stipend and paid overtime, not to exceed 10 hours per pay period. Potential risk that interim payroll changes were not calculated/applied accurately, and thus, may be overstated. We will be reviewing this area in our Accountability Audit.
- Emergency Mgmt Budget for 2017 is currently short by $10,000. Potential risk of unallowable/misclassified expenditures.

B.2.PRG - BARS Cash Basis Planning

Procedure Step: Material Compliance Requirements

Prepared By: MDR, 7/18/2018

Columbia County

Reviewed By: DHO, 7/26/2018

Purpose/Conclusion:

Purpose:
To identify compliance requirements or violations that may have a direct and material effect on financial statements.

Conclusion:
Based on our understanding of the entity's legal framework and planning procedures, we noted no compliance requirements or potential violations that may have a direct and material financial statement effect.

Testing Strategy:

BACKGROUND:
Auditors are responsible to obtain sufficient appropriate evidence regarding material amounts and disclosures in the financial statements that are directly affected by the requirements of laws, regulations, contracts or grant agreements. Auditors are also required to perform certain general procedures to review for compliance violations.

Identified compliance requirements and violations will be assessed at the planning conference brainstorm to make a final determination of whether it is direct and material to the financial statements and whether any further audit procedures are necessary.

REQUIRED PROCEDURES:
To identify compliance requirements that may have a direct and material effect on financial statement, auditors are **required** to perform the following procedures:

Step 1: Obtain a general understanding of legal and regulatory framework and identify requirements of laws, regulations, contracts or grant agreements that have a significant and direct effect on determining financial statement amounts. **At minimum**, auditors should perform the following procedures:

- Consider information from the review of the planning guide
- Update the Entity Operations with any special compliance requirements

See Policy/Standards tab for examples of laws, regulations, contracts or grants that may have a significant and direct effect on financial statements. For this step, auditors should identify all potential requirements; at the brainstorm, a final decision will be made on compliance requirements that are material and require further audit procedures to verify compliance.

Step 2: Identify any licensing, regulatory, contracting or granting oversight agencies with the ability to impose material penalties or otherwise play a fundamental role in the entity's operations or ability to continue.

The planning guide will identify any licensing or regulatory agencies for the government type and give procedures for contacting the agency (normally via the specialist or program manager). Auditors should also consider whether any contracts or grants are so significant to the entity that the contracting or granting agency plays a fundamental role in the entity's operations or ability to continue – for example, if entity operations are entirely or almost entirely dependent on a single grant or contract.

Step 3: Review for indications of potential compliance violations and evaluate the financial statement effect of any potential violations. **At minimum**, auditors should perform the following procedures:

- For each oversight agency identified, inquire with management and either review relevant correspondence from these agencies or else contact these agencies directly to determine whether the oversight agency has any significant concerns about compliance or is planning any significant remedial actions against the entity.
- Consider results of inquiry about compliance violations and risks as documented in the Risk Assessment Inquiry step.
- Consider results of the most recent accountability, single audit or other engagements as documented in the Other Engagements & FAWF step
- Start the legal matters inquiry as documented in the Litigation, Claims & Assessments step.

Policy/Standards:

Examples of violations of laws, contracts or grants that may have a direct and material effect on financial statements include:

- *Debt covenants for revenue bonds* – violations are required to be disclosed.
- *Unallowable use of bond or special levy proceeds* – actual use of bond or special levy proceeds that is not in accordance with bond issuance documents or voter-approved levy purpose may require disclosure and/or reclassification of expenditures.
- *Unallowable investments* – illegal investments are required to be disclosed.
- *Unallowable use of restricted funds* – unallowable uses of restricted funds or questioned costs may require disclosure or may affect classification of transactions and balances.
- *Unallowable shifting of restricted funds* – unallowable cost allocations, transfers, interfund loans and/or other interfund transactions may affect classification of transactions and balances.
- *Exceeding statutory authority* – if a project or program is outside an entity's statutory authority to perform or if an otherwise allowable activity was done outside the entity's boundaries or jurisdiction, disclosure may be required.
- *Requirements on reports used to determine entitlement or grant revenues* – violations may require disclosure or affect classification of the revenues received.

- *Contracts or grant agreements with significant financial penalties or cost recoveries for non-compliance* – violations may require disclosure.

SAO Audit Policy 6320 - Consideration of Fraud, Noncompliance and Abuse

Record of Work Done:

Compliance Requirements:

We gained a general understanding of the government's legal and regulatory framework and considered whether any significant requirements had a direct effect on financial statement amounts or disclosures through:

- Review of the planning guide
- Updating our understanding of special compliance requirements in the permanent file at [Entity Operations - BARS Cash Basis]
- During our review of the finanical statements, we noted no new significant GO bonds. We did note an increase in Pension Liabilities (non-GO liability) in the amount of $2,147,076 (material to FS).
- The County has one Federal grant that exceeds 10% of total federal expenditures, which is the Highway Planning and Construction Grant (specifically LA - 9043). We are reviewing this grant in our Single Audit (see at Highway Planning and Construction Grant).
- The County has one State grant that exceed 10% of total expenditures, which was the Rural Arterial Program (RAP) ($1,160,711 total). State grants were reviewed in FY16 with no issues noted. We will review State Grants at State Grants.

Oversight Agencies:

We identified the following licensing, regulatory, contracting or granting agencies with the ability to impose potentially material penalties or otherwise play a fundamental role in the entity's operations or ability to continue

- Department of Revenue- No Department of Revenue audits or reviews were conducted during our audit period.
- Department of Licensing- No Department of Licensing audits or reviews were conducted during our audit period.

Compliance Violations:

We reviewed for potential violations by performing the following procedures:

- We contacted the oversight agencies (Christine Marchesano from DOR DOR - Marchesano, Christine;at DOL) listed above to confirm that they have no compliance concerns with Columbia County. No issues noted.
- We inquired about potential noncompliance and risks of noncompliance as documented in the Risk Assessment Inquiry step.
- We considered results of the most recent audits in the Other Engagements & FAWF step.
- We inquired about any applicable litigation as documented at Litigation, Claims & Assessments.

We will remain alert throughout the audit for compliance violations that may have a financial statement effect. In the FS Summary & Report step at the conclusion of the audit, we will re-consider any work done on other SAO engagements for any compliance violations with a financial statement effect.

B.2.PRG - BARS Cash Basis Planning

Procedure Step:	Planning Analytical Procedures
Prepared By:	MDR, 8/6/2018
Reviewed By:	DHO, 8/6/2018

Purpose/Conclusion:

Purpose:
To identify potential financial statement risks to consider in the planning conference brainstorm by performing planning analytical procedures.

Conclusion:
Based on our planning analytical procedures, we noted **the following** potential risks:

Both revenues and expenditures increased by approximately $29M, with expenditures increasing approximately $400K more than revenues. We noted that the increases were specifically in "Fund 06 account 38 Other Increases in Fund Resources" and in "Fund 06 Account 58 Other Decreases in Fund Resources". We spoke with Sharon Richter, Auditor, who stated that she does not know why the amounts are what they are, and that it must be a typo.We will review this area during our Cash Reconciliation. Further, we found that the amounts were recorded in the Court Remittances and Agency Remittances accounts in the County's accounting system, which is unallowable as the funds do not actually belong to the County. Risk of material misstatement to the FS.

Upon further discussion and research of the above issue with Sharon, we discovered that the revenues were coded incorrectly to 386 rather than 389, leaving County revenues misstated by approximately $30M. The expenditure side appears to be coded correctly via the BARS Manual. We will issue a recommendation. Aggregation of Misstatements (BARS Cash)LOR SummaryFS Reporting Misstatement

We received a warning indicator for enterprise fund self- sufficiency during our review of financial condition. We found that the Enterprise Fund was at risk for self-sufficiency, however, the fund has improved by 138% from FY16 to FY17 (151% to 13%). There is a potential risk the enterprise fund can not meet obligations with fund resources.

Testing Strategy:

The following procedures are **required**:

- Trend financial information and read note disclosures to identify unusual or unexpected line items, balances or relationships.

For example, for cities and counties, start with the LGCS Revenue and Expenditure report by fund type and 2 digit (top level) BARS code and the LGCS Expenditure Object Trend report by fund type. For special purpose districts, start with the LGCS Revenue and Expenditure report by fund and 3 digit BARS code and LGCS Expenditure Object Trend report by fund.

Auditors should consider general expectations of types and level of activity and relationships between line items. Auditors should follow-up if the nature or content of a fund or line item is unknown and on unexpected balances, trends or relationships or obvious errors.

- Start or complete the Cash Flow Reconciliation.

Note: the Cash Flow Reconciliation is a substantive step and must be documented in the Cash Flow Reconciliation folder in the substantive testing section. However, by starting the reconciliation at this point, auditors will have more precise risk assessment information about reconciling items and bank accounts.
Auditors should consider general expectations regarding the types and amount of reconciling items and different bank accounts. Risk indicators may lead to the auditor identifying Misstated Reconciling Items, Unreported Accounts or Ownership of Accounts as additional risks.

Auditors should also **consider** additional procedures based on risk, such as:

- Reviewing the LGCS financial condition report
- Reviewing detailed trends in LGCS for specific funds, accounts or objects to determine primary causes of variances
- Comparing budget-to-actual for the current period
- Performing CAATS tests

<u>CAATS Considerations</u>
When analytical procedures involve CAATS, the following documentation guidelines should be followed:

- Databases should not be included in TeamMate. Only relevant query results should be included in audit documentation. This can be done with imported report documents, copied query excerpts, narrative description of queries and results, or other means.

- When used as audit evidence, auditors should document where and how they obtained data and how they verified or were reasonably assured of the completeness and accuracy of the data.

FAP data is not validated in detail by Team Local ISA. Data validation testing strategy workpapers are available on Local ISA's data validation document page

Policy/Standards:

Planning AP differs from AP used as a substantive test in that the purpose of the procedure is discovery rather than substantiation. Standards do not require auditors to document expectations for planning analytical procedures – only for substantive analytical procedures. Although expectations of some sort are necessary for effective AP, expectations used for planning AP are often very general and do not need to be documented. Expectations may be derived from events or changes in activity noted during other planning steps, budgets, prior year figures, figures for comparable entities, or general understanding of relationships between activities and financial figures.

SAO Audit Policy 6210 - Planning Financial Statement Audits

Record of Work Done:

- Trend financial information and read note disclosures to identify unusual or unexpected line items, balances or relationships.
- Trend analysis of revenues and expenditures [Rev-Exp Trend]
  - Both revenues and expenditures increased by approximately $29M, with expenditures increasing approximately $400K more than revenues. We noted that the increases were specifically in "Fund 06 account 38 Other Increases in Fund Resources" and in "Fund 06 Account 58 Other Decreases in Fund Resources". We spoke with Sharon Richter, Auditor, who initially stated that she did not know why the amounts are what they are, and that it must be a typo. We discuss this issue further here (FS Brainstorm). County Required Risk - Fiduciary Funds - External Investment Pool Risk that revenues and expenditures are not reported correctly. We will review this area during our Cash Reconciliation. Cash Flow Reconciliation Further, we found that the amounts were recorded in the Court Remittances and Agency Remittances accounts in the County's accounting system, which is unallowable as the funds do not actually belong to the County. Risk of material misstatement to the FS.

Upon further discussion and research of the above issue with Sharon, we discovered that the revenues were coded incorrectly to 386 rather than 389, leaving County revenues misstated by approximately $30M. The expenditure side appears to be coded correctly via the BARS Manual. We will issue a recommendation. FS Reporting Misstatement LOR SummaryAggregation of Misstatements (BARS Cash)

We also reviewed the LGCS financial condition report at Financial Intelligence Tool. We found that the Enterprise Fund was at risk for self-sufficiency, however, the fund has improved by 138% from FY16 to FY17 (151% to 13%). There is a potential risk the enterprise fund can not meet obligations with fund resources. We will remain aware of this during the audit.

Columbia County

B.2.PRG - BARS Cash Basis Planning

Procedure Step:	Risk Assessment Inquiry
Prepared By:	MDR, 7/3/2018
Reviewed By:	DHO, 7/3/2018

Purpose/Conclusion:

Purpose:
To identify potential financial statement risks to consider in the planning conference brainstorm from inquiry with management.

Conclusion:
Based on our inquiry, we noted no potential risks of misstatement (including risks related to misappropriation of assets and fraudulent financial reporting).

Testing Strategy:

Auditors are **required** to use the attached workpaper to inquire with the following key personnel, at minimum:

- Appropriate members of management with overall responsibility for financial and operational matters.

  Generally, this will be the chief executive officer (e.g. city manager, mayor, superintendent) and the chief financial officer (e.g. finance officer, business manager, clerk/treasurer). But it may be or include deputy officers or members of the governing body depending on the structure of responsibilities and oversight or due to potential conflicts of interest or lack of segregation of duties. Auditors need to use professional judgment to determine the appropriate persons to communicate with depending on the circumstances.
- A member of the governing body or audit committee, as applicable.
- Internal audit personnel, if applicable.

Also **consider** inquires of others.

For example, the human resource manager, key accounting staff, facility manager, prosecuting attorney or managers responsible for operation of significant components or functions of the government. Also, consider talking with employees who may be able to *corroborate information from management or others.*

Inquiry should be performed using the following **guidelines**:

- Inquiry should be done in person whenever possible, rather than by phone or email.
- Due to the potential sensitivity of certain questions, auditors should be careful to ask them in a professional manner and be prepared to explain that professional standards require us to ask such questions on every financial statement audit.
- The inquiry should be a conversation - auditors should be prepared to explain terms, rephrase questions in their own words and ask follow-up questions.

  Auditors should be prepared to prompt the auditee with follow-up questions regarding potential risks described in the planning guide, identified in prior audits or identified in other planning steps.
- The workpaper describes the minimum extent of the inquiry as a whole, although not every question will be applicable to every person the auditor inquires with. Also, auditors should consider additional questions about identified risks or controls as necessary.
- Document response details in the attachment and a summary of significant items in the record of work done and/or conclusion.

Policy/Standards:

SAO Audit Policy 6320 – Consideration of Fraud, Noncompliance and Abuse

Record of Work Done:

We performed risk assessment inquiries with the following individuals at Risk Assessment Inquiry Questions:

Sharon Richter, Auditor
Merle Johnson, Comissioner

We noted no financial-specific risks from this inquiry.

B.2.PRG - BARS Cash Basis Planning

Procedure Step:	FS Brainstorm
Prepared By:	MDR, 7/18/2018
Reviewed By:	DHO, 7/26/2018

Columbia County

Purpose/Conclusion:

Purpose:
To discuss and evaluate financial statement risks among key members of the audit team in order to develop the overall audit strategy and audit plan.

Conclusion:
Brainstorming conclusions are reflected in the initial audit plan. During the course of our brainstorm, we noted **the following** new risks that were included in the plan:

During the brainstorm, we had a major clarification of a red flag, and have updated previous planning steps as needed to ensure planning conclusions are coherent. We found that the County entered the Special Purpose District Investment Trust Funds into their own accounting system under Court Remittances and Agency Remittances. This resulted in a ~$30M misstatement in the financial statements. This is a material mistatement due to a material weakness in internal control. We will issue a recommendation. FS Reporting Misstatement LOR SummaryAggregation of Misstatements (BARS Cash)

Testing Strategy:

Auditors are **required** to perform all the following steps:

Brainstorming Discussion (Planning Conference)
Hold a planning conference brainstorm with key members of the audit team. To allow the brainstorming process to effectively evaluate and finalize scope decisions and design further audit procedures:

- All planning steps should be completed and reviewed prior to brainstorm.
- The AIC should be prepared with a proposed Material Balance Spreadsheet.
- The planning conference brainstorm should take place in person or on the phone.
- Professional judgment should be used in determining which audit team members should be included in the discussion. The brainstorm should include, at minimum, the key members of the audit team. Normally, this would be the AIC, Supervisor and Audit Manager. This could also include other members of the audit team or specialists. Managers should consider the experience of the AIC and Supervisor and the size and risk of the audit in determining the extent of the manager's involvement in the brainstorming discussion.

At a minimum the discussion is **required** to include the following topics:

Columbia County

Understanding of Entity:
Consider how our understanding of the entity, its environment and its operations might affect and inform our financial statement audit. What types of risks are most important to address? What areas are most susceptible to misstatement due to error, fraud or noncompliance?

Application of Financial Reporting Framework to Facts and Circumstances:
How should significant activities and transactions be accounted for? Do all significant activities and transactions appear to be appropriately reported and/or disclosed in the financial statements? Do financial statements fairly present the government's position and results of operations?

Accounting Estimates:
Do any estimates have a high inherent risk based on Policy 6340 considerations? Does management use specialists, conventional models and retrospective reviews in their development of estimates? Any changes that might give rise to new or revised estimates?

Related Party Relationships and Transactions:
What related parties have been identified? Were there any uncommon transactions with related parties during the period? Are any services performed for or by related parties? If so, are services within the normal course of business for both entities and charged at normal rates?

Unusual accounting policies or procedures:
Does the entity have any unusual accounting policies or procedures that indicate a higher risk of material misstatement? Also, would these accounting policies or procedures result in a proper application of BARS manual to major financial events or activities identified in planning?

Results of Planning Steps:
What are the results of planning procedures? Does planning indicate a low, moderate or high risk audit?

Red Flags:
Discuss each red flag identified by planning and consider the need for further audit procedures.

Results of Analytical Procedures:
Were any risk indicators or unexpected relationships noted in planning analytical procedures? Do any unusual or unexpected relationships identified indicated risks of material misstatement due to fraud?

Other Information and Experience:

Did any major changes occur? Were any unusual events or transactions identified? Does any other information or experience with the entity indicate risks of material misstatement due to fraud?

<u>Risk of Financial Statements to Material Misstatement:</u>
What balances or disclosures are most susceptible to misstatement? What are the most likely places for the biggest misstatements? Are there any risks of misclassification or omission?

<u>Risk of Management Override of Controls:</u>
Are there any systems or areas susceptible to management override of controls? Are there any indications of manipulation of financial measures or practices that might lead to fraudulent financial reporting? Management override of controls could include: (a) not responding when controls indicate a potential problem, (b) recording fictitious journal entries, (c) intentionally biasing assumptions and judgments used for estimating account balances, or (d) altering records related to significant and unusual transactions. Specifically consider results of the Risk Assessment Inquiry step, Entity Operations and Overall COSO Evaluation steps, the journal entry process and the extent of monitoring and transparency of financial data.

<u>Risk of Material Misstatement due to Fraud:</u>
How and where are the financial statements most susceptible to misstatement due to fraud? How might management perpetrate and conceal fraudulent financial reporting? How might assets be misappropriated? Are there any external and internal risk factors affecting the entity that might (a) create incentives/pressures for management and others to intentionally misstate the financial statements, (b) provide the opportunity for fraudulent reporting or material misappropriations or misuse of resources, and (c) indicate a culture or environment that enables management to rationalize fraudulent reporting or material misappropriation or misuse of resources?

<u>Risk of Material Misstatement due to Noncompliance with Laws, Regulations, Contracts or Grants:</u>
Were there any risks of material misstatement due to noncompliance with laws, regulations, contracts or grants identified that require further audit procedures? Are there any risks or indications that noncompliance is intentional or could lead to fraudulent financial reporting?

<u>Responses to Audit Risks:</u>
What is the best way to respond to identified risks of misstatement? What is the best way to respond to risks of management override and misstatement due to fraud or noncompliance? Consider responses at the overall financial statement level, at the balance and assertion level, and necessary resources.

<u>Materiality and Planned Further Audit Procedures:</u>
What decisions should be made regarding preliminary materiality threshold, material balances, relevant assertions, inherent risk and

tolerable misstatement allocations? Should internal controls be relied upon to reduce substantive testing for certain balances and assertions? Also, what substantive testing should be planned in light of these decisions?

Significant Accounting Systems:
Do overall COSO elements or significant accounting systems represent increased or decreased risk of material misstatement? Specifically consider any significant changes to COSO elements and accounting systems, such as new key personnel or implementation of new software systems.

Importance of maintaining professional skepticism:
Supervisors should emphasize the need to maintain professional skepticism throughout the audit and highlight any areas of potential concern or where special care or consideration may be needed.

Discussion among the engagement team about risks of material misstatement should continue throughout the audit. Auditors do not need to document every discussion, but should consider documenting any additional key brainstorming discussions, particularly if there were major re-evaluations or updates to the audit plan.

Follow up with other members of audit team:
Information and decisions discussed may be relevant to work performed by other members of the engagement team not involved in the discussion, specialists or other auditors performing a portion of the audit. The AIC should communicate relevant matters as necessary with auditors not involved in the brainstorming discussion.

Information to be considered in other SAO audits:
Appropriately communicate information or risks identified in the planning that may affect or be better addressed with a different type of engagement, a future engagement, an engagement of another local government or state agency, or by other parties such as regulatory bodies or law enforcement.

Policy/Standards:

SAO Audit Policy 6210 - Planning Financial Statement Audits

Standards require special consideration of certain types of balances with:

- **Investments valued using an equity or income approach** – see GASB Codification section I50 for accounting requirements and AU-C 501.04-05 for audit requirements.
- **Derivatives** – see GASB Codification section D40 for accounting requirements and AU-C 501.06-10 for audit requirements
- **Inventory** – see AU-C 501.11-15 for audit requirements

- **Segment reporting** – see GASB Codification section 2500 for accounting requirements and AU-C 501.25 for audit requirements
- **Revenue recognition** – see AU-C 240.26 and 46 for audit requirements
- **Receivables** – see AU-C 330.19-20 for audit requirements

Record of Work Done:

Brainstorm
Date: 7/17/18
How: discussion among key members of the engagement team via in-person meeting.
Attendees: Megan Rexin, Debbie O'Leary, and Ginny Waltman

Subject Matter Discussed (as detailed in testing strategy):

- Our understanding of the entity, including:
  - Application of financial reporting framework to the government's facts and circumstances
  - Accounting estimates
  - Related party relationships and transactions
  - Unusual accounting policies or procedures
- Results of planning steps, including:
  - All red flags identified in other planning steps
  - Results of analytical procedures
  - Other information and experience with the entity
- Risk of material misstatement, including:
  - Risk of management override of controls
  - Risk of misstatement due to fraud
  - Risk of misstatement due to noncompliance with laws, regulations, contracts or grants
- Audit responses to risks, including:
  - Materiality, material balances, relevant assertions and planned further audit procedures
  - Significant risks
  - Significant accounting systems
  - Importance of maintaining a questioning mind and exercising professional skepticism

Decisions Reached:
Overall and assertion-level risks and responses are documented in the FS Audit Plan. As reflected in our plan, we specifically noted:

- No derivatives are reported
- No investment securities are reported using an equity or income approach to determine fair value

- No identified impairment losses or permanent declines in fair value of investments
- No inventory is reported (since government is reporting on a cash basis)
- No segment reporting
- No red flags or significant pressures or incentives to intentionally misstate revenues. We therefore do not consider improper revenue recognition as a risk of material misstatement due to fraud.
- Confirmations are not needed for accounts receivable arising from charges for goods or services because no receivables are reported (since government is reporting on a cash basis).

B.2.PRG - BARS Cash Basis Planning

Procedure Step:	FS Audit Plan
Prepared By:	MDR, 8/13/2018
Reviewed By:	GLW, 8/16/2018

Purpose/Conclusion:

Purpose:
To finalize our overall audit strategy and audit plan to reduce audit risk to an appropriately low level.

Conclusion:
See documented plan in the Record of Work Done.

Testing Strategy:

An overall audit strategy and audit plan template has been developed in the Record of Work Done for a local government BARS Cash Basis financial statement audit. Make edits as necessary to complete the template and modify it for the specific circumstances of the audit.

CHANGES TO AUDIT PLAN:
Document both the original plan and any changes made during the course of the audit. Changes to the original plan may be documented in the "Changes to Audit Plan" step or in the Record of Work Done (ex: using a different font color for changes or listing changes in a separate section at the end of the plan). For changes that result in a new engagement letter or addendum in accordance with policy 2140 and 1220, refer to the

Engagement Letter step in Teammate.

Overall Audit Strategy
Modify as necessary for applicable financial statements and special planning approaches (such as interim work or audits with multiple major components or locations).

Audit Risk at the Overall Financial Statement Level
Assess risk at the overall financial statement level. Planning should reflect the overall risk assessment in staffing, supervision, audit budget and the overall level of substantive testing.

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

- *Issues with overall COSO elements, such as the control environment or information systems.*
- *Issues with the financial statement preparation process*
- *Major financial distress*

Preliminary Quantitative Materiality
While the quantitative threshold is a starting point, auditors will consider qualitative factors when applying materiality to planning decisions. SAO's rule of thumb for the quantitative threshold is 10% of total expenditures.

Tolerable Misstatement
Tolerable misstatement (also known as performance materiality) is a method of applying materiality to individual accounts with an allowance for undetected errors. It is used to make decisions about substantive testing (such as the extent of testing) and to evaluate initial test results to determine if further or different testing is needed. SAO's rule of thumb for BARS Cash Basis presentations is 75% of materiality.

Aggregation of Misstatements Floor
The "floor" to the aggregation of misstatements is the threshold below which misstatements are considered trivial and do not need to be accumulated or communicated to management. The floor should be set to an appropriately low level such that un-accumulated misstatements would never reasonably be material, either individually or when aggregated with other misstatements, and considering the possibility of additional undetected misstatements.

The default floor is 0.002 multiplied by the materiality threshold, rounded up to the nearest $1,000. Auditors may use professional judgment to adjust the default floor, as documented on the Aggregation of Misstatements worksheet.

Balances, Assertions, Systems and Risk Assessments for the Cash Flow Reconciliation
Modify the record of work done as needed to describe affected balances, relevant assertions, the significant system and IR, CR and RMM

assessments related to the planned cash flow reconciliation test.

If the team determines that it will likely be impractical to perform a cash flow reconciliation with sufficient precision due to the entity's records or other reasons, the audit plan will need to be modified accordingly. Contact TAS for assistance in making modifications to the plan template.

Balances, Assertions, Systems and Risk Assessments for Additional Risks

Based on planning and brainstorming, identify any additional risks requiring further audit procedures that are not covered by the planned cash flow reconciliation. Management override of controls is considered an additional risk for every audit. List and describe other additional risks in the record of work done.

For each identified additional risk (risks not covered by the cash flow reconciliation), auditors must:

- Describe the risk
- List or describe the financial statement balance(s) affected
- List the relevant assertion(s)
- Assess the inherent risk (IR) for the relevant assertion(s) and balance(s)
- List the significant accounting system(s) related to the relevant assertion(s) and balance(s).
- Gain an understanding of internal controls for significant accounting systems and assess control risk (CR).
- Assess the risk of material misstatement (RMM) for the relevant assertion(s) and balance(s).

Assessments should be identified by assertion, if different. For example, IR and RMM may be assessed at MAX and MOD respectively for the existence assertion, but LOW and LOW for the rights & obligations assertion. ***Examples*** *of potential risks that would NOT be covered by the cash flow reconciliation include the following. Testing strategies are available in the Store for each of the following examples of potential risks.*

Misstated reconciling items (existence / completeness)

- *Invalid / missing reconciling items in the bank or County Treasurer reconciliation or in clearing funds.*
- *Inconsistent treatment of expenditures occurring during the open period.*
- *Having an unreasonably long open period.*
- *Inappropriate netting of revenues and expenses. Note: this may either cover up or cause invalid / missing reconciling items.*

Unreported accounts or receipts (completeness)

- *Misappropriation of locally receipted revenues before the revenues are deposited.*

- *Misappropriated accounts receivable, which may be shown as current, past due or adjusted/written off to $0 in the accounting records. Unreported bank accounts (including clearing or transmittal accounts)*
- *Unreported imprest or petty cash funds.*

Misstating the ownership of funds (rights & obligations) - this risk is primarily related to activity with joint ventures, related parties or fiduciary funds

- *Incorrectly receipting and accounting for funds of another entity.*
- *Having another entity receipt and account for funds that actually belong to the government.*

Unallowable shifting of restricted funds (rights & obligations)

- *Cost-allocations improperly shift restricted funds.*
- *Unallowable transfers, interfund loans or interfund transactions.*
- *Unallowable charges to restricted funds or questioned costs for grant funds.*

Noncompliance with a financial statement effect (rights & obligations) - see the "Material Compliance Requirements" step for details.

- *Exceeding statutory authority (ex: project / program outside jurisdiction or authority).*
- *Noncompliance with grant or entitlement requirements leading to questioned costs.*
- *Noncompliance with bond covenants or special levy requirements.*
- *Unallowable investments.*
- *Noncompliance with expenditure audit, certification, and/or governing body approval requirements.*

Invalid payments (existence / rights & obligations)

- *Erroneous payments (ex: duplicate or accidental over-pay).*
- *Unallowable payments (ex: gift of public funds).*
- *Fraudulent payments.*

Incorrect calculation of amounts (valuation)

- *Government appears to be accounting for certain revenues or expenditures on the accrual basis of accounting rather than the cash basis. Note: this condition should show up in the reconciling items.*
- *Valuation of liabilities reported on the Schedule of Liabilities.*
- *Investment valuation (FMV or book value) does not match the notes*

Classification errors (classification)

- *Amounts are misclassified between funds or accounts.*
- *Funds are misclassified as the wrong type*

- *Funds are inaccurately combined*

<u>Agreement with Accounting Records (all assertions)</u> - covered in the "Review Statements & Notes" step, but auditors may plan for more or less work on this objective.

- *Missing or extra funds (intentional or unintentional errors)*
- *Missing or extra activity (intentional or unintentional errors or duplication)*

<u>Presentation & disclosure issues</u> - covered in the "Implementation of BARS Changes," "Review Statements & Notes," and "Review Schedules" steps, but auditors may plan for more or less work on this objective.

- *Statements / notes do not foot or articulate.*
- *Statements / notes are not in the prescribed BARS format.*
- *Funds are inaccurately described*
- *Major disclosure issues, including missing, inaccurate, unclear or misleading information.*
- *Schedule of Liabilities or Schedule of Expenditures of Federal Awards are inaccurately presented.*

NOTE: we would consider any additional risks identified to be "significant risks" that require special audit consideration.

<u>Relevant Assertions</u>
For each additional risk, describe what could go wrong. Then identify the relevant assertion, which should match the description of what could go wrong. Assertions are representations by management embodied in the financial statements. Relevant assertions are those that, based on auditor judgment and planning procedures, are applicable and present a consequential risk of misstatement. Multiple assertions may be identified, which may reflect either multiple risks or different ways in which a risk may affect balances. Assertions are defined as follows:

- Existence / Occurrence - Amounts reported exist as of the financial statement date and reported transactions and events occurred during the fiscal year.
- Completeness - All amounts that should have been recorded for the fiscal year have been recorded.
- Rights & Obligations - Amounts reported properly represent the entity’s legal rights, authority, responsibilities and obligations.
- Valuation - Amounts reported are valued or calculated properly.
- Classification - Amounts are recorded in the proper fund and line item.

<u>Inherent Risk (IR)</u>
Inherent risk is the susceptibility of an assertion to misstatement, assuming there are no related controls. In other words, what is the likelihood of misstatements that are more than inconsequential if no key controls were in place? Auditors should consider both the likelihood of accidental misstatements as well as the risk of intentional misstatements if there are inherent motivations to misstate.

Significant Accounting Systems (including outside service organizations)
Identify the significant accounting system(s) that contains key controls over relevant assertions for affected balances. Significant accounting systems identified should match the internal control systems documented in the permanent file folder.

When significant accounting systems or key controls are performed by outside service organizations, auditors still must gain and understanding of the controls. See Audit Policy 6230 for more information.

Control Risk (CR)
For each significant accounting system identified, document an understanding of controls in the permanent file folder and assess of control risk.

Risk of Material Misstatement (RMM)
For each material balance, document your assessment of the risk of material misstatement. This is a combined assessment of inherent and control risk based on auditor's judgment. If inherent and control risk are assessed differently, it is a matter of professional judgment as to whether the combined assessment is moderate or if one factor outweighs the other.

Develop Initial Substantive Testing Strategies
Develop testing strategies to address identified risks. A cash flow reconciliation step and template, as well as example testing strategies to consider for common additional risks, are available in the SAO Store.

Reliance on Other Audits (Group Audits)
If the audit will rely on work performed by **external auditors** (Policy 3510 and 6240) or on **other SAO audits** (6240), describe the planned nature and extent of reliance.

This work needs to be completed, evaluated and the results incorporated into this audit prior to issuance of the report. See the "FS Summary & Report" step for details.

Internal Auditors
If work of internal auditors is expected to be used as audit evidence (Policy 3520), describe the planned nature and extent of reliance.

Audit Staffing
Identify the AIC, AAM and other planned members of the audit team in the Team tab of the Profile, considering the knowledge, skill, and ability of personnel assigned significant engagement responsibilities and the appropriate level of supervision.

Determine whether assigned staff are independent with respect to the entity under audit (Policy 3110). Consider whether assigned staff collectively possesses adequate professional competence for the tasks required (Policy 3140). If the audit will require the use of a specialist with expertise in an area other than accounting or auditing (Policy 3230), describe the planned nature and extent of reliance.

Budget

Develop a detailed audit budget, considering risks, staffing and other circumstances. Initial budget information can be obtained from TABS. Inform your supervisor and audit manager if TABS is not correct so that changes can be requested.

Policy/Standards:

SAO Audit Policy 6210 - Planning Financial Statement Audits

SAO Audit Policy 6220 - Materiality

SAO Audit Policy 6230 - Understanding Internal Control and Assessing Control Risk

Record of Work Done:

OVERALL AUDIT STRATEGY

Scope & Reporting Objectives - Engagement scope and attributes are documented in the TeamMate Profile and have been updated in TABS for this audit number.

The objectives of our audit are based on the reports we plan to issue. We have planned the audit to gain sufficient appropriate audit evidence in support of the reports planned to be issued:

- Independent Auditor's Report on Compliance and Internal Control Over Financial Reporting in Accordance with Government Auditing Standards
- Independent Auditor's Report on Financial Statements

We will obtain reasonable assurance that the financial statements are free of material misstatement - whether due to error, fraud or noncompliance with laws, regulations, contracts, or grants. We will report the following conditions discovered during the course of our audit:

- Significant deficiencies or material weaknesses in internal controls over financial reporting
- Material instances of fraud or noncompliance with laws or regulations and any other instances that warrant the attention of those charged with governance
- Material noncompliance with, contracts or grant agreements
- Material abuse

Standards - We will conduct our audit in accordance with *Government Audit Standards* (GAGAS).

Planning Procedures - We determined that risk assessment procedures (as documented in the "BARS Cash Basis Planning" folder) were sufficient to confirm the characteristics of the engagement, consider factors significant to the engagement, results of pre-engagement and planning procedures and results of other engagements. We are planning and performing the financial statement audit to achieve a low overall audit risk. Audit risk is the risk that any material misstatements are not detected by the audit. The assessed risk of material misstatement (which is a combination of inherent and control risk) is addressed by planned further audit procedures designed to achieve a corresponding level of detection risk (a measure of the quality and quantity of audit evidence). These assessments will be re-evaluated during the course of the audit and at the conclusion of the audit.

Financial Reporting Framework - Since financial statements were prepared in accordance with a special purpose framework, we considered the purpose of the financial statements, intended users and management's decision to use the reporting framework. We concluded that the framework was acceptable for the government's purposes.

Determination of further audit procedures - Planning procedures were designed to assess risk for all balances and assertions. Based on our risk assessment, we identified further audit procedures as described below. We determined that no further audit procedures were necessary for other potential risks (beyond overall planning, presentation & disclosure and concluding procedures) in order to limit audit risk to an appropriately low level.

Presentation & Disclosure - In addition, a review of presentation and disclosure will be performed as documented in the "Review Presentation & Disclosure" folder, the extent of which will be based on risk.

Special Planning Methodology - None

Other procedures required by standards - Other procedures required by standards will be performed as documented in the "Concluding Financial Audit Procedures" folder, the extent of which will be based on risk.

MATERIALITY

Materiality and risk of material misstatement are based on planning procedures and are designed to achieve a low overall audit risk. Decisions reflect an **overall assessed risk of material misstatement of HIGH**.

Planning Materiality - Our quantitative materiality threshold is **$972,343.60**, based on 10% of total expenditures. Qualitative factors are based on auditor judgment after considering the interests of the identified users, preliminary analytical procedures, our knowledge of the entity and its environment, etc. We considered whether separate or lower materiality thresholds should be set for particular elements and determined that further thresholds were not necessary.

Columbia County

Tolerable Misstatement - Our tolerable misstatement threshold is **75%** of materiality. We will reevaluate judgments made in planning and our planned audit procedures if we identify net misstatements exceeding our tolerable misstatement threshold for cash or revenues / expenditure balances.

Aggregation of Misstatements Floor - The floor is documented in the Aggregation of Misstatements worksheet.

CASH FLOW RECONCILIATION TEST

We plan to reconcile cash activity (beginning balance, revenues, expenditures and ending balance) and bonds or bank statements. This test will cover:

Balance(s): all financial statement amounts
Assertion(s): existence and completeness risks related to the statements not agreeing with actual bank activity.
Inherent Risk: MAX
Significant Accounting System: bank reconciliation
Control Risk: MAX
Risk of Material Misstatement: MAX

ADDITIONAL RISKS IDENTIFIED

The following are risks that require further audit procedures in addition to our Cash Flow Reconciliation step:

Management Override of Controls: Management is in a unique position of control over financial reporting. Since this risk is unpredictable and always present, it must be considered a significant risk.
Balance(s): all
Assertion(s): all
Inherent Risk: MAX
Significant Accounting System: Period End Financial Reporting
Control Risk: MAX
Risk of Material Misstatement: MAX
Planned Testing:

Investment Trust Funds Reported as Agency Funds, large increases in revenues/expenese:s We found that the County entered the Special Purpose District Investment Trust Funds into their own accounting system under 386 Court Remittances rather than 389 Custodial Activities. This resulted in a ~$30M misstatement in the financial statements. This is a material mistatement due to a

material weakness in internal control. In our analyticals there was a $30 M increase in revenues and expenditures. This is sigificant.
Balance(s): Court Remittances- Overall revenues and expenditures.
Assertion(s): Valuation, Existence
Inherent Risk: MAX
Significant Accounting System: Period End Financial Reporting
Control Risk: MAX
Risk of Material Misstatement: MAX
Planned Testing: Discuss misstatement with Sharon Richter, Auditor, to determine cause of misstatement and discuss its correction. We will also cover this in our cash reconciliation listed above.

- We updated our understanding of the period end financial reporting process in BARS Cash Basis.
- We will also scan and test year-end adjusting journal entries, including any consolidating entries and off-book adjustments, and consider additional testing of journal entries throughout the period in BARS Cash Basis.
- We will review accounting estimates for biases in BARS Cash Basis.
- We noted **no** red flags or significant pressures or incentives to intentionally misstate revenues. We therefore do not consider improper revenue recognition as a risk of material misstatement due to fraud.
- We noted **no** unusual, unsupported or disputed transactions to test.
- We noted **no** significant related party or other transactions occurring outside the government's normal course of business to test.
- We will remain alert for indications of management override during the course of the audit and will test journal entries for material balances based on risk.

INITIAL TESTING STRATEGIES
We developed initial audit programs as reflected in the folders, steps and testing strategy tabs for financial statement work. Our initial audit programs reflect mainly considerations and general guidance for assistants, who will document procedures reflecting the final audit program in the record of work done tab.

AUDIT RESOURCES
Based on our planning, we determined the nature, timing and extent of resources necessary to perform the engagement as follows:

Group Audit Strategy - We do **not** plan to rely on other external audits.

We do **not** plan to rely on other SAO audits.

Internal Auditors - We considered the potential for using the work of internal auditors. We do not plan to use the work of internal auditors.

Staffing - The auditor in charge, supervisor and all assistants are listed in the Team tab of the Profile. We have planned the audit staffing to ensure that all staff are adequately supervised.

We considered whether specialized skills are needed in performing the audit and determined that assigned personnel are independent and collectively have the technical knowledge, skills and experience necessary to perform the audit.

Budget – We updated the budget for this audit number in TABS and developed a detailed audit budget as documented in Columbia County Audit Budget.

B.2.PRG - BARS Cash Basis Planning

Procedure Step: FS Entrance Conference

Prepared By: MDR, 7/2/2018

Reviewed By: DHO, 7/3/2018

Purpose/Conclusion:

Purpose / Conclusion:
To communicate our audit responsibilities and the planned scope and timing of the audit to management and the governing body.

Testing Strategy:

If no entrance conference was held, explain the situation in the record of work done (and the Entrance Conference Explanation Field in the custom tab in the profile). The record of work done must describe how the required information above was communicated to management and those charged with governance.

BEFORE the Entrance Conference:

- If not clearly evident from the governance structure, determine "those charged with governance" for purposes of audit communication and document our conclusion.

  Those charged with governance are those responsible for overseeing the strategic direction of the government and fulfillment of the government's objectives and obligations. In some governments, multiple parties may be charged with governance, including oversight bodies contracting for the audit, members or staff of legislative committees, boards or audit committees. The auditor's evaluation should consider how the government delegates authority and establishes accountability for management.
- Communicate with management on entrance conference logistics, such as the time and place of the meeting, who to invite and how to communicate invitations..
- Invite appropriate members of management, the governing body or audit committee and others to the Entrance conference (see template letter available in the SAOStore).
- Prepare the Entrance conference handout the using the required template available in the SAOStore. The template must be adjusted as necessary for each audit.

DURING the Entrance Conference:

- Present Entrance conference handout. The conference must include discussion of the following:
- Planned scope and timing of the audit
- An overview of work to be performed by other auditors or in other audits upon which we plan to rely, and the nature of our involvement in this other work
- Engagement staffing
- Estimated cost of the engagement (local governments or special engagements only)
- Procedures for informing entity management of the status of the engagement, including significant issues, and the appropriate representative(s) with whom to communicate
- Any issues that concern the entity's management or governing body
- Additional information that may be provided to the governing body at the end of the financial audit, if applicable
- Also, consider presenting the Management Representation Letter request and Attorney Letter request (if applicable) with the estimated end of fieldwork date.

AFTER the Entrance Conference:

- Attach the entrance conference handout and any other documents that were presented.

- Document the conference attendees (SAO and client) as well as the date of the conference.
- Document any significant conversations that might result in a change in our risk assessment or audit plan.
- Send copies of the entrance document to any members of the governing body or audit committee who were not able to attend the conference.

Policy/Standards:

SAO Audit Policy 2130 - Inviting Officials to Entrance and Exit Conferences

SAO Audit Policy 2210 - Conducting Entrance Conferences

Record of Work Done:

See Entrance Conference planning step at AC Entrance Conference for complete details.

B.3.PRG - Single Audit Planning - Uniform Guidance Audits

Procedure Step: Engagement Letter

Prepared By: MDR, 7/2/2018

Reviewed By: DHO, 7/5/2018

Purpose/Conclusion:

Purpose / Conclusion:

To confirm that a common understanding of the terms of the audit engagement exist with the government.

Testing Strategy:

To confirm our understanding with the government, auditors are **required** to perform the following procedures:

- Choose the appropriate engagement letter template from TeamMate and modify it for the scope of the audit and any special needs.

Auditors should consider the need to confirm any critical scheduling or deadline issues, access to information at key service providers or *component units or other matters that may be necessary to avoid or address prior audit difficulties.*

- Have the engagement letter signed by at least the audit contact and a key oversight official (e.g. the chief executive or a member of the governing body or its audit committee). Auditors should consider whether others within the entity should also sign the engagement letter.

The team should consider whether signatures by a representative of the governing body, the chief executive and/or a member of the audit committee would be most appropriate for the circumstances and whether others in the organization should also sign. In making this judgment, auditors should consider the risk of miscommunication or lack of communication about the audit within the government, whether deadlines may not be met, and the likelihood and nature of any audit difficulties.

- Determine most appropriate time to obtain a signed engagement letter, but not later than the entrance conference date. Auditors should print the engagement letter for signature to ensure it is not modified.

Normally the engagement letter would be signed on the first day of fieldwork. However, it may be more appropriate to sign later after preliminary meetings about scheduling or at the entrance conference to facilitate signing by the governing body.

Note that delay or refusal to sign the engagement letter would ***not*** *preclude us from continuing with the audit, since our audit authority is based on statute and our own policy. However, in such circumstances, auditors should proceed with caution and consult with their manager and deputy to determine the effect on the audit and the most appropriate response.*

Contact TAS with questions or for assistance with modifications to the engagement letter.

Changes to the Engagement Letter:
Auditors should carefully review management requests for major changes to engagement terms. To consider and respond to any requested changes, auditors are required to perform the following additional procedures:

- Understand management’s reasoning and objective for the change.
- Discuss the requested change with their manager and, as appropriate, their deputy and Team Audit Support.
- Auditors should not agree to changes that are not reasonably justified, including a request **during an audit** for a change in engagement type to one with a lower level of assurance.
- Changes to engagement terms **during an audit** should be documented in a new engagement letter or addendum (the addendum template is available in the Store) in accordance with Policy 2140 and 1220. Include the new engagement letter or addendum in the audit documentation and an explanation in the Record of Work Done.
- Update audit plan and related steps to reflect the changes as appropriate.

Auditors should also complete a BUCO for changes to the audit period, scope or budget to update Audit Number information.

Policy/Standards:

Policy 2140 - Engagement Letters
AU-C 210 – Terms of Engagement

Record of Work Done:

We developed an engagement letter using our template (Engagement Letter - Local Govt) and considering the scope and factors affecting the audit.

Please see Engagement Letter planning step at Engagement Letter for complete details.

B.3.PRG - Single Audit Planning - Uniform Guidance Audits

Procedure Step:	Minutes, Other Audits and FAWF
Prepared By:	MDR, 7/9/2018
Reviewed By:	DHO, 7/10/2018

Purpose/Conclusion:

Purpose:
To review the minutes, other audits and FAWF for items to consider in planning the single audit.

Conclusion:
In our review of the minutes, we identified the following risks:

- Approval of the local agency 'Federal Aid Project Prospectus Agreement', for Tucannon Road Phase 3. Potential risk that grant requirements for local agency agreements were not met.
- Bid awarded to Barker Inc from Dayton WA for the Tucannon Road Project Federal Funds (Contract award amount of $2,062,164.). Potential risk that grant requirements for bidding/procurement were not met.
- Approval of the Emergency Management Performance Grant (EMPG) grant FY17. Total expenditures $22,590 listed on the SEFA. Potential risk that grant funds were used for unallowable purposes.

Testing Strategy:

Review the minutes, other audits and the future audit work file (FAWF) for information that would have an **impact on the Single Audit to be performed as well as the Schedule of Expenditures of Federal Awards**:

Review minutes for information relevant to the single audit, such as:

- New grants, federal loans or federal equipment/goods received by the entity.
- Indications of difficulty with grant-related projects.
- Discussion about transactions and decisions being made by management on grant related projects.
- Staffing changes that effect grant management.
- Results of prior single audits.
- Issues noted in other SAO audits or investigations that may affect federal grants.
- Results of any granting agency audits or program reviews.
- Results of other auditor's audits (ex. component unit single audit performed by CPA firm).

Note: if minutes were reviewed in another section of the audit please be sure to either link to that review and document the auditor's evaluation and conclusions relevant single audit information to this step.

Review the FAWF for items relevant to the single audit such as:

- Prior single audit exceptions. Use the "Prior Findings (if applicable)" step to document any prior findings and our follow-up procedures.
- The results of external auditors' audits (ex. Component unit single audit performed by CPA firm) or program monitoring performed by awarding agencies that directly relate to single audit objectives. See Audit Policy 3510 – Use of External Auditor's Work and 3530 – Use of Grant/Program Monitors work related to grant or oversight agency work.
- Issues noted in other SAO audits or investigations that may affect federal grants.

Policy/Standards:

SAO Audit Policy 5210 – Planning Single Audits (updated 6/30/16)

BACKGROUND

The Office of Management and Budget (OMB) Uniform Guidance requires a risk-based approach to identify major federal programs for audit. This risk-based approach involves specific steps that must be followed to meet audit requirements.

REQUIREMENTS

1. Auditors planning single audits will complete and document all applicable pre-planning steps in the TeamMate Single Audit program. Those steps include the following:

- Determining if the Schedule of Expenditures of Federal Awards is fairly presented.
- Determining if the entity qualifies as a low-risk auditee to be eligible for reduced audit coverage.
- Making a preliminary judgment about materiality.
- Identifying major programs to audit using a risk-based approach.
- Following up on prior audit findings, performing procedures to assess the reasonableness of the summary schedule of prior audit findings, and reporting as a current-year audit finding when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding.

2. Pre-planning procedures and preliminary audit plans should receive supervisory review in a timely manner.
Refer to Policy 3160 - Supervision and Review.

3. Auditors will communicate information to the auditee or audit committee regarding the nature, timing, and extent of planned testing and reporting.
Communication to the auditee must include planned testing and reporting on compliance with laws and regulations and internal control over financial reporting. Refer to Policies 2130 - Inviting Elected Officials to Entrance/Exit Conferences and 2210 - Conducting Entrance Conferences.

REFERENCES
Single Audit Act Amendments of 1996
Title 2 U.S. Code of Federal Regulations Part 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)
AU-C §935 – Compliance Audits

Record of Work Done:

The following items were noted in the review of minutes, FAWF items and other audits that may impact the single audit:

FAWF Items

- No items related to single audit.

Other Audits

- Not applicable.

Minutes Review (see at Columbia County Minutes Review)

In our review of the minutes, we identified the following risks:

- Approval of the local agency 'Federal Aid Project Prospectus Agreement', for Tucannon Road Phase 3. Potential risk that grant requirements for local agency agreements were not met.
- Bid awarded to Barker Inc from Dayton WA for the Tucannon Road Project (Federal Funds) Contract award amount of $2,062,164. Potential risk that grant requirements for bidding/procurement were not met.
- Approval of the Emergency Management Performance Grant (EMPG) grant FY17. Total expenditures $22,590 listed on the SEFA. Potential risk that grant funds were used for unallowable purposes.

B.3.PRG - Single Audit Planning - Uniform Guidance Audits

Procedure Step:	Single Audit History
Prepared By:	MDR, 7/5/2018
Reviewed By:	DHO, 7/5/2018

Purpose/Conclusion:

Purpose / Conclusion:
To review the single audit history for planning purposes.

Risk identified from Single Audit History:

- During the last Single Audit (FY15), the County was issued an exit recommendation due to not retaining all bidding documentation for a County Road project (procurement). The risk is records retention remains an issue at the County.

Testing Strategy:

To review single audit history, auditors are **required** to:

- **Export the "Post Uniform Guidance Single Audit History and Low Risk Auditee Status" report from the Financial Analysis Program (FAP)** for this entity (which is sourced from the Federal Audit Clearinghouse of previously submitted Data Collection Forms). In FAP, from the drop down menu, select the entity and year, and for the "System "select "Federal Clearinghouse". Expand "Entity Specific" and run the report.
- Scan at least the information for the most recent prior year for accuracy and to assess risk.

Incorrect data implies an inaccuracy with previously submitted Data Collection Forms. If any data appears to be incorrect, contact Local ISA for instructions.

- Check EIS for any recent single audit management letter or exit items.
  - Use the information to help you determine whether the auditee qualifies as a low-risk entity and assess risk for individual federal programs.

Policy/Standards:

Record of Work Done:

We obtained single audit history information from the Federal Clearinghouse, as detailed in the attached matrix SingleAuditHistoryLowRiskStatus_PostUG. Please note, the County did not have a federal audit in FY16.

We also reviewed EIS for any recent single audit management letter or exit items and noted the following issues to consider:

- During the last Single Audit (FY15), the County was issued an exit recommendation due to not retaining all bidding documentation for a County Road project (procurement). The risk is records retention remains an issue at the County.
- We considered this information in determining low-risk auditee status and in assessing risk for federal programs.

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The The County does not prepare their financial statements in accordance with GAAP, therefore they do not qualify as a low-risk auditee.

B.3.PRG - Single Audit Planning - Uniform Guidance Audits

Procedure Step: Schedule of Expenditures of Federal Awards

Columbia County

Prepared By: MDR, 9/6/2018
Reviewed By: DHO, 9/12/2018

Purpose/Conclusion:

Purpose
To assess the risk of material misstatement and determine whether the SEFA is complete and properly presented in relation to the financial statements taken as a whole.

Conclusion:
We assessed the risk of material misstatement as moderate; we noted **the following**:

We found the Prosecutor's Office was filling out the Departmental SEFA Form based on revenues rather than expenditures based on guidance from the Auditor's Office and documentation from the Treasurer's Office. Because of this, the SEFA was overstated and understated to different degrees, depending on the department and grant. We noted that the Treasurer's Office provided Account Analysis Reports to these departments, which showed revenues (3XX account codes) instead of expenditures (5XX account codes). The net variance for these departments was an overstatement of $31,283

We also noted that the Public Works department miscalculated 3 of their projects within their Highway Construction & Planning Grant for a net variance of $(6,890) understated. One of these grants had an extension filed, which was later denied. Thus, $2,874 of expenses became unallowable, but the SEFA was not updated.

There was one project within the Highway Construction & Planning Grant (Public Works) that was recorded as a federal grant by mistake in the Auditor's Office ($5,984).

We noted that the Public Health Department miscalculated a grant by using revenues rather than expenditures resulting in an overstatement of $20,790.

There was an overall net overstatement of $30,377 reported on the SEFA. We have confirmed that these amounts are accurate through review of the supporting documentation for the 2017 grant expenditures. We subtracted amounts in excess of the actual expenditures from the Total Federal Awards Expended line on the SEFA, bringing our balance from $1,254,310 to $1,223,933. We were able to vouch 90.5% of the SEFA after the corrections to the total were made.

We added this to the Aggregation of Misstatements (Aggregation of Misstatements (BARS Cash)). the level of recommendation spreadsheet (LOR Summary) and recommendation (E - SEFA Preparation).

Testing Strategy.:

UPDATED 2/15/17

ARRA alerts:

1. If any major programs contain ARRA funding, auditors are required to test internal controls over SEFA preparation as a Special Tests and Provisions compliance requirement.

2. Many of the ARRA programs have been deleted from Parts 4 and 5 of the June 2015 Compliance Supplement (applicable for audits of fiscal years beginning after 6/30/2014) based on their completion or limited amount of funds still subject to audit. However, if an entity has Federal awards expended from these programs they would be treated consistent with any other programs not included in this Supplement or not part of a cluster of programs. For example, if programs were deleted from a cluster: **(1) the program would not be considered as part of a cluster for periods covered by this Supplement, as this Supplement does not include the program in a cluster (which means it wouldn't be reported on the SEFA as part of the cluster), and (2) if the program was part of a cluster which was audited as a major program in a prior year, the normal OMB Circular A-133/2 CFR part 200, subpart F, major program selection criteria and risk-based approach would apply and the program would be considered as audited in that prior year for purposes of major program determination, including consideration of any audit findings.**

Refer to the SAO Single Audit Planning Guide and/or BARS Manual Schedule 16 (SEFA) instructions) for additional details and guidance on SEFA reporting requirements.

Option for a Program-Specific Audit

If an auditee expends federal funding under only one program (or cluster) and the grantor does not require an audit of the auditee's financial statements, the auditor could perform a "program-specific" audit. In such a case, the audit scope is limited to (1) the internal controls and compliance of the federal program and (2) the Schedule of Expenditures of Federal Awards,which is the sole financial statement required.

Step 1: Assess Inherent Risk (IR)

Assess inherent risk of material misstatement in SEFA reporting.

Inherent risk would usually be assessed as HIGH due to the complexity of this schedule and its importance for properly planning the single audit and meeting Subpart F – Audit Requirements of the Uniform Guidance in 2 CFR 200 coverage requirements, unless there are only a few grants to report that are not complex.

Step 2: Gain Understanding of Controls over SEFA preparation

Obtain an understanding of the auditee's SEFA preparation process and identify the key controls that ensure the schedule is complete and properly presented (the form and content comply with the Uniform Guidance 2 CFR 200.510(b)).

Auditors should specifically understand:

- Whether preparation methods have changed from the prior year and if so, the reasons for the change.
- Any significant assumptions or interpretations made by management regarding SEFA reporting. Consider inquiring about when an award is determined to be expended and how noncash awards are recognized.
- This schedule is required and defined by Subpart F – Audit Requirements of the Uniform Guidance in 2 CFR 200 (§.510(b). Therefore, our understanding about the purpose of supplementary information and criteria for preparing it is cited in the Policy / Standards tab (see also the Single Audit Planning Guide).
- Based on Subpart F – Audit Requirements of the Uniform Guidance in 2 CFR 200 requirements for the schedule and Audit Reporting Standards Manual requirements for our report, conditions required by AU-C 725.05 are determined to be met.

Step 3: Confirm Understanding

Confirm your understanding to determine whether key controls have been placed in operation (that is, whether the entity has actually implemented key controls).

A walkthrough of a transaction is considered the most effective way of corroborating your understanding of internal controls. Inquiries, inspection of records and observation are other acceptable methods. However, inquiry alone is not sufficient to determine a control has been implemented. When a key control is discovered to not actually be placed in operation, a significant deficiency likely exists. Depending on the magnitude and likelihood of potential effects and any compensating controls, the deficiency may represent a material weakness.

Step 4: Test Controls (if applicable)

If the auditor plans to support a control risk assessment of less than MAX, test the operating effectiveness of key controls (whether controls were consistently and effectively applied). *We typically do not test controls and instead assess control risk at MAX for efficiency purposes; however see ARRA alerts above.*

If a key control is not consistently or effectively applied, a significant deficiency likely exists. Depending on the magnitude and likelihood of potential effects and any compensating controls, the deficiency may represent a material weakness.

ARRA alert: If any of your major programs contain ARRA funding, auditors are required to test controls over SEFA preparation as a ARRA grant Special Tests and Provisions compliance requirement (unless we are reporting a finding at this point for a significant deficiency or material weakness in controls).

For audits with no major programs having ARRA funding, we would typically not test controls and instead assess control risk at MAX for efficiency purposes.

Step 5: Assess Final Control Risk (CR)

Evaluate the results and document a final control risk assessment. Consider whether any internal control issues identified represent material weaknesses or significant deficiencies.

Control risk is the risk that material misstatements would not be prevented or detected timely by internal controls. In order to support a control risk assessment that is less than MAX, the auditor must test the operating effectiveness of controls in step 4. Regardless of this decision, the

auditor must report any significant deficiencies or material weaknesses discovered in either the design or operation of controls.
A material weakness exists when the design or operation of controls results in a "reasonable possibility" that controls will not prevent or detect material misstatements. A significant deficiency is a control deficiency that is less severe than a material weakness, yet important enough to merit the attention of the governing body. See the Policy/Criteria tab for more guidance on evaluating whether an identified issue represents a material weakness or significant deficiency.
All potential significant deficiencies and material weaknesses should be discussed with the AIC or AAM, since they must be reported as findings.

Step 6: Assess Risk of Material Misstatement (RMM)
Assess the RMM at LOW, MODERATE or MAX. This is a combination of inherent risk and control risk based on auditor judgment. This assessment should be considered when designing the nature and extent of substantive procedures.
Step 7: Substantive Testing of SEFA
Test SEFA by performing the following procedures:

- Trace figures to the underlying accounting and other records

The extent of tracing expenditures to accounting records is determined by auditor judgment. It is recommended to trace amounts reported for all Type A programs and any Type B programs that would require a risk assessment.

- Read the SEFA and related notes, considering results of procedures performed and knowledge obtained during the audit. Determine if notes contain required disclosures. Compare SEFA footnotes to BARS/ABFR example. *At a minimum, the footnotes must describe the basis of accounting* ***and whether or not the auditee elected to use the 10% de minimis cost rate as covered in 2 CFR §200.414 Indirect (F&A) costs.***

Auditors gain additional assurance regarding reported amounts when testing direct and material compliance requirements for each major program. Any misstatements noted during this testing should also be considered here.

- If schedule was obtained from LGCS (that is, generated by online filing), the schedule will foot and presentation will match the BARS manual. Otherwise, manually determine proper footing and presentation.
- If schedule was obtained from LGCS (that is, generated by online filing), check the Schedule 16 Federal Validation on the Yellow Flag Report to determine if CFDAs, federal agencies and program titles are accurate. Otherwise, **consider** checking CFDA numbers and program titles manually.
    - **(NEW) If the schedule was not obtained from LGCS, ensure the changes required under Uniform Guidance were made. Specifically:**
        - **Per 2 CFR §200.510(b)(4), the total amount provided to subrecipients from each federal program must be reported in a separate column. To clarify, the entity will continue to report the total direct and/or indirect federal expenditures from each**

program, but now there will be a separate column to report how much of the total direct and/or indirect federal expenditures where passed through to a subrecipient (in other words, it is an informational column).

- **Per 2 CFR §200.510(b)(1),(3), for clusters of programs, the entity is required to provide the official cluster name, list the individual programs within the cluster, and provide a total for the cluster. See NOTE below for School Districts.**
- **Per 2 CFR §200.510(b)(2), the name of the pass-through entity and identifying number assigned by the pass-through entity MUST be included.**
- **Per 2 CFR §200.510(b)(6), the Notes to the SEFA must report whether or not the entity has elected to use the 10% de minimis rate. See below and also the BARS/ABFR manual for instructions.**

Note about School District cluster reporting: If the District you are auditing did not comply with the requirements for cluster reporting, we recommend the SEFA be amended. If the District does not wish to amend its SEFA, aggregate the error and report as an Exit Note. The instructions in the ABFR Manual will be updated to clarify the requirements in time for preparation of the FY17 SEFA.

CFDA numbers and official program titles can be checked at www.cfda.gov. Any incorrect numbers or titles should be included on our aggregation of misstatements. In online reporting, Schedule 16 will validate CFDAs and default (or flag if changed) to the official federal agency and program title for each CFDA. Part 5 of the Compliance Supplement lists clusters of programs and is updated annually.

ARRA Alert: many new programs and CFDA numbers were created under ARRA. The OMB has stated that all expenditures funded by ARRA must be listed in a separate row in the SEFA and the title of the award should begin with the prefix ARRA. Examples: CFDA 84.394, ARRA- State Fiscal Stabilization Fund; CFDA 10.780, ARRA- Community Facilities Loans and Grants. Also, as noted above, if an ARRA program was previously part of a cluster and per the Compliance Supplement is no longer part of a cluster, the program should be listed separately.

Consider additional procedures to review completeness and appropriateness based on assessed risk:

- Do the expenditure amounts reported on the SEFA agree to the auditee's accounting records and other supporting documentation?
- Is the SEFA prepared using the same basis of accounting as the financial statements?
- Are there any new awards that need to be added to the SEFA? Consider comparing total grant revenue with the amount reported as expended on the SEFA as a reasonableness test.

- Are there any programs listed on prior-year schedule that have been omitted during current year? Consider comparing total grant revenue with the amount reported as expended on the SEFA as a reasonableness test.
- Are there any federal loans on the grantee's debt schedule that should be listed on the SEFA? Did the grantee omit a loan it received from a state agency that it believed to be state-funded instead of federal-funded?
- Does the SEFA reflect all the operations of the reporting entity (all departments, offices, agencies, etc.)?
- Does the auditee have any component units? If yes, are the federal awards expended by the component unit(s) included in the auditee’s SEFA or did the component unit elect to have its own separate single audit conducted?
- Are grants properly identified as direct or indirect, and if an indirect grant, is the name of the pass-through agency properly identified?
- Are the "other identification numbers" listed on the schedule, such as contract or grant agreement numbers (as noted above, this is required under Uniform Guidance)?
- If the auditee has a cluster, is each program of the cluster identified separately (cluster name and list of programs in the cluster) and the cluster totaled (see above for requirements)?
- Does the SEFA include a separate column to report the total amount provided to subrecipients from each federal award (assuming it had subrecipients - see above for requirements)?
- Refer to Single Audit Planning Guide for additional information about reporting loans, receipt of property (supplies, equipment, vaccines), Medicaid, FEMA disaster assistance, program income, etc.

If significant misstatements are identified

If you find significant errors on the SEFA, determine whether they were caused by an internal control deficiency related to the preparation of the SEFA. Reporting level determinations for SEFA-related issues will be made in consultation with the assigned Assistant Director. A finding would be classified as a significant deficiency in internal control and reported in the “Auditor’s Report on Internal Control over Financial Reporting” (I Report), instead of the Uniform Guidance Compliance report (S2 Report). If you feel the deficiency/finding should be classified as a material weakness (in contrast to a significant deficiency), contact the Single Audit Specialist and your audit manager for guidance.

Also, if changes to the SEFA were made after you planned the single audit, auditors should re-evaluate planning to check that major program selection and coverage requirements are still met.

Policy/Standards:

Background:

This Schedule of Expenditures of Federal Awards (SEFA or "Schedule 16" in the BARS Manual) is required by Subpart F – Audit Requirements

(§200.510) of the Uniform Guidance in 2 CFR 200 when the auditee expends $750,000 or more in federal awards in a year. However, SAO requires all school districts and BARS users to prepare this schedule as part of their annual reporting, even if their annual federal expenditures are less than $750,000.
Since the SEFA is reported as a supplemental schedule with the financial statements, auditors need to gain an understanding of controls, report any significant deficiency or material weakness in controls over financial reporting, assess the risk of material misstatement and test the SEFA to determine if it is fairly presented in relation to the financial statements taken as a whole.

Refer to the SAO Single Audit Planning Guide for additional details and guidance.

Expenditures

Once the auditee has been officially awarded federal assistance (either directly from a federal agency or from a pass-through agency), expenditures should be reported on the SEFA in the year that activity related to the project or program takes place, even if the auditee has not yet received the federal funds.

The basis for determining federal awards expended is found in 2 CFR 200.502 of the Uniform Guidance:
"The determination of when a Federal award is expended must be based on when the activity related to the Federal award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with Federal statutes, regulations, and the terms and conditions of Federal awards, such as: expenditure/expense transactions associated with awards including grants, cost-reimbursement contracts under the FAR, compacts with Indian Tribes, cooperative agreements, and direct appropriations; the disbursement of funds to subrecipients; the use of loan proceeds under loan and loan guarantee programs; the receipt of property; the receipt of surplus property; the receipt or use of program income; the distribution or use of food commodities; the disbursement of amounts entitling the non-Federal entity to an interest subsidy; and the period when insurance is in force."

Note: There are some exceptions to this general rule for auditees that report expenditures on the cash-basis of accounting and some revenue-based grant programs. Generally, the auditee should not report its award on the SEFA based on the date that the federal funds are received (e.g., a cash advance or the date it received a reimbursement payment).
For example:
A city was awarded a grant from a federal agency in October 2014 and is given authorization to proceed with the grant project. The city began work and incurred grant-related costs (they hired a contractor to perform construction work) in November 2014. In December 2014, the city received the contractor's invoice for work performed. The city did not pay the contractor's invoice until February 2015. The city submitted a request for reimbursement for these costs to the grantor in February 2015 and received its payment in March 2015.
SEFA treatment: If the city uses accrual-based accounting, the grant expenditures should be reported in the city's 2014 SEFA because the expenditure and liability is recognized in 2014.
If the city uses cash-basis accounting, the grant expenditures should be reported in the city's 2015 SEFA because the "expenditure" does not take place until the city actually disburses cash.
Certain programs also are exceptions to this rule, such as FEMA Disaster Assistance and Medicaid Administrative Claiming as noted in the Single

Audit Planning Guide.

Materiality
Quantitative considerations of materiality are based on the financial statements taken as a whole (total expenditures for all opinion units added together). It is unlikely a control deficiency over SEFA preparation will be material based on this quantitative measure. The reason for reporting the deficiency in a finding will likely be due to a qualitative factor. Qualitative considerations would be based on whether the misstatement could (or did) cause the entity to fail to meet the requirements of Subpart F – Audit Requirements of the Uniform Guidance in 2 CFR 200.
Situations that could be considered a significant deficiency or material weakness for qualitative reasons include:

- An understatement or overstatement of expenditures that, once corrected, creates a new major program that must be audited.
- An understatement of expenditures that could cause the entity to conclude it did not need a single audit when in fact it had exceeded the $750,000 threshold.
- An understatement of expenditures that, once corrected, could cause the auditor to fail to meet the required audit coverage (20% or 40%).

SEFA findings should be classified as significant deficiencies and are reported in the "Auditor's Report over Financial Reporting in Accordance with *Government Auditing Standards*" (I-2 template) instead of the Uniform Guidance Compliance report. If you feel the finding should be classified as a material weakness (in contrast to a significant deficiency), contact the Single Audit Specialist for guidance.

SAO Audit Policy 5110 – Conducting Single Audits and Program-Specific Audits

SAO Audit Policy 5120 – Audit Standards for Single Audits
SAO Audit Policy 5210 – Planning Single Audits

Record of Work Done:

STEP 1: Inherent Risk of Misstatement
We have considered inherent risk factors that apply to the Schedule of Expenditures of Federal Awards and assess the inherent risk of material misstatement at LOW.

STEP 2: Understanding of Internal Controls
In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring) and the internal control objectives set forth in Uniform Guidance. See the Permanent File folder for additional documentation of our overall COSO evaluation.

We met with Sharon Richter, County Auditor regarding the control processes the County have over SEFA preparation. Based on our discussion we have documented the following controls and procedures:

- Sharon Richter is responsible for preparing the SEFA and related note disclosures.
- **She uses grant reconciliation forms, submitted to her by other departments to prepare the Schedule of Expenditures from Federal Awards, (SEFA). (KC1)**
- These forms indicate information such as amount spent, and received in the program, outstanding reimbursement requests, incurred expenditures to be claimed later, the CFDA number and other information.
- **Sharon ties the information on the forms, such as amounts received against general ledger figures. She consults the CFDA catalog and department heads when questions arise. (KC2)**

STEP 3: Confirm Key Controls
We obtained and reviewed the Annual Report working file which includes all grant reconciliation forms from each department that received grant funding during FY 2017. We scanned through the file and noted email correspondence with various departments discussing grants, a draft of the SEFA with notes and check marks, and reconciliation forms. Each reconciliation form contained a highlighted green mark. Sharon walked us through her process for preparation of the SEFA and explained that the highlighted marks on the reconciliation forms indicate that the form was reviewed for accuracy and added to the schedule. Sharon pointed out the section of the reconciliation forms which listed the grant title and CFDA number and mentioned that she verifies that the information is correct through the CFDA catalog. In the file we also noted general ledger print out with highlights, checkmarks and notes throughout, Sharon compares revenue amounts on the general ledger to the grant reconciliation forms to determine if amounts are reasonable.

Based on our review, it appears this control is in place.

STEP 4: Test Key Controls
We are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

STEP 5: Final Control Risk Assessment
MAX - We noted no matters involving internal control over SEFA preparation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

STEP 6: Risk of Material Misstatement
Based on our assessment of inherent risk and control risk above, we assessed the risk of material misstatement at MODERATE.

STEP 7: Substantive / Compliance Testing

Test SEFA by performing the following procedures:

- Trace figures to the underlying accounting and other records

We selected the grants highlighted in green at SEFA vouch to vouch the SEFA to at least 90%. We obtained the source documentation showing federal expenditures incurred during 2017 from the applicable departments.

We found that Prosecutor and Public Health was filling out the Departmental SEFA Form based on revenues rather than expenditures based on guidance from the Auditor's Office and documentation from the Treasurer's Office. Because of this, the SEFA was overstated and understated to different degrees, depending on the department and grant. We noted that the Treasurer's Office provided Account Analysis Reports to these departments, which showed revenues (3XX account codes) instead of expenditures (5XX account codes). The net variance for these departments was an overstatement of $31,283.

We also noted that the Public Works department miscalculated 3 of their projects within their Highway Construction & Planning Grant for a net variance of $(6,890) understated. One of these grants had an extension filed, which was later denied. Thus, $2,874 of expenses became unallowable, but the SEFA was not updated.

There was one project within the Highway Construction & Planning Grant (Public Works) that was recorded as a federal grant by mistake in the Auditor's Office ($5,984).

We noted that the Public Health Department miscalculated a grant by using revenues rather than expenditures resulting in an overstatement of $20,790.

There was an overall net overstatement of $30,377 reported on the SEFA. We have confirmed that these amounts are accurate through review of the supporting documentation for the 2017 grant expenditures. We subtracted amounts in excess of the actual expenditures from the Total Federal Awards Expended line on the SEFA, bringing our balance from $1,254,310 to $1,223,933. We were able to vouch 90.5% of the SEFA after the corrections to the total were made.

We added this to the Aggregation of Misstatements step. Aggregation of Misstatements (BARS Cash)the level of recommendation spreadsheet (LOR Summary) and recommendation (E - SEFA Preparation).

- Read the SEFA and related notes, considering results of procedures performed and knowledge obtained during the audit. Determine if notes contain required disclosures. Compare SEFA footnotes to BARS/ABFR example. *At a minimum, the footnotes must* *describe the basis of accounting* ***and whether or not the auditee elected to use the 10% de minimis cost rate as covered in 2 CFR §200.414 Indirect (F&A) costs.***

- Schedule **was obtained from LGCS** (that is, generated by online filing), so the schedule will foot and presentation will match the BARS manual.
- Schedule **was obtained from LGCS** (that is, generated by online filing), and the Schedule 16 Federal Validation on the Yellow Flag Report was checked to determine if CFDAs, federal agencies, and program titles are accurate. No issues noted.

Consider additional procedures to review completeness and appropriateness based on assessed risk:

- Do the expenditure amounts reported on the SEFA agree to the auditee's accounting records and other supporting documentation? **No. See above.**
- Is the SEFA prepared using the same basis of accounting as the financial statements? **Yes.**
- Are there any new awards that need to be added to the SEFA? Consider comparing total grant revenue with the amount reported as expended on the SEFA as a reasonableness test. **Compared grant revenue with SEFA. Appears reasonable.**
- Are there any programs listed on prior-year schedule that have been omitted during current year? Consider comparing total grant revenue with the amount reported as expended on the SEFA as a reasonableness test. **Compared the prior year SEFA to the current SEFA and did not identify any new or omitted programs.**
- Are there any federal loans on the grantee's debt schedule that should be listed on the SEFA? Did the grantee omit a loan it received from a state agency that it believed to be state-funded instead of federal-funded? **No.**
- Does the SEFA reflect all the operations of the reporting entity (all departments, offices, agencies, etc.)? **Yes.**
- Does the auditee have any component units? If yes, are the federal awards expended by the component unit(s) included in the auditee’s SEFA or did the component unit elect to have its own separate single audit conducted? **Not applicable.**
- Are grants properly identified as direct or indirect, and if an indirect grant, is the name of the pass-through agency properly identified? **Yes.**
- Are the "other identification numbers" listed on the schedule, such as contract or grant agreement numbers (as noted above, this is required under Uniform Guidance)? **Yes.**
- If the auditee has a cluster, is each program of the cluster identified separately (cluster name and list of programs in the cluster) and the cluster totaled (see above for requirements)? **Yes.**

- Does the SEFA include a separate column to report the total amount provided to subrecipients from each federal award (assuming it had subrecipients - see above for requirements)? **Yes.**
- Refer to Single Audit Planning Guide for additional information about reporting loans, receipt of property (supplies, equipment, vaccines), Medicaid, FEMA disaster assistance, program income, etc.

B.3.PRG - Single Audit Planning - Uniform Guidance Audits

Procedure Step: Low-Risk Auditee Status

Prepared By: MDR, 7/2/2018

Reviewed By: DHO, 7/5/2018

Purpose/Conclusion:

Purpose:
To determine if the entity qualifies as a low-risk auditee.

Conclusion:
We determined that the entity does **not** qualify as a low-risk auditee

Testing Strategy:

UPDATED 2/21/18 with highlighted info
For this procedure step, auditors will use the "Post Uniform Guidance Single Audit History and Low Risk Auditee Status" report that was exported from FAP as instructed in the Single Audit History procedure step above *(Export the "Post Uniform Guidance Single Audit History and Low Risk Auditee Status" report from the Financial Analysis Program (FAP) for this entity (which is mainly sourced from the Federal Audit Clearinghouse of previously submitted Data Collection Forms). In FAP, from the drop down menu, select the entity and year, and for the "System "select "Federal Clearinghouse". Expand "Entity Specific" and run the report.)*

Auditors are **required** to check if the auditee meets all the following conditions for each of the preceding two years in order to determine if the government qualifies as a low-risk auditee and is eligible for reduced audit coverage (20% of total federal expenditures). **The FAP report**

determines most of these conditions for you, however note there are a couple of conditions the auditor must determine. Review the FAP report and let the Single Audit Specialist know if any of the information is incorrect.

- Single audits were performed on an annual basis in accordance with the provisions of Circular A-133 or Subpart F – Audit Requirements of the Uniform Guidance in 2 CFR 200, as applicable, including submitting the data collection form and the reporting package to the Federal Audit Clearinghouse (FAC) within the timeframe specified in 2 CFR §200.512 Report Submission (the earlier of 30 calendar days after receipt of the audit report or 9 months after the fiscal year end).
  In response to ARRA, the OMB has stated that in order to meet the criteria for a low-risk auditee in the current year, the prior two years audits must have met the requirements of OMB Circular A-133, including submitting the A-133 report to the Federal Audit Clearinghouse (FAC) by the due date. For example, unless the auditee is granted an extension by a federal agency, it would not meet the criteria for a low-risk auditee for the fiscal year ended June 30, 2012, if the audits for either of the prior two years audits (fiscal years June 30, 2010 or 2011) were not submitted to the FAC by the due date 9 months after the fiscal year ended (March 31, 2011 and 2012, respectively). ***This clarification has been made a requirement for audits performed pursuant to 2 CFR 200, Subpart F – Audit Requirements of the Uniform Guidance (2 CFR 200.520(a)).***

  How do I know when the audit was submitted to the Federal Audit Clearinghouse (FAC)?

  This query has been performed for you; see the "**Post Uniform Guidance Single Audit History and Low Risk Auditee Status"** report "Audit Year Submitted", "(a) 9 Month Deadline", and "(a) 30 Day Deadline" columns. This report will indicate if the reporting package was submitted to the FAC within the earlier of 30 calendar days after receipt of the report (the report "issue date" is used) or 9 months after the fiscal year end. The specifications of this report take into account the extensions that were granted by OMB while the FAC website was down. OMB granted an extension until November 30, 2014 for all FY 2014 reporting packages due on or before November 30, 2014. OMB also granted an extension to February 1, 2016 for audit submissions that were due to be submitted to the FAC between July 22, 2015 and January 31, 2016. Because of the unavailability of the FAC, these extensions were automatic and no approval was required. **NOTE: If the 30 day deadline was not met please contact the single audit specialist. Depending on the circumstances, either the specialist or the entity can submit a written request to the cognizant or oversight agency as applicable waiving the 30 day requirement (assuming the 9 month date was met) for the entity to still be considered a low-risk auditee.**

- The auditor's opinion on whether the financial statements were prepared in accordance with GAAP, or basis of accounting required by state law, and the auditor's in-relation to opinion on the schedule of expenditures of Federal awards were unmodified. Note, in the state of Washington, state law does not require entities to follow a specific non-GAAP basis of accounting; therefore, non-GAAP entities do not meet this requirement. **School Districts are the exception to this rule and may qualify as low-risk because they are required to prepare the F-196 per the Schools Accounting Manual.**

NEW: Note there are now two columns added to the FAP report for this requirement and the auditor must determine if these requirements have been met. Click on "ATD" to open the audit report. Review the prior audit reports to determine if the entity prepared GAAP or other basis financial statements, and if GAAP, whether or not the opinion was modified, and whether or not the auditor's in relation to opinion on the SEFA was unmodified. If the financial statements were not GAAP, or the GAAP opinion was modified, the entity does not qualify as a low-risk auditee. **Once you have reviewed the audit report, document one of the following options in the "(b) Financial Statement Opinion" cell: "GAAP/UNMODIFIED - MET", or "GAAP/MODIFIED - NOT MET", "OTHER BASIS - NOT MET", or for schools "GAAP/ADVERSE - MET". For the "(b) SEFA In Relation Opinion" cell, type in "MET" or "NOT MET".**

- There were no deficiencies in internal control over financial reporting which were identified as **material weaknesses** under the requirements of Government Auditing Standards (GAGAS). This includes findings for financial statements or the SEFA that are material weaknesses. **This query has been performed for you;** see "(c) Material Weakness Internal Control".
- The auditor did not report a substantial doubt about the auditee's ability to continue as a going concern. **This query has been performed for you;** see "(d) Going Concern".
- None of the following types of audit findings were issued for a **Type A** program in the last two years; **This query has been performed for you;** see "(e)(1)-(3)":

1. Internal control deficiencies which were identified as **material weaknesses**;

2. A modified opinion or disclaimer of opinion on compliance for a major program;

3. Known or likely **questioned costs** that exceed **5% percent** of the total Federal awards expended for a Type A program during the year.

Policy/Standards:

SAO Audit Policy 5210 – Planning Single Audits

Record of Work Done:

(updated 5/27/16)
As detailed in SingleAuditHistoryLowRiskStatus_PostUG, we checked all the following conditions for each of the preceding two years (note there was no FY16 federal audit):

- Single audits were performed on an annual basis in accordance with the provisions of Circular A-133 or Subpart F – Audit Requirements of the Uniform Guidance in 2 CFR 200 Criteria met

- The data collection form and single audit reporting package was submitted to the Federal Audit Clearinghouse within the earlier of 30 days after receipt of the audit report or 9 months after the fiscal year end - Criteria met
- The auditor's opinions on whether the financial statements were prepared in accordance with GAAP and the auditor's in relation to opinion on the schedule of expenditures of Federal awards were unmodified - Criteria not met
- There were no deficiencies in internal control over financial reporting which were identified as material weaknesses under the requirements of Government Auditing Standards (GAGAS) - Criteria met
- The auditor did not report a substantial doubt about the auditee's ability to continue as a going concern. - Criteria met
- None of the Federal programs had audit findings from any of the following in either of the preceding two years in which they were classified as Type A programs: Criteria met
  1. Internal control deficiencies which were identified as material weaknesses;
  2. Modified opinion on a major program;
  3. Known or likely questioned costs that exceeded five percent of the total Federal awards expended for a Type A program during the year.

The County does not quality as a low risk auditee as they are a cash-basis entity.

B.3.PRG - Single Audit Planning - Uniform Guidance Audits

Procedure Step: Materiality

Prepared By: MDR, 7/2/2018

Reviewed By: DHO, 7/5/2018

Purpose/Conclusion:

Purpose:

To document materiality for our audits of federal programs.

Conclusion:

We have established our preliminary judgments about how we will evaluate the materiality of internal control deficiencies and instances of noncompliance should they arise during our audit of a major program.

Testing Strategy:

Review the standard materiality policy stated below in the Record of Work Done. Consult with a supervisor if you determine a modification needs to be made to the materiality preliminary judgments for your auditee. Sign off on this step after you read the materiality guidance.

Policy/Standards:

AICPA Audit Guide, Government Auditing Standards and Single Audits , provides the following guidance on materiality in relation to federal programs:

In a compliance audit, the auditor's consideration of materiality in a Uniform Guidance compliance audit differs from that in an audit of the financial statements. Materiality is affected by (a) the nature of the compliance requirements, which may or may not be quantifiable in monetary terms; (b) the nature and frequency of noncompliance identified with an appropriate consideration of sampling risk; and (c) qualitative considerations, such as the needs and expectations of federal agencies and pass-through entities. Qualitative factors that indicate that an identified instance of noncompliance may be immaterial include (A) a low risk of public or political sensitivity, (B) a single exception that has a low risk of being pervasive, or (C) an indication, based on the auditor's judgment and experience, that the affected federal agency or pass-through entity would normally not need to resolve the finding or take follow-up action.

Record of Work Done:

Decisions about the materiality of noncompliance and the significance of internal control deficiencies will be made at the individual compliance requirement level (e.g., allowable costs, eligibility, matching, etc.) for each major program. In addition, if accumulated findings and questioned costs are material to the major program taken as a whole, we will consider the need to qualify our opinion on the auditee's compliance with requirements applicable to the major program.

Internal Controls

When evaluating deficiencies found in an auditee’s internal controls over compliance, we will use the chart in the Major Federal Program spreadsheet as guidance. This evaluation will be made for each compliance requirement selected for audit.

Compliance areas that do not have quantitative values, such as reporting, may qualify as findings due to qualitative characteristics (since these do not have an expenditure impact). The auditor should consider whether internal controls are ineffective to prevent or detect non-compliance. Qualitative considerations may include the needs and expectations of federal agencies and pass-through entities. Qualitative factors that indicate that controls leading to potential non-compliance may be **immaterial** include (A) a low risk of public or political sensitivity, (B) a single exception that has a low risk of being pervasive, or (C) an indication, based on the auditor's judgment and experience, that the affected federal agency or pass-through entity would normally not need to resolve the finding or take follow-up action.

Tests of Compliance

Individual compliance areas - We will report as findings any known and likely questioned costs that exceed $25,000 for a particular compliance requirement**.** For other instances of noncompliance without questioned costs (for example, a financial report that contains errors or a case where subrecipients have not been monitored), we will consider reporting a finding if the monetary value or effect associated with the noncompliance exceeds **10%** of total program expenditures. When our test size is less than **10%** of the program total expenditures, auditors should consider either expanding testing or extrapolating the results to determine whether the **10%** threshold would likely be exceeded. However, this general rule will not preclude us from reporting a finding for lesser amounts, nor will this preclude us from reevaluating our materiality threshold and expanding and/or modifying the nature and extent of testing. We also recognize that noncompliance can occur in areas without an associated monetary value and not result in questioned costs. Such cases will be evaluated using qualitative factors such as (1) the level of public or political sensitivity, (2) isolated exceptions with a low risk of pervasiveness, and (3) the perspective of the grantor agency as to the importance of the issue.

Opinion on compliance for each major program – If the dollar amount associated with instances of noncompliance, either for an individual compliance requirement or aggregated compliance requirements, exceeds **20% of the total program costs**, we will consider qualifying our opinion on compliance for the program as a whole. This does not preclude auditors from modifying their opinion for lesser amounts. In addition to this quantitative measure, auditors should use qualitative factors such as (1) the level of public or political sensitivity, (2) isolated exceptions with a low risk of pervasiveness, and (3) the perspective of the grantor agency as to the importance of the issue when considering whether to qualify their opinion on compliance for the program. Auditors should also recognize it may be necessary to qualify their opinion on compliance for scope limitations where sufficient and appropriate audit evidence could not be obtained for examination.

B.3.PRG - Single Audit Planning - Uniform Guidance Audits

Procedure Step: Risk Assessments & Major Programs

Prepared By: MDR, 7/17/2018

Reviewed By: DHO, 7/26/2018

Purpose/Conclusion:

Purpose:

Columbia County

To perform risk assessments as applicable to determine the major programs. Also, to obtain audit programs from the SAOStore.

Conclusion:
We performed risk assessments as applicable to determine the major programs.

Testing Strategy:

Selecting Major Programs for Audit

The auditor must use a risk-based approach to determine which Federal programs are major programs. This risk-based approach must include consideration of: current and prior audit experience, oversight by Federal agencies and pass-through entities, and the inherent risk of the Federal program.

Use the attached spreadsheet to document risk assessments and determine the major programs you will audit:

Step 1. Input the fiscal year end date where indicated in the spreadsheet.

Step 2. Input the total federal expenditures where indicated based on the final Schedule of Expenditures of Federal Awards.

Step 3. Select the percentage of coverage required -- 20% or 40% -- based on whether the auditee qualified as a "low risk auditee". (The spreadsheet will then calculate the dollar amount of required coverage).

The purpose of the percentage of coverage rule is to ensure that a minimum amount of expenditures are covered in an audit conducted under Uniform Guidance (Subpart F – Audit Requirements 2 CFR §200.518(f)). Accordingly, the auditor must audit programs with federal awards expended that, in aggregate, encompass at least 40% of total federal awards expended. If the auditee meets the criteria for a low-risk auditee, the minimum coverage is reduced to 20%.

Step 4(a). Determine Type A and Type B programs based on the final SEFA.

Type A programs are those with expenditures equal to or exceeding $750,000. See the table below for Type A/B threshold when total Federal awards expended exceeds $25 million.

Total Federal awards expended	Type A/B threshold
Equal to or exceed $750,000 but less than or equal to $25 million	$750,000
Exceeds $25 million but less than or equal to $100	Total Federal awards expended times .03

million	
Exceeds $100 million but less than or equal to $1 billion	$3 million
Exceeds $1 billion but less than or equal to $10 billion	Total Federal awards expended times .003
Exceeds $10 billion but less than or equal to $20 billion	$30 million
Exceeds $20 billion	Total Federal awards expended times .0015

- Any federal programs not labeled "Type A" must be labeled "Type B" programs.
- All awards with the same CFDA number are considered a single "program".
- Clusters. You may have to combine one or more programs into a "cluster" and re-evaluate if the aggregated amount has become a Type A.

As defined by 2 CFR §200.17, a "cluster of programs" means a grouping of closely related programs that share common compliance requirements. A cluster of programs must be considered a single program for determining major programs (labeling a Type A and Type B program and assessing risk). OMB designates those programs that are considered to be clusters of Federal programs in Part 5 of the Compliance Supplement, which is updated annually. Part 5 has information about the Research and Development Cluster, Federal Student Aid Cluster, and Other Clusters. The list of "Other Clusters" is located near the end of Part 5.

CAUTION - Many of the ARRA programs have been deleted from Parts 4 and 5 of the June 2015 Compliance Supplement (applicable for audits of fiscal years beginning after 6/30/2014) based on their completion or limited amount of funds still subject to audit. However, if an entity has Federal awards expended from these programs they would be treated consistent with any other programs not included in the Compliance Supplement or not part of a cluster of programs. For example, if programs were deleted from a cluster: (1) the program would not be considered as part of a cluster for periods covered by the Compliance Supplement, as the Compliance Supplement does not include the program in a cluster (which means it wouldn’t be reported on the SEFA as part of the cluster), and (2) if the program was part of a cluster which was audited as a major program in a prior year, the normal OMB Circular A-133/2 CFR part 200, subpart F, major program selection criteria and risk-based approach would apply and the program would be considered as audited in that prior year for purposes of major program determination, including consideration of any audit findings.

Excluding certain loans from the Type A calculation:
According to the Uniform Guidance, Subpart F – Audit Requirements, 2 CFR 200.518(b)(3), the inclusion of “large” loans and loan guarantees must not result in the exclusion of other programs being classified as Type A programs. When a Federal program providing loans exceeds four times the largest non-loan program it is considered a large loan program, and the auditor must consider this Federal program as a Type A program and exclude its values in determining other Type A programs. This recalculation of the Type A program is performed after removing the

total of all large loan programs. For the purposes of this paragraph a program is only considered to be a Federal program providing loans if the value of Federal awards expended for loans within the program comprises fifty percent or more of the total Federal awards expended for the program. A cluster of programs is treated as one program and the value of Federal awards expended under a loan program is determined as described in §200.502 Basis for determining Federal awards expended.

Example SEFA:

Loan #1	$20,000,000
Grant #1	$ 750,000
Grant #2	$ 850,000
Grant #3	$ 3,000,000
Grant #4	$ 4,000,000
All others	$ 1,400,000 (each individual grant is below $750,000).
TOTAL	$30,000,000

Based on total federal expenditures of $30 million, the Type A threshold is $900,000. But, if you exclude the "large loan" (i.e., any loan that exceeds 4 times the largest non-loan program – for example, grant #4 multiplied by 4) from the total expenditures,the Type A threshold, when recalculated, drops to $750,000. As a result, you would classify Grant #1 and Grant #2 as additional Type A programs when you normally would not have done so under the original Type A threshold of $900,000.

Step 4(b). Input into the spreadsheet the programs listed on the SEFA. Combine programs into one row that are considered a cluster as these will need to be analyzed and audited as a single program.

The spreadsheet will automatically determine whether a program is a Type A or Type B based on the total federal expenditures you input in Step 2 above.

- You are required to perform risk assessments for all Type A programs.
- You are required to perform risk assessments, one at a time, for Type B programs that exceed 25% of the Type A threshold determined in step 4(a) above (for example, if the Type A threshold is $750,000, risk assessments are required on Type B programs exceeding $187,500). However, the auditor is not required to identify more high-risk Type B programs than at least one fourth of the number of low-risk Type A's (for example, if you identified up to four low-risk Type A's, you are only required to identify one high-risk Type B and may stop assessing the risk of other Type B programs). NOTE: See next bullet for exceptions and additional information.
- If the grantee does not have any Type A programs or any low-risk Type A programs, you are not required to perform a risk assessment of Type B programs (because 1/4th of 0 = 0). At that point, use auditor judgment to choose the Type B programs until coverage is met. As noted below under Type B risk criteria, a Type B program should be considered a high risk program if the prior audit reported a material weakness in internal control or compliance problems; otherwise, a single criteria in risk would seldom cause

a Type B program to be considered high-risk. Further, when identifying which Type B's to assess, the Uniform Guidance encourages auditors to use an approach which provides an opportunity for different high-risk Type B's to be audited as a major program over time.

Step 5(a). Assess the risk of noncompliance occurring that could be material to the federal program. **Note the risk assessment criteria used in the determination of low-risk Type A programs is different than the risk criteria used in the determination of high-risk Type B programs.** For Type A and Type B programs (determined above) use the attributes identified on the spreadsheet.

Type A risk criteria:

Section 200.518(c) of the Uniform Guidance requires the auditor to identify Type A programs that are low-risk. Before a Type A program can be considered low-risk, it must first meet both of the following criteria:

- Audited as a major program in at least one of the two most recent audit periods (in the most recent audit period in the case of a biennial audit).
- In the most recent audit period, the program did not have any of the following:
    - Internal control deficiencies that were identified as material weaknesses in the auditor's report on internal control for major programs.
    - A modified opinion or disclaimer of opinion on the program in the auditor's report on major programs.
    - Known or likely questioned costs that exceed 5% of the total federal awards expended for the program.

Under Uniform Guidance, **the auditor is no longer permitted to use judgment to classify a Type A program based on a conclusion about it's inherent risk.** The only criteria the auditor may consider are the following:

- Oversight exercised by federal agencies and pass-through entities as described in 2 CFR section 200.519(c) (for example, results of recent monitoring or other reviews or indication in the Compliance Supplement that a federal agency has identified a federal program as higher risk).
- The results of audit follow-up.
- Any changes in personnel or systems affecting the program.

Type B risk criteria:

(Perform risk assessments on Type B programs until high-risk Type B programs have been identified up to at least 25% (rounding up) of the number of low risk Type A programs.) If the prior audit of the program had a material weakness in internal control or compliance problems, the program should be considered high-risk; otherwise, a single criteria in risk would seldom cause a Type B program to be considered high-risk. The Uniform Guidance encourages auditors to use an approach which provides an opportunity for different high-risk Type B programs to be audited as a major program over time.

Each column will require a "yes" or "no" answer. You will need to gather data about each program to make these decisions. **Read the comment box found in each column to identify the types of information that you will need to assist you in making the assessment.** The source of the information for each risk factor varies and could come from: prior year workpapers; audit reports; management letters; inquiry of the grantee; inquiry of the grantor agency (or pass-through agency); brainstorming with other auditors; input from the SAO single audit specialist, etc. The "auditor notes" column included at the end of each row in the spreadsheet is available for you to add the rationale for your risk assessment.

Fraud risk column – Consider whether there are any known or perceived risks of material noncompliance due to fraud in each Type A and B included in the spreadsheet (e.g., misappropriation of federal assets, intentionally misreporting financial or program information to the grantor, false client eligibility determinations, etc.). If you determine there is a risk of material noncompliance due to fraud, be sure to identify the specific compliance requirement that is susceptible to fraud in the Auditor Notes column of the spreadsheet (e.g., Activities Allowed, Eligibility, Equipment, Reporting, etc.).

New Columns - Transition Considerations in a Uniform Guidance Audit:
The auditor may need to test awards that are subject to two different sets of administrative requirements and cost principles. Award recipients have to implement the administrative requirements and cost principles in the Uniform Guidance for all new federal awards made on or after 12/26/14, and for funding increments (additional funding on existing awards) with modified terms and conditions that are awarded on or after that date. Auditors should use Part 3.2 of the Compliance Supplement when testing these awards. Previous awards, including funding increments without modified award terms and conditions are subject to the requirements in the previous administrative requirements and cost principles (i.e., A-102 common rule, A-87 cost principles). Auditors should use Part 3.1 of the Compliance Supplement when testing these awards. Because an individual program or cluster may be composed of multiple awards, it is possible that awards may be subject to both sets of requirements.

Step 5(b). Brainstorm Fraud Risks
Based on your results from Step 5(a) above, discuss any risks of material noncompliance due to fraud with your supervisor. This discussion should take place before the auditor begins work on any major programs and should be documented in the ROWD.

IMPORTANT: Although a risk of noncompliance due to fraud may exist in a particular program, this risk does not require the program to be selected as a major program.

Step 6. Select the programs to audit and specify in the "selection description" cell of the spreadsheet the option you used for making the selection. The programs you select for audit are called "major programs" no matter if they are a Type A or Type B. At a minimum, you must audit all of the following as major programs:

- All high-risk Type A programs.

- All High-risk Type B programs.
- Programs to be audited as major programs based on a federal agency or pass-through entity request (in lieu of the federal agency or pass-through entity conducting or arranging for additional audits or other procedures).
- Such additional programs as may be necessary to comply with the 40% rule (or 20% rule). At this point, you can select from among all remaining low risk Type A programs and any Type B programs to meet the required coverage.

Step 7. Select Major Program Testing Strategies from SAOStore. If a specific program is not available, use the Standard Program-Local and customize this as needed. In order to import more than one Standard Program to a TeamMate file, the standard program folder within the audit must be renamed before getting the next program.

Policy/Standards:

SAO Audit Policy 5210 – Planning Single Audits (effective 9/17/07)

BACKGROUND

The Office of Management and Budget (OMB) Circular A-133 requires a risk-based approach to identify major federal programs for audit. This risk-based approach involves specific steps that must be followed to meet audit requirements.

REQUIREMENTS

1. Auditors planning single audits will complete and document all applicable pre-planning steps in the TeamMate Single Audit program. Those steps include the following:

- Determining if the Schedule of Expenditures of Federal Awards is fairly presented.
- Determining if the entity qualifies as a low-risk auditee to be eligible for reduced audit coverage.
- Making a preliminary judgment about materiality.
- Identifying major programs to audit using a risk-based approach.
- Following up on prior audit findings, performing procedures to assess the reasonableness of the summary schedule of prior audit findings, and reporting as a current-year audit finding when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding.

2. Pre-planning procedures and preliminary audit plans should receive supervisory review in a timely manner.
Refer to Policy 3160 - Supervision and Review.

3. Auditors will communicate information to the auditee or audit committee regarding the nature, timing, and extent of planned testing and reporting.
Communication to the auditee must include planned testing and reporting on compliance with laws and regulations and internal control over financial reporting. Refer to Policies 2130 - Inviting Elected Officials to Entrance/Exit Conferences and 2210 - Conducting Entrance Conferences.

REFERENCES
Single Audit Act Amendments of 1996
OMB Circular A-133 – Audits of States, Local Governments, and Non-Profit Organizations
AU §801 – Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance

Record of Work Done:

First, we determined which programs were classified as Type A and Type B. We then performed risk assessments for the Type A and Type B programs as applicable.

Fraud Brainstorm: On 7/17/18, my supervisor and I discussed whether there are any known or perceived risks of material noncompliance due to fraud with any compliance requirements for Type A and Type B programs. Any risks will be considered when we audit the major program.

Based on the work documented on the attached spreadsheet (Risk Assessments and Major Programs), the following are major programs for the current audit (we obtained the audit programs from the SAOStore):

Program Title - CFDA Number
Highway Planning and Construction - CFDA 20.205

B.3.PRG - Single Audit Planning - Uniform Guidance Audits

Procedure Step: Prior Findings (if applicable)

Prepared By: MDR, 7/2/2018

Reviewed By: DHO, 7/5/2018

Columbia County

Purpose/Conclusion:

Purpose:
To document our plans to audit an enity's follow-up procedures on prior audit findings on federal programs (whether they are major programs or not).

Conclusion:
Not applicable.

Testing Strategy:

Perform the following steps if the auditee has any federal findings that will be listed in the summary schedule of prior audit findings.

The auditor must perform audit follow-up procedures regardless of whether a prior audit finding pertains to a major program in the current year or whether it pertains to a non-major program.

1. Obtain the template for the Schedule of Prior Federal Findings. You must obtain this template manually, which is available in the store under the Audit Administration cabinet | Audit Wrap Up | Template – Prior Audit Findings (the Federal Finding portion is on the second page).
The auditee is responsible for preparing two sections of the federal schedule: "Status of Corrective Action" and a description of "Corrective Action Taken". The other sections are prepared by you. Our objective is to follow-up on the finding to make sure the information prepared by the auditee is accurate. (For more detailed instructions about the template, please refer to the SAO Audit Reporting Standards Manual, Pt. 5, Ch. 5.)

2. After you enter the auditor-required information of the template for each prior federal finding, provide the auditee with either an electronic copy or a hard copy of the schedule so that it can provide the information for its sections.

3. If the prior year issue pertains to a grant that is a major program in the current audit, incorporate your follow-up work in the Record of Work Done for the applicable compliance area of that program. Because it's a major program, you will be performing both internal control testing and compliance testing and should report any exceptions based on your assessment of their materiality.

4. If the prior year issue pertains to a grant that is a non-major program and not being audited, determine the extent of corrective action taken by the auditee and compare this with the status that the auditee reports on its summary schedule of prior audit findings. The auditor is not required to perform audit procedures; therefore the auditor will normally not find questioned costs for a program that is not audited as a major program. However, if the auditor does become aware of questioned costs for a federal program that is not audited as a major program (e.g., as part of audit follow-up or other audit procedures) and the known questioned costs are greater than $25,000, then the audit must report this as an audit finding. We should not expect that corrective action will be complete for every finding, and we do not have to re-report internal control weaknesses or compliance for non-major programs unless you become aware of questioned costs exceeding $25,000 (which should be reported

as a finding). You can document your work for non-major programs in the Record of Work Done under the step located at CONCLUDING SINGLE AUDIT PROCEDURES / STATUS OF PRIOR FEDERAL FINDINGS.

5. After the single audit is complete, go to the record of work done under CONCLUDING SINGLE AUDIT PROCEDURES / PRIOR FEDERAL FINDINGS and compare the results of your follow-up work (step 3 and/or 4 above) with the status of corrective action listed by the auditee in the Summary Schedule of Prior Audit Findings to ensure the information supplied by the auditee is accurate.

Policy/Standards:

Uniform Guidance (2 CFR 200.514(e) states that the **auditor** must follow-up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee, and report, as a current year audit finding, when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding. The auditor must perform audit follow-up procedures regardless of whether a prior audit finding relates to a major program in the current year.

Uniform Guidance (2 CFR 200.511(a) also states that the **auditee** is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings (see instructions for preparing the summary schedule of prior audit findings are located under Single Audit - Wrap-up).

SAO Audit Policy 3410 – Follow Up on Previous Audits

Record of Work Done:

Not Applicable - no prior audit findings

B.3.PRG - Single Audit Planning - Uniform Guidance Audits

Procedure Step:	SA Entrance Conference
Prepared By:	MDR, 7/2/2018
Reviewed By:	DHO, 7/5/2018

Purpose/Conclusion:

Purpose / Conclusion:

To communicate our audit responsibilities and the planned scope and timing of the audit to management and the governing body.

Testing Strategy:

Typically communication of our planned single audit occurs at the financial statement entrance conference, which is documented in a separate step. Auditors should ensure that the required single audit communications (as included in the entrance conference template) are covered at this conference.

If no entrance conference was held, explain the situation in the record of work done and the Entrance Conference Explanation Field in the custom tab in the profile. The explanation must include a description of how the required information above was communicated to the entity and those charged with governance.

If a separate entrance conference is held to communicate about the single audit, auditors must document invitations, conference date, attendees and discussion topics (see the financial statement entrance conference step for detailed instructions).

Policy/Standards:

SAO Audit Policy 2130 - Inviting Officials to Entrance and Exit Conferences

SAO Audit Policy 2210 - Conducting Entrance Conferences

Record of Work Done:

See Entrance Conference planning step at AC Entrance Conference for complete details.

C.1.PRG - Concluding Accountability Audit Procedures

Procedure Step:	Changes to AC Audit Plan
Prepared By:	MDR, 8/23/2018
Reviewed By:	DHO, 8/28/2018

Purpose/Conclusion:

Purpose:

To document changes in the audit plan and determine whether changes caused audit objectives not to be met.

Conclusion:
No changes were necessary to the audit plan.

Testing Strategy:

To evaluate any changes to the original plan, auditors are **required** to:

- Document any changes to the original audit plan.

Changes made during the course of the audit should be differentiated from the original audit plan. These changes may be documented in the Record of Work Done below or as part of the original audit plan (ex: using a different font color or listing the changes in a separate section of the original plan). For changes that result in a new engagement letter or addendum in accordance with policy 2140 and 1220, refer to the Engagement Letter step in Teammate.

- Determine whether changes to the original audit plan support audit objectives.

Auditors should consider:

- *Possibility for a significant issue in any areas not completed*
- *Sufficiency of procedures to conclude on the existence and extent of any significant issues in areas where exceptions or new risk information was noted*
- *Any needs for an unplanned area to be tested based on new risk information gained during the course of the audit*

In making this determination, the lack of budget would not be a valid reason for dropping a planned area. Rather, the team must either conclude that the likelihood of a significant issue is reasonably low, or - if team management determines that more work may be necessary to achieve the audit objectives - the budget should be adjusted in accordance with requirements of Audit Policy 1220 as necessary.

Audit risk for certain areas may be able to be addressed through other engagements or mitigated through further inquiries or reporting the potential risk to the government and recommending internal review or other follow-up.

Auditors should consider whether permanent file information needs to be updated to capture any significant new information discovered during the course of the audit.

Policy/Standards:

SAO Audit Policy 1220 - Engagement Cost Management

SAO Audit Policy 4210 - Planning Accountability Audits

Record of Work Done:

No changes were made to our audit plan.

C.1.PRG - Concluding Accountability Audit Procedures

Procedure Step: AC Summary & Report

Prepared By: MDR, 8/23/2018

Reviewed By: DHO, 8/28/2018

Purpose/Conclusion:

Purpose:
To determine (1) if audit evidence is sufficient and appropriate to support our accountability report and (2) the audit results to be included in our report.

Conclusion:
We determined audit evidence is sufficient and appropriate to support our accountability report adn the audit results in our report.

Testing Strategy:

Auditors are **required** to perform the following procedures to determine whether evidence is sufficient and appropriate and determine the content of our audit report:

(1) Evaluation of Evidence Obtained

- **Completion of audit work:** Check that all accountability work is completed.

Reminder: all work supporting the report must be completed and reviewed prior to the date of our audit report. This includes any referenced work documented in other audits or sections.

- **Identified risks:** Determine whether risks identified in planning and during the audit were adequately addressed in documented audit procedures.

- **Audit evidence:** Determine whether procedures and results provided audit evidence of an appropriate quality and in a sufficient extent to support the report.

"Sufficient" refers to the amount of evidence obtained; "appropriate" refers to the quality of the evidence; "quality" refers to applicability of the evidence to the audit objective.
If evidence is not sufficient or of an appropriate quality to conclude on a particular area, the auditor should perform further tests or procedures to obtain the necessary evidence.

- **Communication with the Governing Body:** Evaluate whether two-way communication with those charged with governance has been adequate for the purpose of the audit. If not, there is a risk that all of the audit evidence required to support the audit report has not be obtained. In such cases, the auditor should take appropriate action to address the effectiveness of the communication prior to reporting.

The objective of this evaluation is to consider whether we have all the information we need from the governing body before issuing the report. While an exit conference (or planned exit conference) may be necessary in some circumstances to obtain or confirm views of the governing body, the auditor may conclude that communication is adequate and the report may be issued prior to the exit conference.
In evaluating communication, auditors should consider:

- *Whether the audit results in findings or there were difficulties or disagreements during the course of the audit that necessitate specific communication with the governing body*
- *Whether the views of the governing body are important to any key audit evidence*
- *The apparent awareness and understanding of the governing body to any critical issues or business risks identified by the audit*
- *The apparent openness of the governing body in their communications with auditors and their willingness and ability to meet with auditors*
- *The apparent level of communication by management with the governing body regarding the audit*
- *Whether any members of the governing body have expressed interest or concern about any audit areas or issues*

(2) Accountability Report

- Determine the reporting level of audit issues.
- Check the Description of Entity and Officials sections with the audit liaison and work with your manager on any questions about necessary report content.

(3) Report Preparation & Distribution

- Prepare the audit report using ORCA and the ARS manual.

- Review report distribution in ORCA to ensure standard distribution and distribution to any additional parties that may need to be informed of the audit.
- Route Findings and Management Letters to the appropriate personnel.

Policy/Standards:

Refer to ARS manual for details regarding audit report contents and preparation.
SAO Audit Policy 4410 – Accountability Reporting

SAO Audit Policy 2310 – Protocol for Findings and Management Letters

Record of Work Done:

(1) Evaluation of Evidence Obtained
We determined that sufficient, appropriate evidence was obtained and documented in order to support our audit report. In making this determination, we:

- **Completion of work:** checked that all accountability work was complete.
- **Identified risks:** checked that risks identified in planning were adequately addressed by documented audit procedures.
- **Audit evidence:** considered quality and amount of audit evidence, in relation to identified risks.
- **Communication with governing body:** considered sufficiency and effectiveness of our communication with management and those charged with governance.

(2) Accountability Report
We analyzed accumulated issued in the attached LOR Summary ()LOR Summary. Based on our audit and consideration of results at both individual and aggregate levels, we determined reporting level of audit issues and determined content of our audit report.

(3) Report Preparation & Distribution:
Report preparation, technical report review, issuance, distribution, and the final official version of the report is documented in ORCA and the ARTS database.
Standard report distribution will include the audit liaison (on behalf of the government's management and governing body), representatives of oversight bodies and other officials as appropriate. Report distribution will not be limited. The report will be published on our website and further distributed by email to any parties with applicable subscriptions.

C.1.PRG - Concluding Accountability Audit Procedures

Columbia County

Procedure Step: Review Finding Response
Prepared By: MDR, 9/13/2018
Reviewed By: DHO, 9/19/2018

Purpose/Conclusion:

This step is only applicable if findings are reported, otherwise it can be deleted.

Purpose:
To request and evaluate the views of responsible officials on draft findings to ensure adequate communication has occurred and our report is accurate, complete and objective.

Conclusion:
We requested and evaluated the views of responsible officials on draft findings to ensure adequate communication has occurred and our report is accurate, compelte, and objective.

Testing Strategy:

Auditors must either (A) obtain and review the finding response on or before the report date or (B) confirm with management on or before the report date that the response will not contain any new information or disagreement that might cause us to re-evaluate our finding, in which case the response may be obtained and reviewed any time before report issuance.

Audit issues should be discussed in detail with the audit liaison and other responsible parties as part of concluding on audit tests. These discussions should be completed prior to providing a draft finding and requesting a response. To request and evaluate the views of responsible officials on draft findings, auditors are **required** to perform the following procedures:

- Use the "Request for Finding Response" template in TM to obtain a response to draft findings.

Normally, coordination of a response will be handled by the audit liaison. But in some circumstances it may be appropriate for the auditor to also directly communicate with other officials or the governing body or request meetings with key staff for this purpose.

- Obtain and evaluate the Auditee's Response. If any comments are inconsistent or in conflict with the finding, check with manager and deputy to determine appropriate follow-up procedures to investigate and attempt to resolve the inconsistency or conflict.

The response should normally be received and reviewed on or before report date. However, the response may be received after the report *date (but before report issuance) so long as auditors document their confirmation that management and the governing body has reviewed the finding and their response will not include any new facts or perspectives that might cause us to re-evaluate our finding.*

If a response was not provided or was edited by the auditor, auditors should document the circumstances and rationale. Appropriate follow-up may include:

- *Discussions or meetings with the government to ensure understanding of issue or to ensure adequate two-way communication with responsible officials and those charged with governance*
- *Audit procedures or report review to evaluate the validity of comments*
- *Modifications to the finding or report*
- *Audit procedures to develop the Auditor's Response*
- *Discussion at the exit conference regarding disagreements with management*

- Develop an appropriate Auditor's Response

Policy/Standards:

GAS 4.33-39 describe the auditor's responsibility to obtain the views of responsible officials and evaluate responses.

ARS Part 5, Chapter 2 provides guidance on development of findings, including the auditee's response and auditor's response sections.

Record of Work Done:

Obtaining the views of responsible officials:
We presented the draft finding to the Board of County Commissioners, on 9/7/18.

We requested a response from the Commissioners on 9/7/18 as documented in Request for Finding Response.

Evaluating the response:

We obtained the response as documented in Commissioner Finding Response - Columbia County. We reviewed it and noted:

- No new evidence was presented
- No information that was contradictory or inconsistent with facts presented in our finding
- No new perspectives were shared that would cause us to re-consider our description of the condition, cause, effect or recommendation

We developed the Auditor's Response section of our finding based on this evaluation.

Columbia County

C.1.PRG - Concluding Accountability Audit Procedures

Procedure Step: AC Letter of Representation
Prepared By: MDR, 9/19/2018
Reviewed By: DHO, 9/19/2018

Purpose/Conclusion:

Purpose:
To confirm the continuing applicability of management's explicit or implicit representations and reduce the possibility of misunderstanding.

Conclusion:
We confirmed the continuing applicability of management's explicit or implicit representations and reduced the possibility of misunderstanding.

Testing Strategy:

Auditors must either (A) obtain and review the representation letter on the report date or (B) confirm with management on or before the report date that the representation letter will be signed without exception, in which case the letter may be obtained and reviewed any time before report issuance.

STEP 1: Identify necessary representations
Using the TeamMate template letter located in the SAOStore (Audit Administration | Audit Wrap-Up folder), determine the applicable written representations needed from management for all periods covered by our audit report. Auditors should use one of the following templates:

- **GAAP** – use for all GAAP presentations (including ESDs and GAAP basis school districts)
- **BARS Cash Basis** – use for all governments that are reporting on a BARS Cash Basis or that do not prepare financial statements.
- **School F196** – use for all school districts that report using the F196 on a cash or modified accrual basis.

The template should be modified as needed to reflect the audit scope and situation.

The "general representations" section should be included in all situations; other sections should be deleted if unneeded. For example, auditors should delete the "additional representations related to the financial statements" section if a financial statement audit is not done or when issuing an opinion on single audit work at a later date than the financial statement opinion.

Consider whether any additional representations need to be obtained beyond the standard representations included in the template and modify the template as needed. Contact TAS if you need assistance regarding any additional representations that may be needed.

The following are common examples of additional representations (see also AU-C 580, Exhibit B):

- *The government has used the work of a specialist, such as for determining environmental remediation, pension, OPEB, self-insurance or landfill obligations.*
- *The government has changed accounting principles.*
- *Supplementary information is being presented (such as CAFR or grant schedules).*
- *Financial circumstances are strained and we are reporting either an emphasis of a matter or going concern paragraph.*

STEP 2: Request letter of representation

Auditors should request the letter of representation by letter or email using the template located in the SAOStore. Since representations include reference to uncorrected misstatements (if any), the auditor's final list of uncorrected misstatements should either be included in the letter or attached.

If an updated letter is needed, auditors may either request a new letter of representation with the correct date or may request an updating letter which refers to the original letter of representation.

STEP 3: Review representations

Obtain and review the representation letter to ensure:

- All representations were properly made and are consistent with expectations
- It is dated as of our report date
- It is signed by appropriate members of current management.

The representation letter must be dated as of the report date. However, the letter may be received after the report date so long as it is obtained before issuing the report.

The letter should be signed by members of management with overall responsibility of financial and operating matters who are responsible and knowledgeable about, directly or through others in the entity, the matters covered in the representations. Generally, the letter is signed by the chief executive officer (e.g. city manager, mayor, superintendent) and the chief financial officer (e.g. finance officer, business manager, clerk/treasurer).

When such persons were not present during all periods referred to in the letter, they may claim they are not in a position to provide some or all of the representations. This fact, however, does not diminish management's responsibilities and would not be a reason for the auditor to accept this risk or responsibility.

Policy/Standards:

SAO Audit Policy 3420 - Obtaining Management Representation Letters

Record of Work Done:

STEP 1:
We selected the appropriate representation letter template from the Store and considered whether any additional representations were needed beyond the standard ones included in the template. We determined that no additional representations were needed. See at Rep Letter Request.

STEP 2:
We requested management representations as detailed in Rep Letter - BARS Cash. Along with the request, a final list of uncorrected misstatements was included in the representation template.

STEP 3:
We obtained the representation letter and reviewed it to check that:

- All representations were properly made and consistent with expectations;
- It was dated the same as our report date; and
- It was signed by appropriate members of management.

See signed representation letter at Signed Mgmt Rep Letter.

C.1.PRG - Concluding Accountability Audit Procedures

Procedure Step: AC Exit Conference

Prepared By: MDR, 9/19/2018

Reviewed By: DHO, 9/19/2018

Purpose/Conclusion:

Purpose / Conclusion:
To communicate the results of our audit with management and those charged with governance.

Testing Strategy:

If no exit conference was held or if the report was issued prior to the date of the exit conference, explain the situation in this step (and in the Exit Conference Explanation field in the Custom tab of the Profile) and document how the auditor ensured that *adequate communication with management and elected officials occurred.*

Pre-Exit Meetings:

If pre-exit or departmental exit conferences are held, the official handout (if any) should be attached and the meeting documented in this step. Attachments for pre-exit or departmental exit meetings should be clearly labeled to distinguish them from the official exit conference.

BEFORE the Exit Conference:

- Communicate with management as to who will attend the exit conference and arrange for a convenient time and location for the exit conference.
- Invite elected officials to the exit conference (approved invitation letter templates are available in the SAOStore).
- Prepare the exit conference handout using the template available in the SAOStore. *Note: management letter, finding and status of prior audit finding templates are also available in the SAOStore, if needed.*
- Prepare a separate handout for exit items and share these items with management prior to the exit conference along with any draft management letter or finding issues.

Exit items are referenced, but not included, in the exit conference document. Auditors should bring the handout to the exit and be prepared to discuss exit items if requested.

- For financial statement audits, print a schedule of uncorrected misstatements from the Aggregation of Misstatements spreadsheet to attach to the exit handout. Also attach a copy of the Management Representation Letter.
- Plan the presentation of audit results by considering the following:
- Who will attend from SAO?
- Who will present each section?
- Detail of audit scope?

DURING the Exit Conference**:**

- Present Exit conference handout. The conference must include discussion of significant audit results, such as:
- All non-trivial uncorrected misstatements. Auditors should attach a schedule of uncorrected misstatements by following the printing instructions on the Aggregation of Misstatements spreadsheet.
- Any material corrected misstatements, if not already reported as part of a significant deficiency or material weakness finding.
- Representations requested from management. A copy of the Management Representation Letter should be attached.

- Significant disagreements with management and their resolution.
- Significant difficulties encountered during the audit.
- Our views on significant questions that management consulted with other CPAs about.
- Any other significant issue related to the governing body's financial reporting responsibilities.

AFTER the Exit Conference:

- Document the conference attendees (SAO and entity) in the Record of Work Done.
- Send copies of the exit document to any elected officials who were not able to attend the conference (do not include the handout of exit items).
- Include the official exit document and handout of exit items in the AS2 Team Reports folder.
- Ensure that exceptions documented in TeamMate match the official handout of exit items, management letter and findings, as applicable.

The final exit conference document, handout of exit items, management letters and findings should be attached at AS2: Team Reports.

Policy/Standards:

SAO Audit Policy 2130 - Inviting Officials to Entrance and Exit Conferences

SAO Audit Policy 2220 - Conducting Exit Conferences

SAO Audit Policy 2310 – Protocol for Findings and Management Letters

Record of Work Done:

Invitations:
We invited staff to attend the Exit Conference via email. We asked the Auditor, Sharon Richter, to distribute the invitations to County staff. See invitation at Exit Conference Invitation.

Exit Conference:
The exit conference handout is documented at Exit Conference. The following people attended the official exit conference on 9/19/18 at the Columbia County Commissioners' Office, which was held in accordance with Audit Policy 2220:

- Sharon Richter, Auditor
- Lisa Ronnberg, PW Business/Accounting Manager and Interim Director

Columbia County

- Audrey McLean, Treasurer
- Chris Mills, Assessor
- Norm Passmore, Commissioner Chairman
- Mike Talbott, Commissioner
- Merle Jackon, Commissioner

C.1.PRG - Concluding Accountability Audit Procedures

Procedure Step:	AC Quality Control Assurance Certification
Prepared By:	MDR, 9/5/2018
Reviewed By:	GLW, 9/10/2018

Purpose/Conclusion:

Purpose / Conclusion:
To review and certify adherence to applicable audit standards and policy with regard to the Accountability audit.

Testing Strategy:

This step should be signed-off by the Auditor-in-Charge, the Assistant Audit Manager, and the Audit Manager. The Quality Control Assurance Certification should be signed-off **before** the Accountability audit report is issued.

If a requirement does not apply, it should be noted on the certification. If a requirement was not met an explanation needs to be documented and approved by the Audit Manager. No other modifications to the form should be made. It is not necessary to reference applicable sections of the certification to the audit documentation.

Policy/Standards:

SAO Audit Policy 3430 – Quality Control Assurance Certification

Columbia County

Record of Work Done:

Quality Control Assurance Certification
*The certification must be signed-off **before** the Accountability audit report is issued.*

Auditor in Charge Statements

1. I am free, both in appearance and in fact, from personal and external impairments to objectivity and independence in matters related to this audit (Audit Policy 3110).

2. I informed assistants, if any, of responsibilities and objectives of the procedures they were planned to perform and all relevant information related to those responsibilities (Audit Policy 3160).

3. I monitored the audit budget compared to actual audit hours and requested approval in advance from the supervisor and Audit Manager if additional audit hours were needed (Audit Policy 3160).

4. I promptly informed my supervisor of potential audit issues encountered (Audit Policy 3160).

5. I informed my supervisor of modifications to the audit plan (Audit Policy 3160).

6. Work performed was documented in accordance with Audit Policy 3310.

7. I reviewed audit documentation prepared by assistants to ensure work was adequately performed and properly documented (Audit Policy 3160).

8. I promptly resolved any coaching notes (Audit Policy 3160).

9. Sufficient and appropriate audit evidence was obtained and evaluated to ensure that specific audit objectives were achieved (Audit Policy 3210).

10. An entrance conference was conducted in accordance with Audit Policies 2130 and 2210.

11. An exit conference was conducted in accordance with Audit Policies 2130 and 2220.

Assistant Audit Manager (Supervisor) Statements

1. I am free, both in appearance and in fact, from personal and external impairments to objectivity and independence in matters related to this audit (Audit Policy 3110).

2. I reviewed audit documentation to ensure work was adequately performed and evaluated whether the results are consistent with the conclusions presented in the engagement report. My review was completed prior to the exit conference and report issuance (Audit Policy 3160).

3. I ensured that all coaching notes were resolved (Audit Policy 3160).

4. I informed the Audit Manager of significant problems or audit issues (Audit Policy 3160).

5. I agree with the certification statements made by the auditor-in-charge.

Audit Manager Statements

1. I am free, both in appearance and in fact, from personal and external impairments to objectivity and independence in matters related to this audit (Audit Policy 3110).

2. I reviewed audit documentation to ensure work was adequately performed and evaluated whether the results are consistent with the conclusions presented in the engagement report. My review was completed prior to the exit conference and report issuance (Audit Policy 3160).

3. I requested approval for audit budget changes from the Director of State and Local Audit or delegate (Audit Policy 1220). Also, I communicated audit budget changes to Team Financial Services.

4. In my opinion, the staff assigned to conduct each engagement collectively possess adequate professional competence for the tasks required (Audit Policy 3140).

5. I immediately informed the Director of State and Local Audit or delegate if the report was anticipated to be issued 30 days or more after the timeliness goals established in Audit Policy 2320.

6. The protocol for findings and management letters as outlined in Audit Policy 2310 was followed.

C.2.PRG - State Grants

Columbia County

Procedure Step:	Review State Grants
Prepared By:	MDR, 8/21/2018
Reviewed By:	GLW, 8/25/2018

Purpose/Conclusion:

Purpose:
To determine whether state grant expenditures were allowable and services were provided in accordance with the grant agreement.
Conclusion:
Based on our review, we determined grant expenditures were allowable and services were provided in accordance with the grant agreement.

Testing Strategy:

Obtain listing of contracts and agreements

Judgmentally select _____ contracts and verify services were actually provided and contractor was paid in accordance with the terms of the contract.

Policy/Standards:

Record of Work Done:

Risks Identified in Planning: Accountability Audit Plan
The Rural Arterial Program (state grant) is material in that it is over 10% of total County expenditures. Risk that state grant expenditurs were not allowable and/or services were not provided in accordance with the grant agreement.

Planned Procedures:
Verify that services were actually provided and contractor was paid in accordance with the terms of the grant agreement.

Work Performed:
Based on our review of Schedule 15 - State Grants, we judgmentally selected the Rural Arterial Program (RAP) for review based on total dollar

amount expended in FY17. We specifically selected the top two projects: PWP 0702-Tucannon Road and PWP 09-02-Lyons Ferry Rd. In speaking with key personnel, we confirmed the grant has not been reviewed by the state grantors.

Rural Arterial Program (RAP)
We met with Lisa Ronnburg, RAP program coordinator to gain an understanding of the grant program.

Lisa requests grant reimbursement on a quarterly basis for the RAP grant.

Lisa maintains a project binder with all payment requests from each funding source and project costs. At the end of each month Lisa runs a report from CAMS for project costs for the specified dates. She tracks and monitors project costs using an excel spreadsheet that she updates each month with project-to-date expenditures and amounts requested from each funding source to ensure reimbursement for the same project costs are not requested from both funding sources.

Prior to submitting each payment request, Lisa routes the reimbursement request form and supporting documents to Andrew Wood, Public Works Director. Andrew reviews each request to ensure amounts are mathematically accurate and costs are allowable. He then signs the requests as evidence of his review/approval and Lisa submits it to the State. Once the funds are received, Audrey McLean, County Treasurer will email the confirmation to Lisa who prints a hard copy to retain in the grant binder.

We obtained all reimbursement requests, supporting CAMS report and vendor pay estimates/invoices from Lisa Ronnburg.
The Tucannon Road Phase 3 project type of work on the grant agreement is Construction. We noted a total of five reimbursement requests were submitted during 2017 for PWP 07-02 Tucannon Road Phase 3. The County spent a total of $1,575,034 on this project (from all funding sources) in 2017. We are reviewing $878,266 (or 56%) of the total project expenditures. We judgmentally selected the two highest payment requests and reviewed supporting documents to ensure grant expenditures were allowable, services were provided in accordance with the contract, and the same project costs were not requested from multiple funding sources.
The Lyons Ferry Road project type of work on the grant agreement is Preliminary Engineering (90%) and Construction (100%). We noted a total of two reimbursement requests were submitted during 2017 for PWP 09-02 Lyons Ferry Rd (the project was completed in 2017 with an October 20, 2017 official closure date; letter regarding closure dated 7/20/17 and no other RAP reimbursement request forms in binder). The County spent a total of $283,964 on this project (from all funding sources) in 2017. We are reviewing $91,051 (or 32%) of the total project expenditures. We judgmentally selected the highest payment request between the two and reviewed supporting documents to ensure grant expenditures were allowable, services were provided in accordance with the contract, and the same project costs were not requested from multiple funding sources. See testing at State Grants Testing .

Conclusion:
Based on our review, we determined grant expenditures were allowable and services were provided in accordance with the grant agreement.

Columbia County

C.3.PRG - General Disbursements

Procedure Step:	Review Disbursements
Prepared By:	MDR, 8/23/2018
Reviewed By:	GLW, 8/25/2018

Purpose/Conclusion:

Purpose:
To determine if vendors are a valid registered businesses, and payments are supported, allowed, authorized, and for the County's purpose.

Conclusion:
We determined that our selected transactions were adequately supported, allowable, and for the County's purpose. We determined that the vendors from our General Disbursement Testing are valid, registered businesses. No issues noted.

Testing Strategy:

Gain an understanding of the disbursement system.

If possible, use CAATS or other analytical procedures to obtain a sample of high risk transactions for review.

If you are not able to obtain a computer generated download of the warrant register, review the paper file and judgmentally select transactions that are high risk to the entity. These transactions include, but are not limited to:

- Travel expenditures and payment of claims
- Payments to elected and appointed officials
- Petty cash replenishments
- Payments to unusual or infrequent vendors
- Expenditures relating to applicable bid laws
- Reimbursement to employees and management
- Credit card expenditures
- Conflict of interest issues
- Fixed asset and inventory purchases

Columbia County

Policy/Standards:

Record of Work Done:

Risks Identified in Planning (Accountability Audit Plan):
We were unable to obtain a Vendor Trend for FY17 due to the Auditor's Office being unable to run the report correctly (reports run did not include vendor amounts past the letter C). Potential risk of invalid vendors. Potential risk of unsupported payments to vendors.

Planned Procedures:
1. Select vendor payments to test from bank statements and tie from the bank statements to the checks, and then to the supporting documentation (invoices).
2. Selected cancelled checks to test from the bank statements and tie them to the bank statements.
3. Verify that vendors selected are valid, registered businesses.
4. Determine whether vendors are a valid registered businesses, and payments are supported, allowed, authorized, and for the County's purpose.

Work Performed:
Please note: As we were unable to obtain a Vendor Trend for FY17 (noted above in Risks Identified in Planning), our process for testing vendors will be based off of the bank statements. Our testing will also be more thorough as this is now a high risk area.

Selection and Testing - Vendors
We spoke with Audrey McLean, Treasurer, about selecting transactions for testing. She explained that for the Home Street checking account, the Debits listed on the bank statement are typically warrants (with Claims Clearing, School 2, or School 35 codes). Within each warrant are multiple checks. There are some checks written straight from the account (approximately 10 every month). For us to select transactions to test, we will go to our selected month's warrants (Claims Clearing-1006 only), and then select individual checks based on who they are written to (looking for vendors). Once checks have been selected, supporting documentation can be provided. We will judgmentally select the top expenditure month from the Home Street checking account. From there, we will judgmentally select checks for testing based on unusual vendor names or payment amounts.

HOME STREEET BANK
We obtained and reviewed the Home Street checking account bank statements. We noted that the top month of expenditures was December (see table below).

Month	**Account**

Columbia County

	Subtractions
January	$2,155,783
February	$1,574,597
March	$2,796,138
April	$1,097,367
May	$2,935,432
June	$2,579,011
July	$1,930,822
August	$1,677,900
September	$1,751,301
October	$1,931,899
November	$2,348,585
December	**$3,566,857**

We obtained the Claims Clearing statement for December 2017. We reviewed all the cancelled check images included in the statement and made note of the ones sent to vendors. We noted vendor name, check date, check number, and check amount (see the "Population" tab at General Disbursement Testing). We judgmentally selected checks for testing based on unusual vendor names and unusual payment amounts.

See General Disbursement Testing in the "Home Street" tab for our final selection.

TESTING
We obtained and reviewed supporting documentation for our selected checks. See testing at General Disbursement Testing.

We found that all checks were adequately supported, allowable, and for the County's purpose. No issues noted.

Verify Vendors
After performing our disbursement testing, we looked up each vendor online through http://bls.dor.wa.gov/checkstatus.aspx to determine whether the vendors are valid and registered businesses. Some vendors were not included on the DOR website, so we found the company's website and determined if the business appeared legitimate. We also had to physically observe two local businesses as they did not have a website. We found that all vendors appeared to be valid. See our testing at General Disbursement Testing in the "Home Street" tab.

We determined that County vendors from our Gen Disb testing are valid, registered businesses.

Determination

In our testing, we determined that our selected general disbursements were adequately supported, allowable, and for the County's purpose. We found one instance where a clerical error resulted in $41 more than was owed in hospital tax revenue being sent to the hospital via check. This appears to be an isolated incident, and the amount is very low, so we will pass on further review.

Conclusion:
We determined that our selected transactions were adequately supported, allowable, and for the County's purpose. We determined that the vendors from our General Disbursement Testing are valid, registered businesses. No issues noted.

C.4.PRG - Payroll Disbursements

Procedure Step: Payroll Disbursement Testing

Prepared By: MDR, 8/15/2018

Reviewed By: GLW, 8/16/2018

Purpose/Conclusion:

Purpose:
To determine whether payroll salaries and wages (gross pay) is valid and adequately supported.

Conclusion:
We determined that the County properly reported employee pay on the W-2 via the County's system, with no exceptions noted. However, we were unable to perform our recalculation of employee pay due to a scope limitation (lack of documentation).

When we attempted to perform a recalculation of employee pay based on Personnel Action Forms (or other acceptable forms), we found that we could not confirm pay for 6 out of 19 employees selected for testing (32%). There were missing PAF (or other) forms indicating position/pay changes, or there was little to no documentation for the employee at all. Cathy Abel, who processes payroll in the Auditor's Office, explained to us that pay-related records are retained by the Auditor's Office in order to make changes to employee pay after the BoCC has approved the change. She also stated that sometimes the BoCC tells them to make a change to an employee's pay even when supporting documentation is not provided, which she will do in that instance.

We inquired with her to determine if there was any other documentation we could review beyond what was already provided by the Auditor's

Office and individual departments, and she told us there was not. We also checked with the BoCC and were told the same. Overall, we could not confirm pay for 6 out of 19 employees selected for testing (32%) due to lack of documentation, so we were not able to recalculate employee pay for all selected employees.

It appears there is a gross lack of documentation related to employee pay to the point that we cannot perform our planned testing (i.e., a scope limitation). We will issue a recommendation and add this item to the FAWF for future consideration of review.
ML - Unsupported PayrollLOR SummaryFAWF

Testing Strategy:

To determine whether selected payroll salaries and wages are valid and adequately supported, **consider** the following procedures:

See the "Payroll Analytical Procedures" step for example analytical procedures to help identify risks or high risk employees/transactions. Staff members who have access to the payroll system, such as HR, IT or management are typically considered high-risk, as well as employees who received large amounts of "extra" pay (overtime or special payments).

Salary or Wages

- Judgmentally select hourly employees to test. For each selected employee, recalculate wages for the period based on timesheets and personnel records or trace hours per the system to supporting timesheets. This test could be done for a selected month(s) or for the entire period.
- Compare actual compensation for salaried employees to the approved salary schedule and/or contracts approved by the legislative body.
- Sum of the number of hours worked and claimed in a period does not exceed 24 hours per day or other unreasonable amounts.
- Timesheets agree with security logs or observations.
- Verify that mid-month draws are accurately calculated, in compliance with entity policy, and properly deducted from month-end payments.
- Check or re-perform the entity's reconciliation of the payroll clearing account for a selected month.
- Match the details of the electronic file sent to the bank for electronic payments to payroll reports for that period. Any differences are a fraud indicator and should be followed-up on.

Overtime / Compensation time

- Ensure the entity retains documentation justifying all overtime/comp time recorded and paid.
- Judgmentally select employees for testing (such as employees with excessive overtime/comptime amounts). For each selected employee, **consider** performing the following tests to determine whether overtime and compensation time is reasonable, authorized, and supported per entity's policies (these tests may be done for a selected month(s) or for the entire period):
    - Compare overtime/comp time amounts paid per the payroll system to timesheets or other sources documents

- Ensure overtime/comp time accrual and payments (number of hours and rates) are accurately calculated
- Review the sum of the number of hours claimed in a period to ensure it does not exceed 24 hours per day or other unreasonable criteria
- Verify that overtime/comp time accrual and payments are in agreement with entity policy (an example may be adequate support of overtime approval/authorization prior to commencement of overtime worked)
- Where a work-week is split between two-months, verify that the overtime/comp time claimed is accurately calculated
  - Ensure employees are not paid for overtime and standby pay for the same time

Bonus or Incentive Payments - see "Bonus & Incentive Payments" TeamMate step for testing strategy and criteria

Policy/Standards:

RCW 41.06 – State Civil Service Law

RCW 41.06.070 – Exemptions to state civil service law

State Constitution, Article II, Section 25 prohibits extra compensation to employees
"The legislature shall never grant any extra compensation to any public officer, agent, employee, servant, or contractor, after the services shall have been rendered, or the contract entered into, nor shall the compensation of any public officer be increased or diminished during his term of office. Nothing in this section shall be deemed to prevent increases in pensions after such pensions shall have been granted."

Record of Work Done:

Risks Identified in Planning (Accountability Audit Plan**):**

During our review of the Payroll Trend, we found that one employee's pay (from the County's own reports) did not match the W-2's for 2015 and 2016. Potential risk of employee pay not being accurate in the accounting system at the County.

Planned Procedures:

1. Judgmentally select employees from the Payroll Trend for testing.
2. Test employee pay by recalculating what their pay should have been via Personnel Action Forms (PAFs). Compare the calculation to what they were paid via the County's accounting system and the employee's W-2 to ensure the amount is reasonable.
3. Determine whether payroll salaries and wages (gross pay) is valid and adequately supported.

Work Performed:

Columbia County

Judgmental Selection
We obtained the Payroll Trend for 2017 and judgmentally selected 19 employees based on potential for risk. During planning, we found one employee whose 2015 and 2016 W-2's did not match the data we were provided in our trend (they were higher than our trend which pulls information from the County's Accounting System). Because of this, not only are we concerned about unallowable payments being made to employees, but we are also concerned about employees not being paid what they have earned. Further, we are concerned that accounting records do not tie to employee W-2's. We judgmentally selected employees based on access to accounting information, large increases or decreases, duplicate entries, or similar names prone to input error.

Payroll Testing
We obtained employee W-2's to compare to the accounting system data. We also obtained personnel files and payroll records (such as approved salary schedules and pay step forms) to perform a quick recalculation. This recalculation is to determine whether what the employee was paid in 2017 appears reasonable based on their approved pay.

W-2 Testing
We compared the W-2 FICA eligible amounts (which do not include Deferred Compensation or Retirement Contributions) to the accounting system gross pay minus pre-tax medical, dental, and AFLAC. These pre-tax deductions are not reported on the W-2. We also compared the W-2 income tax eligible amounts (which do include Deferred Compensation and Retirement Contributions) to the accounting system gross pay minus pre-tax, deferred comp, and retirement contributions.

During our testing, we found that there was a variance of $850 (net) between the accounting system and employee W-2's due to the Accounting System not rolling up Incentive Program and Meal Reimbursements into the Gross Wages line. The incentives and reimbursements, once added with the Gross Wages line, tied to the W-2's.

Recalculation
We planned to recalculate employee gross pay according to approved salary schedules, personnel payroll forms, and applicable dates ranges of wage rates. We planned to compare this figure to the gross pay from the W-2 to ensure it is reasonable.

We requested employee personnel files, and reviewed the pay-related documentation in the Auditor's Office. Further, we inquired with the Clerk of the BoCC for any other pay-related employee information the BoCC may have. We requested the approved 2017 salary schedule (see at 2017 Approved Salary Schedule). We also requested the approved Union Contract in effect in 2017 (see at Approved Union Contract - ColCounty).

--UNION--

For union workers (in our selection all union workers were in Public Works), we verified each employee's union level with Lisa Ronnberg, PW

Business/Accounting Manager by reviewing her union spreadsheet, which she updates monthly. We compared the union level with the approved Union Contract in effect in 2017. We reviewed the contracted and noted the clause regarding wage rates (page 14), which referenced the Wage Table in Appendix A (page 18) and that effective January 1 2017 and January 1 2018 the wage rates would increase by 100% of the CPI-W increase (with a minimum of 1.5% increase and a maximum of 2.5% increase).

We reviewed the CPI-W for September 2016 (see at Consumer Price Index - September 2016) and found that the wage rate increase effective January 1 2017 would be 1.5% (CPI was 1.2%, but minimum increase is 1.5%; see union contract).

In comparing wages between Lisa's union spreadsheet and the union contract wages for Robert Benzel and William Wood, we determined that the employees were paid the correct wage rate for their union level, pay step, and 2017 wage rate table (1.5% increase from original 2016 table). We recalculated their pay based on their approved wages and found a net variance of $2,430.29, most of which came from Robert Benzel who left July 13, 2017 (see Robert Benzel Email) and most likely received sick and vacation leave payouts. Because of this, the variance appears reasonable and we will pass on further review.

See testing at Payroll Disbursement Testing.

--NON-UNION--

When we attempted to perform a recalculation of employee pay based on Personnel Action Forms (or other acceptable forms), we found that we could not confirm pay for 6 out of 19 employees selected for testing (32%). There were missing PAF (or other) forms indicating position/pay changes, or there was little to no documentation for the employee at all. Cathy Abel, who processes payroll in the Auditor's Office, explained to us that pay-related records are retained by the Auditor's Office in order to make changes to employee pay after the BoCC has approved the change. She also stated that sometimes the BoCC tells them to make a change to an employee's pay even when supporting documentation is not provided, which she will do in that instance.

We inquired with her to determine if there was any other documentation we could review beyond what was already provided by the Auditor's Office and individual departments, and she told us there was not. Further, we inquired with the Clerk of the BoCC to determine if there was any documentation held in their office for the employees of which we could not confirm pay. We were told that the Auditor's Office is responsible to hold all payroll-related documentation and that the BoCC does not retain any of that documentation.

There was a net variance of $237,771.04 for non-union employees when we performed our calculations. Most of this variance is due to the 6 employees whose pay we could not confirm, and thus, could not recalculate. The variance for employees for whom we could not recalculate pay was $218,767.07 net.

There was also one employee who switched from Full Time to Hourly On-Call on 4/1/2017. There was no documentation indicating what her pay would be as an Hourly On-Call employee, but there was a drastic drop in pay from 2016 to 2017. We reviewed her timesheets to verify that she was still working, but did not perform a full recalculation, leaving us with a variance of $2,850.27 from hourly work. This appears reasonable so we will pass on further review.

The overall non-union variance NOT including the On-Call employee NOR the employees whose pay cannot be confirmed is $19,003.97 net. Of that amount, $10,568.31 was due to confirmed (via timesheets) overtime and $2,330.98 was due to *un*confirmed (via timesheets) overtime that appeared reasonable, leaving a final variance of $6,104.68 net for non-union employees NOT including the On-Call employee NOR the employees whose pay cannot be confirmed. This variance appears reasonable and we will pass on further review.

We have reviewed all documentation available for our selected employees for which we had questions (variances over $2,000) or for which we could not confirm pay. Because of the overall scope limitation due to lack of documentation, we will issue a recommendation for the lack of payroll-related documentation. We will also add this to the FAWF for consideration of further review in the future (and in response to our recommendation). ML - Unsupported PayrollLOR SummaryFAWF

See testing at Payroll Disbursement Testing.

--ALL EMPLOYEES--

Overall, we could not confirm pay for 6 out of 19 employees selected for testing (32%) due to lack of documentation, so we were not able to recalculate employee pay for all selected employees.

It appears there is a gross lack of documentation related to employee pay, to the point that we cannot perform our planned testing (i.e., a scope limitation). We will issue a recommendation and add this item to the FAWF for future consideration of review.
ML - Unsupported PayrollLOR SummaryFAWF

See testing at Payroll Disbursement Testing.

Determination
We determined that the County properly reported employee pay on the W-2 via the County's system, with no exceptions noted. However, we were unable to perform our recalculation of employee pay due to a scope limitation (lack of documentation).

When we attempted to perform a recalculation of employee pay based on Personnel Action Forms (or other acceptable forms), we found that we could not confirm pay for 6 out of 19 employees selected for testing (32%). There were missing PAF (or other) forms indicating position/pay changes, or there was little to no documentation for the employee at all. Cathy Abel, who processes payroll in the Auditor's Office, explained to us that pay-related records are retained by the Auditor's Office in order to make changes to employee pay after the BoCC has approved the change.

She also stated that sometimes the BoCC tells them to make a change to an employee's pay even when supporting documentation is not provided, which she will do in that instance.

We inquired with her to determine if there was any other documentation we could review beyond what was already provided by the Auditor's Office and individual departments, and she told us there was not. Further, we inquired with the Clerk of the BoCC to determine if there was any documentation held in their office for the employees of which we could not confirm pay. We were told that the Auditor's Office is responsible to hold all payroll-related documentation and that the BoCC does not retain any of that documentation. Overall, we could not confirm pay for 6 out of 19 employees selected for testing (32%) due to lack of documentation, so we were not able to recalculate employee pay for all selected employees. ML - Unsupported PayrollLOR SummaryFAWF

It appears there is a gross lack of documentation related to employee pay, to the point that we cannot perform our planned testing (i.e., a scope limitation). We will issue a recommendation and add this item to the FAWF for future consideration of review.

Conclusion:
We determined that the County properly reported employee pay on the W-2 via the County's system, with no exceptions noted. However, we were unable to perform our recalculation of employee pay due to a scope limitation (lack of documentation).

When we attempted to perform a recalculation of employee pay based on Personnel Action Forms (or other acceptable forms), we found that we could not confirm pay for 6 out of 19 employees selected for testing (32%). There were missing PAF (or other) forms indicating position/pay changes, or there was little to no documentation for the employee at all. Cathy Abel, who processes payroll in the Auditor's Office, explained to us that pay-related records are retained by the Auditor's Office in order to make changes to employee pay after the BoCC has approved the change. She also stated that sometimes the BoCC tells them to make a change to an employee's pay even when supporting documentation is not provided, which she will do in that instance.

We inquired with her to determine if there was any other documentation we could review beyond what was already provided by the Auditor's Office and individual departments, and she told us there was not. Overall, we could not confirm pay for 6 out of 19 employees selected for testing (32%) due to lack of documentation, so we were not able to recalculate employee pay for all selected employees.

It appears there is a gross lack of documentation related to employee pay, to the point that we cannot perform our planned testing (i.e., a scope limitation). We will issue a recommendation and add this item to the FAWF for future consideration of review.
ML - Unsupported PayrollLOR SummaryFAWF

C.5.PRG - Property Room - Records and Disposition

Columbia County

Procedure Step: Disposition of Property
Prepared By: MDR, 8/20/2018
Reviewed By: GLW, 8/22/2018

Purpose/Conclusion:

Purpose:
To determine whether unclaimed and forfeited property was properly disposed.

Conclusion:
Based on our review, it appears that discussion took place regarding the disposition of unclaimed and forfeited property. However, there was no official approval of the items disposed in 2017. We will issue a recommendation. E - Property RoomLOR Summary

Testing Strategy:

See Police / Sheriff's Department Planning Guide for additional background information relating to the types of property held by Police Departments and statutory requirements and processes related to each type.

To determine whether unclaimed and forfeited property was properly disposed, **consider** the following procedures:

- Gain an understanding of the procedures used to dispose of unclaimed and forfeited property. We would expect similar procedures for both types of property to ensure that it is adequately safeguarded. Auditors should consider the following questions:
    - Does the department have a policy regarding disposition of unclaimed and/or forfeited property?
    - How is the decision made to dispose of an item and the method of disposition (destruction, sale, donation or retention)?
    - Do items awaiting disposition remain in the property room or are they moved to a different location? If moved, auditor should consider questions listed under the property room step to evaluate whether the other location is adequately safeguarded.
    - Are processes different for unclaimed property vs forfeited property? Also, are processes different for items to be destroyed vs sold vs donated vs retained? Finally, are there different procedures for certain types of items (ie: drugs, guns or vehicles)?
    - What documentation is generated and maintained for destroyed items, sold items, donated items and retained items?
    - How are records updated for disposition of items and who is able to update the records?

- How are illegal items destroyed and who is responsible for destruction?
- Does the Department have a contract to use third party vendors to sell/trade in items?
- Does the Department currently have any credit balances with auction houses or vendors (ie: due to sales or trade-ins)?
- How does the Department ensure the best possible value is obtained for sales and trade-ins?
- How are proceeds for sales recorded (ie: what accounts are used and documentation retained)?
- Is there an independent reconciliation or review of disposition records to source documents?

- If items awaiting disposition are located in a different facility than the property room, the auditor should consider performing a walkthrough of facility to ensure such items are adequately safeguarded. In such cases, auditors should also consider testing the listings by observing items from listings and tracing observed items to listings.
- Scan the Department's listing(s) of property dispositions and select items for testing.
- Trace property destroyed to records evidencing the destruction. We would expect that such documentation is signed by more than one witness (dual custody control).
- Trace property sold to receipts, auction house manifest reports and/or deposits. Alternatively, auditors could reconcile disposition listings to manifest reports to auction house reports to deposits, or check entity reconciliations. Auditors should also consider checking that sales of unclaimed property were advertised in accordance with statute.

  A manifest report is typically filled in by the department documenting the item and the department's/vendor's bars code. The vendor picks up the items, signs the manifest reports, however typically does not confirm the items until they are unloaded at their place of business. The department receives monthly "Summary Activity" reports to identify the status of all items, which can also be accessed on-line. For items that have sold, the report documents the manifest number, date of sale, amount and reference number. A total is shown at the bottom of the report and should reconcile with the amount of the check received the following month. The report also documents whether items were: regrouped, destroyed, shipped, being tested, unsold or donated (will want to ensure that items being donated follow the same requirements the department is held to). For agencies using www.propertyroom.com, only current, available items can be reviewed on-line. In addition, their webpage shows each individual item by SKU number and description.

  Audit procedures should be considered to reconcile all property sent to the auction house (manifest reports) to auction house reports (Summary Activity reports). In addition, the Department should monitor or reconcile the reports to ensure it is receiving and depositing all earnings.

- Trace property traded in to receipts. Auditors should also consider checking that trade-ins of unclaimed property were advertised in accordance with statute.

- Observe property retained or trace to asset listings. Auditors should also consider checking that unclaimed property was advertised in accordance with statute.
- Trace donations of unclaimed property to receipts. Auditors should also consider checking that donations were made to nonprofit charities and that the donations were restricted to benefit needy persons.

Policy/Standards:

RCW 63.32 describes statutory requirements regarding dispositions of unclaimed property by City Police.

RCW 63.40 describes statutory requirements regarding disposition of unclaimed property by County Police.

Record of Work Done:

Risks Identified in Planning (Accountability Audit Plan):

When the County switched to their new Property Room system (New World), data on property was lost. Since then, the County has gone through all the items in the Property Room and disposed of many bicycles and firearms. Potential risk that records do not match the actual items within the property room. Potential risk that disposed property was not approved and/or did not have proper documentation.

Planned Procedures:

1. Gain an understanding of internal controls over the Property Room (see at Property Room).
2. Test items in the property room (see at Property Room).
3. Review disposed property records to ensure approval was obtained and documents were retained. -See disposed property review below
4. Determine whether unclaimed and forfeited property was properly disposed.

Work Performed:

Disposed Property Review

We obtained and reviewed the documentation available regarding disposition of assets from the Property Room. We reviewed a "Property by Storage Location" Report from 11/29/17 that had notes and checkmarks on it, indicating review of the Property Room (Property Room Internal Audit-Disposal - REDACT - CONFIDENTAL INFO). Per Tim Quigg, Civil Deputy, this report was used when Tim and Michele McCleary, Legal Administrator went through cases and evidence and determined what could be disposed of. Tim also provided an email showing discussion of disposing of property relating to a list of case numbers with Dale Slack, Deputy Prosecuting Attorney (Property Room Disposal Email - REDACT - CONFIDENTIAL INFO.). We went through the case numbers from the email in New World and noted that some, but not all, of the property had been disposed. During our review, however, we did not note any official approval of 2017 dispositions (there were approximately 40 items disposed). We will issue a recommendation. E - Property RoomLOR Summary

Determination

Because there was no indication of official approval for disposal of property, we could not determine if the property was properly disposed.

Conclusion:

Based on our review, it appears that discussion took place regarding the disposition of unclaimed and forfeited property. However, there was no official approval of the items disposed in 2017. We will issue a recommendation. E - Property RoomLOR Summary

C.5.PRG - Property Room - Records and Disposition

Procedure Step: Property Room
Prepared By: MDR, 8/20/2018
Reviewed By: GLW, 8/22/2018

Purpose/Conclusion:

Purpose:
To determine if property held by the Department is adequately safeguarded.

Conclusion:
We determined the Department is maintaining proper stewardship over property held by the department.

Testing Strategy:

See Police / Sheriff's Department Planning Guide for additional background information relating to the types of property held by Police Departments and statutory requirements and processes related to each type.

Law enforcement agencies operate property rooms to safeguard evidence and other property in their possession. Items are either considered: evidence (property related to a crime), found property (lost/abandoned property unconnected with any crime) or seized property. Departments may also have property held in custody for detainees (see jail guide for details). All types of property should have similar controls to ensure it is adequately safeguarded.

To determine if property is adequately safeguarded and monitored, **consider** the following procedures:

- Gain an understanding of the procedures used to safeguard property. Auditors should consider the following questions:
  - Were internal audits performed? What were the results?
  - Is the room adequately secured and is access restricted?
  - Are temporary storage locations used, and if so, are they secured/restricted to limited personnel?
  - How does the Department ensure accountability for evidence? Are system reports, logs or receipts used to record check-in and check-out of evidence?
  - How does the Department track evidence in the property room?
  - Are items physically tagged and bagged (tagging may include case number, description of the items, weight and/or quantity)?
  - Are high-risk items (drugs, money, guns, jewelry or other high-value items) additionally secured?
- Perform a walk-through of the facility to confirm controls over physical security, restricted access, tagging and sealing of items, that accountability for items can be assigned (through logs or receipts) and that high risk items are additionally secured.
- Obtain a listing of all items that should be currently held in the room. Select high risk items from list to observe. Depending on controls and identified risk, auditors may also consider selecting observed items in the property room and tracing to the listing.

Policy/Standards:

Record of Work Done:

Risks Identified in Planning (Accountability Audit Plan):

When the County switched to their new Property Room system (New World), data on property was lost. Since then, the County has gone through all the items in the Property Room and disposed of many bicycles and firearms. Potential risk that records do not match the actual items within the property room. Potential risk that disposed property was not approved and/or did not have proper documentation.

Planned Procedures:

Columbia County

1. Gain an understanding of internal controls over the Property Room.
2. Test Property Room system (New World) records by selecting items from the property log and reviewing the property it is linked to. Also select items from within the Property Room and ask to review the system data it is linked to.
3. Review disposed property records to ensure approval was obtained and documents were retained (see at Disposition of Property).
4. Determine whether property held by the department is adequately safeguarded.

Work Performed:

Gain an Understanding
Key Personnel:
Tim Quigg, Civil Deputy/Evidence Custodian

We spoke with Tim Quigg, Civil Deputy and Evidence Custodian to gain an understanding of internal controls over the Property Room.

Security

- The property room can only be accessed via an electronic pass key. Tim is the only person with a pass key. In case of an emergency, or if Tim was not available, the Sheriff would be able to gain access. The pass key logs date, time and who entered via computer system. Any unauthorized access attempts are also logged by system (e.g. if a deputy tries to use their key fob). The room entry is under CCT surveillance 24/7 and monitored by dispatch, and is also recorded.

Tagging and Tracking

- The Department discontinued using bound evidence books in January 2014 and began using the Spillman/New World evidence module exclusively. All items from the evidence books were input into Spillman, which were subsequently migrated to New World, and reconciled by Tim.
- The Department adopted a Deputy's Evidence Handbook which was distributed to all deputies who were also trained by Tim on proper bagging and tagging.
- To ensure accountability for evidence, the department accounts for all evidence/property by logging all items into New World. Items are packaged and sealed, entered into the system, and bar code labels are printed from the system and placed on each item. New World also maintains the chain of custody. For example, when something is sent to the lab, it is logged out in the computer by Tim. When it returns, it is logged back in by Tim and secured back in the evidence room. When items are released to the owner they are documented as "Returned to Owner" in New World and the owner's signature is kept electronically in New World.

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- Items are physically tagged and bagged (this includes case number, description of the items, weight and/or quantity) using pre-printed bags/boxes which are filled out with required information and then sealed.

- The Department secures guns, money, and drugs within safes inside the secure evidence room. Tim is the only person with access to the safes.

- **Note:** *The County switched from Spillman to New World software in July 2016 to account for property room evidence. All Spillman property room data was printed and hard copy documents retained on file. All department data from Spillman (including the property room) has been converted and was merged to New World. Is this something we need to consider testing? In our testing spreadsheet, items with an asset tag number that is only 4 digits are items that were transferred over from Spillman to New World. In New World, the asset tag number is the same as the case number and is much longer. There were a total of 7 Spillman items out of 26 total items tested (27%). The risk of lost data from Spillman is addressed in our testing. While the software has changed, the process and procedures for tagging and tracking property/evidence remains the same.*

<u>Temporary Evidence</u>

- Temporary storage lockers are used when evidence or property is brought in during the night. Deputies package the evidence (tagged and bagged) and place in a storage locker. There is a padlock inside each locker. The deputy secures the locker with the padlock, then sends Tim an e-mail notifying him there is evidence/property inside the locker that needs to be logged into the system and moved to the evidence room. Tim Quigg is the only person with a key to the pad lock. He will access the locker the following morning and log the property into New World then move it to the property room.

<u>Disposition</u>

- Property that has not already been destroyed once the items have been adjudicated (illegal substances or items), are deemed useful by the County, deemed necessary to keep for a specified amount of time (statute of limitations, found property, etc), or deemed disposable. Disposals of property can occur by destruction or by sale. Whether an item is destroyed or sold is determined on a case by case basis between Tim Quigg and Rocky Miller, Sheriff. They determine whether the property has any value and would be worth selling, and if so, follow auction procedures from their handbook. If the property does not have any value for sale, or is required to be destroyed, they follow the Destruction of Property procedures from their handbook.

- Some property is deemed useful for County use. This is determined on a case by case basis, as noted above. If property has been deemed useful for the County, they follow the Converted for County Use procedures in their handbook.

- Tim places property room items in a box labeled for sale (when determined to be appropriate). Tim updates the item in New World as being set aside for auction. Items are then sold at auction (per evidence handbook) and New World is updated accordingly.

- Tim places property room items in a box labeled for destruction (when determined to be appropriate). Tim updates the item in New World as destroyed. Items are then destroyed by incineration and New World is updated accordingly.

- The County operates a grant program for the destruction of prescription drugs turned in by citizens. A large safe inside the main office houses these drugs until they are incinerated. A drop safe is kept at the front counter for citizens to dispose of unwanted medications. The drop safe requires a two key access. Tim has one key and Rocky has the other. They both must be present to open the safe. When the drop safe gets full, Tim and Rocky open the safe together and the drugs are moved into the larger safe inside the office by Tim and a DEA agent. The larger safe requires a six digit pass code to open. Tim has three digits and a DEA agent has the other three. The safe cannot be opened without both individuals. When the large safe is full, an appointment is scheduled for incineration at the EPA in spokane and items are taken by the DEA and another officer for destruction.

Audits

- Per Tim Quigg, the most recent internal audit was performed in November 2017 by Rocky Miller. We asked to see the audit report, and were told that the only documentation from the audit was the "Property by Location" report that was also used during the 2017 disposition of property project with the Prosecutor's Office. We obtained a copy of the report at Property Room Internal Audit-Disposal - REDACT - CONFIDENTAL INFO. We noted the report contained notes and checkmarks indicating review, but there was no official approval or opinion of the state of the Property Room. We will issue a recommendation. E - Property RoomLOR Summary
- In 2014 Tim reconciled all entries from Spillman.
- In 2014 the Department began using the Deputy's Evidence Handbook which was distributed to all deputies who were also trained by Tim on proper bagging and tracking.
- In 2015-2016, Tim conducted a complete a firearms purge which had never been done in the history of the Department. The Courts were petitioned to grant disposal of the firearms and each case was reviewed and approved by a judge. 63 firearms were put out for bid or destroyed.
- We obtained the most recent policies and procedures dated 2014 [Property Room Operational Procedures]. We noted the current policies do not require scheduled internal audits of the property room. Tim plans to start an annual inventory now that Spillman data is merged into New World. We recommend the Department update written policies and procedures to include an annual internal audit of property room evidence to ensure listings are accurate and complete. E - Property Room Policies

Property Reporting

- As per the Sheriff's Office evidence handbook, when items are destroyed, a summary report is sent to the Court.
- As per the Sheriff's Office evidence handbook, when items are converted for County use, a list of all converted property is maintained in the department.
- As per the Sheriff's Office evidence handbook, when items are sold at auction, the disposition of proceeds from the auction are dispersed as follows, pursuant to RCW 63.40.030: 1) Sale Costs: Payment of costs and expenses of the sale, includding personnel costs. 2) Storage and Keeping Fees: Payment of lawful charges and expenses for the keeping of said perosnal property, including tracking costs, storage costs such as chelving, boxes, wrappings, etc. 3) Monies Remaining: The balance, if any, shall be paid into the County's current expense fund.

- We inquired about the reporting of forfeited property to the State Treasurer, which should occur quarterly, with Tim Quigg. We also inquired about the 10% remittance to the State for property sold at auction (based on sale price minus selling costs) and property converted for department use (fair market value minus any appraising costs). These requirements are described in RCW 69.50.505 (8a-d) (9a-c). We were told that Tim fills out 6 different State-provided reports every quarter and sends them in to the State Treasurer. The forms are as follows: Sexual Exploitation Crimes Remittance Form, Money Laundering Forfeited Property Status Report, DUI Vehicle Forfeited Property Status Report, Child Pornography Remittance Form, Property Involved in a Felony Remittance Form, and Drug Forfeited Property Status Report. He also uses a State Treasurer provided document titled "Forfeited Property Reporting Requirements Guideline" for filling out the 6 reports, which indicates that destroyed, converted for department use, and sold property must be reported. It also covers the 10% remittance owed to the State for certain types of property. Tim showed us his log book that showed the last remittances made to the State (one in 2015 and one in 2016), which were both less than $50. He explained that with the County being as small as it is and the Sheriff's Office being under-staffed, that there won't be much property of which 10% will go to the State. If there is property that required remittance to the State, he writes the check immediately and sends it to the State Treasurer.

Walk through

- We performed a walk through and confirmed controls were in place over physical security, restricted access, tagging and sealing of items, that accountability for items can be assigned (through logs or receipts), and that high risk items are additionally secured. Tim showed us the security cameras that monitor the entry and how the room can only be accessed via his electronic key. We noted items were organized by bin number or kept in additionally secured safes. We noted all items were sealed in evidence bags containing bar code labels with date, case number, and description. We were shown the temporary evidence lockers, each with a pad lock inside for which only Tim has the key. Tim walked us through the New World system of logging items and how the system maintains chain of custody.

Property Room Testing
We obtained the current listing of items held in the property room via New World (County's system for tracking property). We selected items from the Asset List (current listing of items held in the property room via New World) and verified that the item existed and data in New World matched the data on the physical asset (case number, tag number, item number, description, and date received). We judgmentally selected items that appeared to be higher risk, as well as randomly selecting other, less risky items. We selected a variety of items for testing. Further, we selected items from the the property room via observation and verified that New World had record of the item, and that the data from the asset tag matched New World. We judgmentally selected items via observation that appeared to be higher risk, as well as randomly selecting other items (not knowing what they were due to their packaging).

We found a two instances in which dates in New World were slightly off from the asset tags, but the dates appeared reasonable (within one week or less due to delay in items being collected versus recorded in New World). We will pass on further review.

We also found one item that did not include a date on the item tag itself (Spillman, old system, did not print the date and they forgot to write it on the item themselves). Data from Spillman (retained) showed the date listed in New World. Because the County is now using a system that prints the date automatically, we will pass on further review.

See testing at Property Room Review.

Determination
We determined the Department is maintaining proper stewardship over property held by the department.

Conclusion:
We determined the Department is maintaining proper stewardship over property held by the department.

C.6.PRG - Credit Cards

Procedure Step:	Tests of Credit Cards and Accounts
Prepared By:	MDR, 8/27/2018
Reviewed By:	GLW, 8/27/2018

Purpose/Conclusion:

Purpose:
To determine propriety of procurement/credit card and procurement account charges.

Conclusion:
In our testing, we found that the County's credit card transactions were supported, allowable, and for the County's purpose.

Testing Strategy:

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

- Compare or trend activity levels by card, month and/or user
- Check for missing statements (expectation is 12 months of statements or each known card)
- Check for unreported cards by reconciling credit card payments per statements to payments made per the AP system
- Scan statements for risk indicators or policy violations, such as:
  - Purchases of a type or amount that is prohibited by policy
  - Purchases with high dollar amounts or that exceed bid thresholds
  - Purchases for meals or travel-related purposes, especially when the entity also utilizes travel cards or travel reimbursements/travel advances. The risk is that employee is reimbursed for payments already charged to the card
  - Purchases from online vendors
  - Purchases normally handled through the P.O. process, especially for small and attractive assets, and/or where the same item was purchased in other months. The risk is that approval or asset tracking controls are circumvented or misappropriation is occurring
  - Cash advances
  - Purchases that appear 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
- Additional considerations for gasoline cards include:
  - If the entity utilizes mileages logs, verify accuracy of mileage log entries by comparing vehicle's odometer to the latest mileage log entry
  - Compare the number of gallons purchased to the vehicle's tank capacity for variances (purchases should not exceed capacity)
  - Compare entity-calculated mpg to national averages (http://www.fueleconomy.gov/feg/advancedSearch.htm contains a searchable listing of vehicle's average mpg as posted by the US Department of Energy, Energy Efficiency, and Renewable Energy). Consider significant variances for additional review
  - Compare fill up times to timesheets or work schedules for instances of charges made during non-working hours or days
  - Scan fuel purchases for multiple purchases made in a single day. Compare the frequency and volume to vehicle mileage information
- Review to ensure statements were reviewed and approved by user prior to payment

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 in accordance with entity policy

- Per documentation, charges appear allowable under state law and entity policy
- Expenditures appear to be charged to the correct fund, account and fiscal year
- If the purchase is over bid thresholds, that the purchase was appropriately bid
- If the purchase is for items that should be included in an inventory or asset listing, that the items were appropriately added

An optional template is available from the SAOStore for documenting credit/purchase card and purchase account transaction testing.

Policy/Standards:

LOCAL GOVERNMENTS:
RCW 43.09.2855 describes requirements for local government use of credit cards

RCW 42.24.115 describes requirements for local government use of credit cards for travel expenses

STATE AGENCIES:
SAAM 45.20.20(a) describes minimum agency controls

SAAM 45.20.30 requires use of a transaction log:
"Agencies must utilize a purchase card transaction log to record each purchase made using the purchase card. The log may be a manual log that the agency develops and/or maintains, or an online tracking log. The transaction log should contain all information necessary to reconcile transactions to the online data or the monthly card statement. All supporting documents (sales receipt, charge slips, cash register slips, order forms, receiving reports, etc.) should be kept and should be readily available when requested. Any items returned should also be recorded on the log."

Record of Work Done:

Risks Identified in Planning (Accountability Audit Plan):

The County issues credit cards to approximately 20% of its employees. They have had credit cards since ~2004 and this area has never been reviewed. Potential risk that the number of credit cards awarded is not allowable per policy. Potential risk that credit card policies are not followed or do not exist. Potential risk that expenses incurred from credit cards were for unsupported and/or unallowable purchases.

Columbia County

Planned Procedures:

1. Select users or months (depending on risk) to review from the credit card statements.
2. Trace from the statement to the supporting documentation (receipts) to ensure that purchases were supported and for County purposes.
3. Determine propriety of credit card charges.

Work Performed:

Selection
We obtained and reviewed credit card transaction summaries from the Auditor's Office. There are 7 different credit card accounts in the County, 4 of which are through Umpqua and 3 of which are through US Bank Corp. The 7 credit card accounts belong to the following departments: Commissioners (Umpqua), Auditor (Umpqua), Public Works (US Bank Corp), Sheriff (Umpqua), E-911 (US Bank Corp), Public Health (US Bank Corp), and Planning (Umpqua). We learned that the Commissioners and Auditor's credit cards are also used by some smaller departments that do not have their own card.

We judgmentally selected the four departments with the highest spending for our testing selection:

- Commissioners
- Auditor
- Public Works
- Sheriff

We obtained the credit card statements for all 12 months in 2017 for each of the departments listed above.

The Commissioners credit card account was opened in May 2017. We judgmentally selected the 2 highest months of purchases (August $4,681 and November $1,886), and from there, haphazardly selected 5 out of 19 transactions.

The Auditor credit card account was open for all 12 months of 2017. We judgmentally selected the 3 highest months of purchases (January $2,737, May $3,841, and October $2,924), and from there, haphazardly selected 10 out of 35 transactions.

The Public Works credit card account was open for all 12 months of 2017. We judgmentally selected the 3 highest months of purchases (May $6,063, August $4,510, and November $5,120), and from there, haphazardly selected 20 out of 74 transactions.

The Sheriff credit card account was open for all 12 months of 2017. We judgmentally selected the 3 highest months of purchases (April $1,883, August $2,034, and November $1,737), and from there, haphazardly selected 10 out of 44 transactions.

Testing
We obtained and reviewed supporting documentation for our selected transactions. We tied the date and amount from the credit card statement, as well as the description. We determined whether the transaction was supported, allowable, and for the County's purpose.

See testing at Credit-Procurement Card Transaction Testing.
During our review, we noted that the County does not have policies in place regarding allowable credit card expenditures. They have a general policy in their 2014 Employee Handbook that briefly goes through the process of using credit cards, but only says that the department head reviews expenditures to make sure they are acceptable. We will issue a recommendation. E - County Policies LOR Summary

Determination
In our testing, we found that the County's credit card transactions were supported, allowable, and for the County's purpose.

Conclusion:
In our testing, we found that the County's credit card transactions were supported, allowable, and for the County's purpose. No issues noted.

C.7.PRG - County Assessor Revaluation

Procedure Step:	Understanding of Assessor Operations
Prepared By:	MDR, 7/30/2018
Reviewed By:	DHO, 8/3/2018

Purpose/Conclusion:

Purpose:
To gain an understanding of processes and internal controls over Assessor's office operations for accountability purposes.

Conclusion:
Based on our review of internal controls, it appears that internal controls over the Assessor's Office revaluation schedule are adequate to ensure compliance with state law.

Columbia County

Testing Strategy:

<u>IMPORTANT NOTE:</u> Before starting any audit work on property taxes or assessor operations, auditors should review the most recent DOR audit report. This report is available from the Assessor or on the County Resources page on our intranet site at Auditor Resources | Reference Guide | County Resources. Auditors should contact the Assessor specialist with any questions related to issues noted in the report.

Auditors should also contact the Assessor Specialist if they find any exceptions related to property tax or assessor operations. The Specialist will ensure coordination with DOR on any significant issues.

In gaining an understanding and assessing risks for Assessor's Office operations, consider the following questions:

- What is the current status of any issues noted by the latest DOR audit?
- Does the department have policies that ensure uniform valuation and assessments?
- Does the Department use the DOR forms and manuals?
- Have personnel attended the DOR training?
- How are tax exemptions approved and documented?
- How are tax adjustments approved and documented?
- What discovery procedures does the Assessor's Office perform to identify personal property for assessment (ex: review business licenses, etc)?
- What discovery procedures does the Assessor's Office perform to identify properties that no longer qualify for an exemption (ex: review obituaries, property sales, etc)?
- What software does the Assessor use to calculate property tax? Has the software changed substantially in the last several years? Did County programmers make any changes to the software or were the changes made by the vendor?
- How are tax tables entered and updated each year? Is there any independent review or double-check of these tables after entry (original entry and any changes made during the year)?
- Does the Assessor re-calculate levy limits for each taxing district to ensure that all districts do not exceed applicable limits?
- Are the certified levies (budgets) for each taxing district compared to the total billings (taxes posted) for each district based on the Treasurer's system? *Note: This would ensure that the software accurately calculated the <u>total</u> tax for each taxing district; this would not necessarily identify errors in the allocation among individual properties if the allocation errors had no net effect.*

- Are the Assessor’s certified tax rolls reconciled to the taxes billed (posted) in the Treasurer's system? *Note: This process is necessary not only to test for accurate entry and processing by the Treasurer of Assessor information, but also to ensure that all changes to the tax roll made by the Treasurer are valid. See the Policy/Criteria tab for valid changes that the Treasurer may make.*
- What is the process in place to ensure all taxable real property are revalued annually and physically inspected once every six years (pursuant to RCW 84.41.030 and 84.41.041)?

Policy/Standards:

Valid Changes that the Treasurer may make

Tax rolls are the responsibility of the County Assessor. Any changes made by the Treasurer’s Office (subsequent to receipt of the tax rolls by the Assessor) should be appropriate, approved, and adequately supported. The only changes the Treasurer’s Office can make changes to the certified tax rolls are:

- Manifest errors (RCW 84.48.065)
- Board of Equalization authorized changes (RCW 84.48.010).

Revaluation Schedule

[Partial] RCW 84.41.030: Revaluation program to be on a continuous basis – Revaluation schedule – Effect of other proceedings on valuation.

(1) Each county assessor must maintain an active and systematic program of revaluation on a continuous basis. All taxable real property within a county must be revalued annually, and all taxable real property within a county must be physically inspected at least once every six years. …

Physical Inspections

[Partial] RCW 84.41.041: Physical inspection and valuation of taxable property required – Adjustments during intervals based on statistical data.

(1) Each county assessor must cause taxable real property to be physically inspected and valued at least once every six years in accordance with RCW 84.41.030, and in accordance with a plan filed with and approved by the department of revenue. Such revaluation plan must provide that all taxable real property within a county must be revalued and these newly determined values placed on the assessment rolls each year. Property must be valued at one hundred percent of its true and fair value and assessed on the same basis, in accordance with RCW 84.40.030, unless specifically provided otherwise by law. During the intervals between each physical inspection of real property, the valuation of such property may be adjusted to its current true and fair value, such adjustments to be based upon appropriate statistical data. If the revaluation plan provides for physical inspection less frequently than once each four years, during the intervals between each physical inspection of real property, the valuation of such property must be adjusted to its current true and fair value, such adjustments to be made once each year and to be based upon appropriate statistical data. …

Record of Work Done:

Columbia County

Risks Identified in Planning (Accountability Audit Plan):

The Assessor's Office has not had a review in at least the last 8 years. Revaluation of Real Property is now required, by law, to occur every 6 years. Potential risk that the County is not meeting the statuatory deadline.

Planned Procedures:

1. Gain an understanding of internal controls over the Assessor's office revaluation schedule.
2. Perform testing of the Assessor's revaluation schedule (see at Real Property Revaluation Schedule).
3. Determine whether internal controls over the Assessor's office revaluation schedule are adequate.

Work Performed:

Gain an Understanding
Key Personnel:
Chris Mills, Assessor

We spoke with Chris Mills, Assessor, to gain an understanding of controls over the Real Property Revaluation Schedule.

The Assessor's Office uses two systems for Real Property Revaluation: Marshall Swift (for appraisals of buildings) and PACS (for appraisals and property tax tracking).

Marshal Swift is used for the calculation of the property's value. The appraiser inputs all features of a property into Marshal Swift, such as how many stories, whether there is a basement, when the property was built, and other applicable structural information. As changes take place with the property throughout the years, the appraiser inputs updated information into Marshall Swift, if there is any, after they perform their inspection. The value of the property will update when changes are entered.

After updating Marshall Swift, the appraiser enters the date of the inspection they just performed into PACS, along with other applicable information. PACS shows the last appraisal date, the next scheduled appraisal date, and the name of the appraiser who performed the most recent inspection. PACS generates a report of the properties that need to be inspected during a year, and properties are coded based on their inspection cycle (now 6 years).

At year end, the Assessor's Office runs a report to show how many properties were updated (date changed due to inspection) and compares it to the PACS report showing how many properties should have been updated as they were due for a physical inspection. This ensures that all properties are physically inspected within the required 6 year cycle.

Further, the Assessor's Office runs a gain/loss report after inspections have been completed and property values have updated to ensure that property value changes are reasonable. A report of the results of the physical inspection are also sent to the property owner, which explains that they have 30 days to let the office know if they do not agree with the assessment.

Conclusion:

Based on our review of internal controls, it appears that internal controls over the Assessor's Office revaluation schedule are adequate to ensure compliance with state law.

C.7.PRG - County Assessor Revaluation

Procedure Step:	Real Property Revaluation Schedule
Prepared By:	MDR, 8/6/2018
Reviewed By:	DHO, 8/6/2018

Purpose/Conclusion:

Purpose:
To determine whether the Assessor's Office complied with their revaluation schedule.

Conclusion:
We determined that the Assessor's Office complied with their revaluation schedule, with no issues noted.

Testing Strategy:

BACKGROUND:
In accordance with state law (RCW 84.41.030), the County must establish a revaluation schedule that results in all taxable real property within the County being revalued annually and physically inspected at least once every 6 years. As of 2016, all counties are on a 6-year inspection cycle, with the exception of Chelan, Ferry, Pend Orielle and Wahkiakum counties, which are all on a 4-year inspection cycle.

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DOR audits include some work to check compliance with the revaluation cycles, so the most recent DOR audit results should be reviewed prior to any work in this area. Auditors should also be aware that recent legislation required counties to move to an annual revaluation cycle by January 1, 2014. Prior to this legislation, counties were required to revalue all taxable real property at lease once every four years.

TESTS TO CONSIDER:
The following is a list of possible tests to **consider** when determining compliance with the county's revaluation schedule:

- Review the revaluation schedule with the Assessor and the certification to DOR showing that all properties were revalued and the number of properties physically inspected.
- Trace numbers from the DOR certification or other documents used by the Assessor to summarize compliance to system reports or other supporting documentation.

Policy/Standards:

Revaluation Schedule
[Partial] RCW 84.41.030: Revaluation program to be on a continuous basis - Revaluation schedule - Effect of other proceedings on valuation.

(1) Each county assessor shall maintain an active and systematic program of revaluation on a continuous basis All taxable property within a county must be revalued annually, and all taxable real property within a county must be physically inspected at least once every six years. Each county assessor may disregard any program of revaluation, if requested by a property owner, and change, as appropriate, the valuation of real property upon the receipt of a notice of decision received under RCW 36.70B.130, or chapter 35.22, 35.63, 35A.63, or 36.70 RCW pertaining to the value of the real property. …

Record of Work Done:

Risks Identified in Planning (Accountability Audit Plan):

The Assessor's Office has not had a review in at least the last 8 years. Revaluation of Real Property is now required, by law, to occur every 6 years. Potential risk that the County is not meeting the statuatory deadline.

Planned Procedures:

1. Gain an understanding of internal controls over the Assessor's office revaluation schedule (see at Understanding of Assessor Operations).
2. Select a list of properties last assessed in 2010. Determine whether they were revaluated no later than calendar year 2017. Review for

indication that the revaluation actual took place (assessor notes, date and time stamps, etc).
3. Determine whether the Assessor's Office complied with their revaluation schedule.

Work Performed:

Gain an Understanding
We spoke with Chris Mills, Assessor to gain an understanding of internal controls over the Real Property Revaluation Schedule. See at Understanding of Assessor Operations.

Revaluation Testing
We obtained a list of properties for which physical inspections for revaluation took place in 2010. To be compliant with state law, the County would be expected to revalue these properties within 6 years, or *before* 2017. Because each individual property listing is representative of the population, we haphazardly selected 35 properties from the list to review. We obtained and reviewed supporting documentation showing the the revaluation actually took place, including appraiser worksheets that included notes, red marks (indicating no change), and comments. To determine that the revaluation took place within the required timeframe, we reviewed the property value change date in Marshall Swift (appraisal software). The software tracks all changes made to a property, and property values are updated when inspections take place.

We found that all properties selected for testing were revalued within 6 years, with no issues noted.

See testing at Real Property Revaluation Testing.

Determination
We determined that all selected properties complied with revaluation schedule requirements per RCW 84.41.030.

Conclusion:
We determined that the Assessor's Office complied with their revaluation schedule, with no issues noted.

C.8.PRG - Self-Insurance - Unemployment

Procedure Step:	Self-Insurance of Unemployment Compensation Risks
Prepared By:	MDR, 7/31/2018
Reviewed By:	DHO, 7/31/2018

Columbia County

Purpose/Conclusion:

Purpose:
To determine if the local government has adequate internal controls to fund future unemployment claims.

Conclusion:
During our review, we determined that the County has adequate internal controls to fund future unemployment claims.

Testing Strategy:

APPLICABILITY:
This step applies to:

- Local governments that are ***individually*** insuring all or a portion of their own unemployment risks.
- Financial statement audits in which entities are utilizing separate funds to account for these risks.

Procedures and requirements described in this step ***would NOT apply*** to:

- Joint self-insurance purchased through membership in a risk pool.
- Self-insurance of workers compensation benefits, which is regulated by the Department of Labor & Industries.
- Self-Insurance of employee health and welfare benefit liabilities.
- Self-Insurance of property & liability benefit risks.

Background

Local governments are assigned by the Employment Security Department (ESD) to one of two categories: *Taxable* or *Reimbursable*. See definitions of categories below. Note: ESD processes all claims so local governments should not be processing claims for unemployment compensation.

Taxable - The employer is assigned a rate and pays quarterly based on wages paid to employees. Rates are reassessed annually by the ESD.

Reimbursable – Employers must be approved for this status by the Employment Security Department. Employers report quarterly wages to the ESD, but only pay when an unemployment claim is filed (i.e. the ESD processes the claims and seeks reimbursement from the entity).

We consider the Reimbursable status to be self-insurance. For entities assigned this status, we expect each to have a plan in place to pay future claims. Typically, we see a basis for funding based on a percentage of employee wages or an average of claims history. Unemployment liabilities are very limited (by time periods and amounts) compared to property/liability, health & welfare or workers compensation liabilities. Also, entities have more control over unemployment liabilities, making this type of liability more predictable (for example, an entity decides when to lay someone off or not). The auditor should inquire about the entity's particular funding plan or budgeting practice.

Accounting for risk financing is covered in BARS Section 3.4.9, which also refers to GAAP criteria in GASB Statements 10 and 62 and other criteria. This guidance includes accounting for the estimated liabilities. Having a funding plan covering unemployment self-insurance may support estimated unemployment reported liabilities. We expect all entities that are self-insured for unemployment claims to have some sort of funding plan to avoid financial hardship from unexpected claims. At the very least they should be budgeting for these types of claims.

RCW 50.44.030 regulates unemployment compensation requirements for self-insured municipal corporations. It provides in part: (2) All such units of government shall file, before December 15, 1977, a written registration with the commissioner of the employment security department. Such registration shall specify the manner in which the unit of government will finance the payment of benefits.

REQUIRED PROCEDURES:

To determine if the local government's individual self-insurance program meets statutory requirements, **perform** the following procedures:

- Review unemployment self-insurance information reported on Schedule 21 to gain an initial understanding of claims and payment trends.
- Gain an understanding of controls over the entities program and funding plan or budgeting procedures. Auditors may also consider testing controls.
- Inquire if taxable or reimbursable status has changed and has been approved by Employment Security. NOTE: the entity may have been on a reimbursable basis for several years and would not have a recent approval; however, the entity should be able to show you some kind of evidence that they only pay for claims after they happen, such as being billed from ESD for actual claims rather than paying based on a tax rate.
- Inquire if an audit has been performed by the Employment Security and obtain audit report. Note: The Employment Security Department only audits on a random cycle, or if problems have been reported. Auditors should consider any ESD audit findings and follow up on their status.
- Evaluate claims payment trends to determine if the entity's funding plan, budgeting process, or other practices sufficiently account for reasonably expected claims activity. If the entity has formal policies over unemployment compensation practices, we should consider evaluating compliance with those policies.

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For consideration during financial statement audits, if the entity has substantial unfunded liabilities, auditors should evaluate reporting options and consult the applicable BARS manual.

For GAAP statements, see Section 3.4.9 (Accounting > Liabilities > Risk Management Principles) in the GAAP BARS Manual for an overview of reporting requirements.
Cash basis governments should also refer to this section for definitions and note disclosure guidance for any potentially material contingencies that are either probable or reasonably possible.
NOTE: There are no requirements for an entity to report these activities in a separate fund, however if they choose to report in an internal service fund (ISF), GASB 10 provides specific guidance for the handling of Accounting and Financial Reporting of Insurance Related Issues and use of Internal Service Funds.

If the entity experienced a significant loss in the ISF, the auditor should consider if it's possible the cost allocation to other funds may be an issue or potentially material to the other funds affected, even if it is not material to the aggregate remaining fund opinion unit.

Contact a Self-Insurance / Risk Pool Specialists if assistance is needed in evaluating compliance or the adequacy of policies or cost allocation plans.

Policy/Standards:

See BARS Schedule 21 for annual report instructions and definitions

Record of Work Done:

Risks Identified in Planning ,(Accountability Audit Plan**):**

Review of Self Insurance occurs on a two-year cycle. This area was not reviewed in FY16, so we will review it for FY17. Potential risk that the County does not maintain sufficient funds to cover potential claims.

Planned Procedures:

1. Use the TMT testing program/workpaper to determine whether the County has self-insurance.
2. To determine if the local government's individual self-insurance program meets statutory requirements, **perform** the following procedures:

- Review unemployment self-insurance information reported on Schedule 21 to gain an initial understanding of claims and payment trends.
- Gain an understanding of controls over the entities program and funding plan or budgeting procedures. Auditors may also consider testing controls.
- Inquire if taxable or reimbursable status has changed and has been approved by Employment Security. NOTE: the entity may have been on a reimbursable basis for several years and would not have a recent approval; however, the entity should be able to show you some kind of evidence that they only pay for claims after they happen, such as being billed from ESD for actual claims rather than paying based on a tax rate.
- Inquire if an audit has been performed by the Employment Security and obtain audit report. Note: The Employment Security Department only audits on a random cycle, or if problems have been reported. Auditors should consider any ESD audit findings and follow up on their status.
- Evaluate claims payment trends to determine if the entity's funding plan, budgeting process, or other practices sufficiently account for reasonably expected claims activity. If the entity has formal policies over unemployment compensation practices, we should consider evaluating compliance with those policies.

Work Performed:

TMT Workpaper
We obtained the filled in the TMT workpaper for determining whether the County has self-insurance. We found that the County self-insures for unemployment only. See at Self-Insurance Assessment.

TMT Procedures
We obtained and reviewed the self-insurance information reported on Schedule 21 to gain an initial understanding of claims and payment trends. We spoke with Sharon Richter, Auditor, who explained that the County pays unemployment claims only when they are billed by ESD for such claims. Further, she explained that the County had accumulated so much money in their Unemployment Compensation fund that the County no longer collects amounts to be put into this fund. With the infrequency in which they receive billings for filed claims, and with the interest that accrues on the balance every year, the County's fund balance has remained steady for over a decade (per Sharon). The fund balance is currently $294,993.

We obtained the 2017 ESD Billings to ensure the County is paying for actual claims rather than paying based on a tax rate. We found that the County only received one ESD Billing in 2017 (3rd Quarter ending Sept 30, 2017 for $4,590; Lisa Barber).

We inquired about any recent ESD audits and were told that none have been performed recently. We inquired about any unemployment compensation policies and were told that the County does not have any policies in place.

Taking all the above information into account, we determined that the County has adequate internal controls to fund future unemployment claims.

Conclusion:
During our review, we determined that the County has adequate internal controls to fund future unemployment claims.

D.1.PRG - Baseline Testing

Procedure Step: Cash Flow Reconciliation

Prepared By: MDR, 8/27/2018

Reviewed By: DHO, 8/28/2018

Purpose/Conclusion:

Purpose:
To reconcile reported beginning cash balance, revenues, expenditures, and ending cash balance to County Treasurer statements.

Conclusion:
We reconciled beginning cash **exactly** and revenues/non-revenues, expenditures/non-expenditures, and ending cash to **within 2%** after taking into account that Investment Trust Funds for Special Purpose Districts are now required to be reported.

Testing Strategy:

The following steps are **recommended for governments that act as their own treasurer** to gain an understanding of the government's financial practices in order to most efficiently and effectively perform the cash flow reconciliation:

- For each bank account, inquire as to the nature of revenues (original receipts or transfers from another account) and expenditures (original disbursements or transfers to another account).
- Inquire as to how the government accounts for open period expenditures and interest earnings, whether any interfund transactions are accomplished by warrant rather than journal entry, whether any bank accounts are not reported on the financial statements, and what types of transactions are netted on the statements.

An optional "Financial Practices Questionnaire" survey is available in the TM Store that auditors can use to assist in gaining this understanding.

- Inquire whether activity in bank accounts that represent trust funds are recorded on the general ledger and in the financial statements.

To perform the cash flow reconciliation, auditors are **required** to perform the following procedures:
Step 1: Get the appropriate cash flow reconciliation template from the Store:

- For governments that act as their own treasurer (such as cities or counties), use the "Cash Flow Reconciliation (Bank)" version.
- For governments that use the County as their treasurer, use the "Cash Flow Reconciliation (County Treasurer)" version.

Step 2: Input confirmed amounts on the Input tab of the attached Cash Flow Reconciliation spreadsheet. Inputs should be directly from the original bank statements or County Treasurer reports. Also input reconciling item figures from the government's year-end reconciliation.

Obtain copies of all County Treasurer, bank and investment accounts for the period - including imprest funds and any clearing funds, transmittal accounts or other zero-balance accounts.

During input, auditors should be alert for red flags - such as possible alterations of the bank statements, cash or money order withdrawals, unusual EFTs or activity patterns, or unexpectedly high or unusual reconciling items.

Step 3: Formulate a range (amount or percentage) of expected variance between reported revenues, expenditures and the reconciled amount. This range is **not** a materiality determination – this is an expectation of the approximate amount of valid reconciling items that, for efficiency purposes, the auditor did not determine.

It is reasonable to expect a small variance due to potential reconciling items that the auditor decided not to identify (such as NSF checks or corrections of error where money was receipted and then refunded, which are expected to be very small and therefore are not cost-effective to identify).

Step 4: Enter financial statement figures and compare to expected amounts. Any variance outside the expected range is a likely misstatement that is then compared to the materiality floor for aggregation purposes.

For entities using the County Treasurer, the auditor should also check the classification of amounts between funds.

Consider follow up procedures on variances outside the expected range that are above the floor.

Auditors may consider differences from expectations to be likely misstatements or may decide to do additional work or request that the client do additional work to either confirm misstatements or identify additional reconciling items that were initially passed. Potential follow up procedures are as follows:

1. *Finish agreeing the financial statements to the general ledger in the "Review Statements, Notes & Schedules" step.*
2. *If ending cash is off, compare to the entity's own reconciliation of ending cash.*

3. *For Cities and Counties, check figures against Schedule 7 and 11.*

4. *Double-check data entry of bank or county treasurer activity and that all bank statements were obtained.*

5. *If the entity reconciles cash flows to the bank statement each month, check the reconciling items in the comparison of cash receipts to recorded revenues and cash disbursements to recorded expenditures. Also consider checking the revenue/expenditure totals used in the reconciliation to the GL – differences may arise if the entity has back-dated transactions or made mistakes.*

6. *Search for journal vouchers that debit and credit cash. This may reveal interfund transfers or transactions that did not have a corresponding revenue and expenditure recorded.*

7. *Search for journal vouchers that record negative expenses or negative revenues. This may reveal either misstatements or valid netting of revenue and expenditures that would be a reconciling item.*

8. *Search for warrants issued that debit a non-expense account or that credit an account other than cash. This may reveal misstatements or valid netting of revenue and expenditures that would be a reconciling item.*

Policy/Standards:

Cash Basis BARS Manual, part 3.1.7.40 defines the basis of accounting as follows:
"Basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements.
Revenues are recognized only when cash is received and expenditures are recognized when chargeable against the report year's budget appropriations as required by state law. This generally results in revenues being recognized when delivered to the government or government's agent and expenditures being recognized when paid. Warrants and checks are considered paid when issued. An exception to expenditure recognition would be during any open period at the close of the fiscal year when expenditures can be charged against the previous period for claims incurred in the previous period. Open periods are required by statute for cities (RCW 35.33.151 and 35A.33.150) and allowed for counties (RCW 36.40.200). Special purpose districts which use the county or a city as their treasurer may use the same open-period as their treasurer. If a district acts as its own treasurer, no open period is allowed by statute.
Revenues and expenditures should be reported at gross amounts by account and not netted against each other.
Revenues and expenditures should be recognized for all receipts and payments of a government's resources, including those where the cash is handled by an agent (such as a bank, underwriter, etc.) on behalf of the government rather than handled directly by the local government. For example, debt proceeds wired directly to an escrow account, payments by the State Treasurer's Office to vendors for items purchased with LOCAL resources, etc.
Interest earned on investments may be recognized at cost, amortized cost or fair value in accordance with the government's disclosed accounting policy.
In addition, revenue and expenditures should also be recognized when the government agrees to forgo revenue in exchange for reduction of expenses (offsetting agreement) or receipt of an asset (e.g., acquiring an asset in exchange for reduced permit fees, etc.). In such cases, the transaction should be recorded as if the cash was received and expended in order to reflect the legal transaction. ..."
Cash Basis BARS Manual, part 3.6.11.20 describes accounting for suspense funds

Columbia County

Cash Basis BARS Manual, part 3.8.6 describes accounting for clearing funds
Cash Basis BARS Manual, part 3.8.8 describes accounting for imprest, petty cash and change funds

Record of Work Done:

Data and Expectations:

We obtained statements for each bank or county treasurer account for each month of the period and input figures for each account on the attached spreadsheet (Cash Flow Reconciliation (Bank) - Schedule 7 and 11).

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 any differences in rounding conventions between years).

- We found that beginning cash matched exactly after taking into account that the County is now required to report Investment Trust Funds for Special Purpose Districts.

We expect to be able to reconcile reported **revenues/non-revenues** to cash deposits to within **2%**. The expected range represents an estimated reasonable allowance for the following potential reconciling items that we did not include in our reconciliation: Unidentified bank transfers, Voided warrants, and NSF checks.

- We found that revenues/non-revenues reconciled to within 2% (specifically 1.13%) after taking into account that the County is now required to report Investment Trust Funds for Special Purpose Districts.

We expect to be able to reconcile reported **expenditures/non-expenditures** to cash withdrawals to within **2%**. The expected range represents an estimated reasonable allowance for the following potential reconciling items that we did not include in our reconciliation: Unidentified bank transfers, Voided warrants, and NSF checks.

- We found that expenditures/non-expenditures reconciled to within 2% (specifically 0.21%) after taking into account that the County is now required to report Investment Trust Funds for Special Purpose Districts.

We expect that reported **ending cash** should reconcile to ending balances per bank/treasurer statements to **within 2%**.

- We found that ending cash reconciled to within 2% (specifically 1.56%) after taking into account that the County is now required to report Investment Trust Funds for Special Purpose Districts.

Reconciliation Results:

We reconciled beginning cash **exactly** and revenues/non-revenues, expenditures/non-expenditures, and ending cash to **within 2%** at Cash Flow Reconciliation (Bank) - Schedule 7 and 11 after taking into account that Investment Trust Funds for Special Purpose Districts are now required to be reported.

Columbia County

D.1.PRG - Baseline Testing

Procedure Step: Yellow Flag Report

Prepared By: MDR, 8/27/2018

Reviewed By: DHO, 8/27/2018

Purpose/Conclusion:

This step is only applicable for financial statements generated from the annual report filing.

Purpose:
To follow up on automated edit checks and conclude on any known or likely misstatements.

Conclusion:
We followed up on automated edit checks and found the following known misstatements:

- Variance of $3,366,285 due to the County not including the prior year ending Pension Liability balance in the current year beginning balance. Upon inquiry with Sharon Richter, Auditor, we learned that she did not include the PY Ending Pension Liability Balance in the CY Beginning Balance because she did not think she needed to. She stated that the amount was for the prior year and it did not need to be carried over. Per the BARS Cash Basis Manual, the beginning pension liability balance should equal the prior year ending pension liability balance. We will issue a recommendation and add this issue to the AOM. ML - Pension Liability Balance FinalLOR Summary Aggregation of Misstatements (BARS Cash)

Testing Strategy:

To follow up on automated edit checks, auditors are **required** to review the Yellow Flag Report for the entity in LGCS and follow up on all significant variances.

Yellow flags are indicators of potential misstatements, so auditors cannot assume they are misstatements until follow-up work is performed. Auditors need only follow up on significant yellow flags. We would expect governments to be aware of yellow flags (which are displayed as part of the annual report filing process) and be prepared to explain how they considered the flags and determined the reported amount was *correct.*

Policy/Standards:

Record of Work Done:

We reviewed the LGCS Yellow Flag report for various edits checks on whether data underlying the financial statements and schedules are internally consistent and correctly classified. As detailed in Yellow Flag Report, we found the following issues to follow up on:

Schedule 9 - Beginning Outstanding Debt Check
Variance of $3,366,285 due to the County not including the prior year ending Pension Liability balance in the current year beginning balance.

Upon inquiry with Sharon Richter, Auditor, we learned that she did not include the PY Ending Pension Liability Balance in the CY Beginning Balance because she did not think she needed to. She stated that the amount was for the prior year and it did not need to be carried over.

Per the BARS Cash Basis Manual, the beginning pension liability balance should equal the prior year ending pension liability balance. We will issue a recommendation and add this issue to the AOM. ML - Pension Liability Balance FinalLOR SummaryAggregation of Misstatements (BARS Cash)

Schedule 1 - Beginning Fund Balance Check
Variance of $(7,963,297) due to various fund balances that were included in the prior year ending but were not included in the current year beginning balances. Those funds are as follows:

- 601 State Tax
- 611 State REET
- 616 Treasurer's Trust
- 623 Marriage License Fees
- 624 Surveys and Maps
- 625 Certified Copies Suspense
- 628 State Buidling Code
- 629 Archives

Variance also due to the County including fund balances in the current year beginning that were not included in the prior year ending balances. Those funds are as follows:

- 631 State Tax (601)
- 632 State REET (611)

- 633 Col Co Public Transpotation District
- 634 Treasurer's Trust (616)
- 635 Marriage License Fee (623)
- 639 Surveys and Maps (624)
- 645 Certified Copies Suspense (625)
- 646 State Buidling Code (646)
- 647 Archives (629)
- 648 Prescott Park and Recreation Dist (620)
- 650 Port of Columbia
- 652 Col Co Public Hospital District
- 655 Col Co Fire Protection Dist #1
- 657 Col Co Fire Protection Dist #2
- 658 Col Co Fire Protection Dist #3
- 659 Col Co Rural Library
- 660 Dayton School District #2
- 662 Starbuck School District #35
- 664 Prescott School District #402-37
- 668 Waitsburg School District #401-100
- 686 West End Ditch
- 687 Hearn Ditch
- 690 Fire Patrol
- 698 City of Dayton (613)

We inquired further with Sharon Richter, Auditor, about the Beginning Fund Balance variance. We learned that the County changed the account codes for State Tax, State REET, Treasurer's Trust, Marriage License Fees, Surveys and Maps, Certified Copies Suspense, State Building Code, and Archive accounts. We noted that all accounts were switched over with new account codes. Further, as of 2017 FS, all Investment Trust Funds for Special Purpose Districts must now be reported on the County's FS. We noted that the accounts on the C5 in 2016 were still on the C5 in 2017, as well as the Special Purpose District Investment Trust Funds. This explains the Beginning Fund Balance variance (see above). No issues noted.

We also reviewed the LGCS Yellow Flag report for confirmations of certain revenues to the Office of State Treasurer reported amounts. This test represents a third-party confirmation covering all assertions (existence, completeness, rights & obligations, valuation and classification) for these revenues which represent less than 1% of total reported revenues on the C4 Statement ($9,455 / $12,530,242). As detailed in Yellow Flag Report, we found no issues to follow up on.

D.2.PRG - Review Presentation & Disclosure

Procedure Step: Related Party Transactions

Prepared By: MDR, 8/23/2018

Reviewed By: DHO, 8/27/2018

Purpose/Conclusion:

Purpose:

To understand controls over related party transactions and evaluate whether such transactions were properly reported and disclosed.

Conclusion:

We gained an understanding of internal controls over related party transactions, noting **no** control deficiencies

We identified **no related party transactions** requiring disclosure.

Testing Strategy:

The following steps are **required** to determine whether related party transactions are properly disclosed:

STEP 1: Controls over Related Party Transactions

Auditors are **required** to obtain an understanding of controls established to identify and account for related party relationships and authorize significant transactions with related parties.

Inquiry should include confirmation with management of related parties, related party transactions, the nature and purpose of these relationships and transactions, and any changes from the prior period.

> *We would expect controls to enable management to readily identify to the auditor a complete list of related parties and related party transactions and readily explain to the auditor the nature and purpose of the relationships and transactions and any changes from the prior period.*
>
> *Weaknesses in internal controls over related party transactions should be evaluated in the same manner as any other control deficiency, although the system is not presumed to be material unless identified as such on the material balance spreadsheet.*

STEP 2: Identification of Related Parties

During planning the list of related parties in the permanent file should have been updated. Auditors should also be alert during the course of the audit for potential indications of related parties and update the permanent file as necessary for any new information discovered. If this has happened, no additional procedures would normally be necessary at this point to identify related parties.

STEP 3: Identification of Related Party Transactions

If identification of related party transactions was documented in any other section (for example, as part of work on a material balance), auditors should summarize conclusions and link to that section in the record of work done.

To the extent necessary based on risk, auditors should **consider** the following procedures to identify related party transactions:

- Perform CAATS or search for payments to identified related parties.
- Review minutes.
- Review FAWF for news articles or other items.
- Inquire with management as to whether there were any contracts, receipts, payments or other transactions with related parties that occurred during the fiscal year.
- If conflict of interest testing was done during the accountability audit, the auditor may refer to such work.
- Consider whether transactions are occurring but not being recorded, such as receiving or providing services at no charge.

STEP 4: Evaluation of Related Party Transactions and Disclosures

If evaluation or testing of identified related party transactions was documented in any other section, auditors should summarize conclusions and link to that section in the record of work done.

For significant related party transactions outside the government's normal course of business, procedures are **required** to include:

- Inspection of underlying contracts or agreements to evaluate whether transactions have been appropriately accounted for and disclosed.
- Evaluation of the business purpose of transactions to determine whether they represent fraud or noncompliance.
- Verification that transactions have been appropriately authorized and approved.
- Evaluation of the adequacy of disclosures of material related party transactions

Auditors should also **consider** similar types of procedures for related party transactions that are not significant or that occur within the normal course of the government's business to the extent necessary based on risk.

Policy/Standards:

The Cash Basis BARS manual gives the following definition of related parties in Part 4, chapter 5 in the instructions for the example "Other Disclosures" note:

"Significant transactions with related parties. A related party is a person or organization that either has the ability to influence the policies of the government (e.g., an elected official), is subject to significant influence by the government (e.g., a housing authority's board is appointed by the creating city or county which therefore has the ability to significantly influence the policies of the authority) or when another party has the ability to influence the policies of both the government and the related party (e.g., an organization that has a board member or executive that is also an

executive or board member of the government)."
SAO Audit Policy 6430 - Related Parties

Record of Work Done:

STEP 1: Controls over Related Party Transactions:
Per our discussion with Sharon Richter, County Auditor she explained that due to the small size of the communities located within Columbia County, related party transactions would be easy to identify during the voucher approval process. She also explained that during her year-end review of the vendor payment summary report she would be able to identify any related party transactions.

STEP 2: Identification of Related Parties:
Based on general procedures performed during the course of the audit, we updated our identification of related parties as documented in the permanent file BARS Cash Basis.

STEP 3: Identification of Related Party Transactions:
Based on general procedures performed during the course of the audit, we identified **no** related parties that had non-trivial transactions with the government during the period.

STEP 4: Evaluation of Transactions and Disclosures:
Not applicable, we did not identify any non-trivial related party transactions.

D.2.PRG - Review Presentation & Disclosure

Procedure Step:	Management override of controls
Prepared By:	MDR, 8/23/2018
Reviewed By:	DHO, 8/27/2018

Purpose/Conclusion:

Purpose:
To address the risk of management override of controls.

Conclusion:

Columbia County

We addressed the risk of management override of controls.

Testing Strategy**:**

To address the risk of management override of controls, auditors are **required** to perform the following procedures:

- **Year End Adjusting Journal Entries:** Identify and scan all year-end adjusting journal entries and then test selected entries.

  Adjustments may take many forms including 13th or 14th period entries, closing entries, consolidations or off-book adjustments, reconciling items between the GL and prepared financial statements or reclassifications made when rolling up GL accounts to the financial statements. We would expect supporting documentation that adequately explains all such adjustments.

  At least some journal entries must be selected for testing. The extent of journal entry testing should be based on risk, including our understanding of procedures and controls over the financial statement preparation process.

- **Additional Journal Entry Testing:** Determine if additional testing of journal entries throughout the period is necessary.

  Additional testing may have been planned to respond to specific risk indicators, or may be considered necessary at this point by the auditor.

- **Evaluation of Estimates for Biases:** Evaluate estimates for bias by identifying any significant estimates, performing a retrospective review of significant estimates and evaluating all estimates in aggregate for indications of management bias.

  An accounting estimate is an approximation of a financial statement item, which may include certain items reported on the Schedule of Liabilities. Significant accounting estimates are those that are based on highly sensitive assumptions or are otherwise significantly affected by year-to-year judgments made by management. ***We would not typically expect a significant accounting estimate for a cash basis entity.***

- **Unusual or Extraordinary Transactions:** If any unusual, unsupported, disputed or extraordinary transactions were identified in planning or during the course of the audit, document or reference follow-up testing.

  Unusual or unsupported transactions are transactions that appear overly complex, inadequately explained or without a business rationale. Disputed transactions are those where key entity staff disagree about the correct accounting. Extraordinary transactions are those that occur outside the normal course of the government's business. Auditors should be especially sensitive to interfund or related party transactions with any of the above characteristics. These transactions may be identified in the Risk Assessment Inquiry step or by other planning or substantive procedures.

- **Other Testing:** Perform other tests as necessary to address management override of controls.

  Additional testing may have been planned to respond to specific risk indicators, or may be considered necessary at this point by the auditor.

Policy/Standards:

SAO Audit Policy 6320 - Consideration of Fraud, Noncompliance and Abuse

Record of Work Done:

Year End Adjusting Journal Entries:
Not applicable. There were no year-end adjusting journal entries.

Journal Entries throughout the Period:
Based on our risk assessment and understanding, we determined that testing of journal entries throughout the period (in addition to any testing performed in other sections of the audit) is necessary.

- We updated our understanding of controls over year-end adjusting journal entries at BARS Cash Basis.
- We obtained and reviewed the 2017 journal entry binder. We identified 71 adjusting entries totaling $305,923.13 which appeared to be for correcting BARS codes, payroll corrections, and various other corrections. All of the entries appeared to be supported by vouchers, invoices and other supporting documentation.
    - We judgementally selected all adjustments greater than $2,000 for review (12 transactions totaling $277,992.55 or 91% of all adjustments). Testing can be seen at JE Testing.
- Based on our review, the journal entries appear reasonable and were properly supported.

Evaluation of Estimates for Biases:
In accordance with the entity's cash basis of accounting, we identified no significant accounting estimates or risk of estimation bias.

Unusual or Extraordinary Transactions:
We did not identify any unusual or extraordinary transactions.

Other Testing:
We determined that no other testing was necessary.

D.2.PRG - Review Presentation & Disclosure

Procedure Step: Going Concern

Prepared By: MDR, 8/23/2018

Columbia County

Reviewed By: DHO, 8/27/2018

Purpose/Conclusion:

Purpose:
To evaluate conditions noted during the audit regarding the entity's financial sustainability and conclude on the entity's ability to continue as a going concern for one year after the end of the reporting period.

Conclusion:
We evaluated conditions noted during the audit regarding the entity's financial sustainablility and concluded on the entity's ability to continue as a going concern for one year after the end of the reporting period.

Testing Strategy:

Auditors are **required** to perform the following procedures to evaluate going concern:

> ***IMPORTANT NOTE: Procedures performed in other steps are assumed to be sufficient to identify any conditions or events that may indicate concerns regarding the government's ability to continue as a going concern. In this step, auditors only need to evaluate evidence obtained in other steps and – if indicators are noted – to follow-up on concerns.***

STEP 1: Document any items identified during the audit that may indicate a going concern issue.

General examples of conditions, events or issues that may indicate a going concern issue include:

- *Recurring operating losses or negative cash flows from operating activities.*
- *Working capital deficiencies combined with declining or insufficient revenues.*
- *Declining unrestricted cash balances.*
- *Current assets and expected net cash flows in the coming period are significantly less than current liabilities.*
- *Default on debt, drawing on debt guarantees, noncompliance with debt covenants or attempts to restructure debt.*
- *Continually growing need for short-term financing.*
- *Need to disposal of assets outside the normal course of business.*
- *Uneconomic long-term commitments.*

- *Loss of key customers, contracts or partners.*
- *Trigger of judgments, liabilities or contingencies that exceed the government's ability to pay.*
- *Catastrophic events for which the government is uninsured or underinsured.*
- *Significant uncertainties, such as outcomes of critical litigation or regulatory / licensing action, work stoppages, substantial dependence on the success of a particular project or the need to significantly revise operations.*

See the planning guide for guidance on measuring financial health for this specific entity type. Contact the applicable subject matter specialist if assistance with the evaluation is needed.

STEP 2: **If any such conditions are noted**, the following procedures to follow-up and evaluate identified items:

- Inform Kelly Collins and the applicable specialist.
- Follow up with management to determine if they are aware of the conditions, their view of the severity of the conditions, management's plan to resolve conditions and management's own evaluation of their plans (that is, key elements, likelihood of success, consequences of failure and any significant uncertainties).

Auditors should also consider whether communication with the governing body is also appropriate. For example, if management was not aware of the issue or if the governing body has otherwise not been informed of the issue or the significance of the issue.

- Evaluate management's plans to determine whether plans are reasonable and would likely keep the government as a going concern.

For example, auditors may consider encumbrances and marketability of assets planned to be sold or apparent feasibility of plans to reduce expenses or increase revenues, Contact the applicable subject matter specialist if assistance with the evaluation is needed.

- Identify elements of management's plans that are particularly significant to overcoming identified issues and test support for such elements.
- If subsequent transactions or current conditions are significant to management's plans or assertions, auditors should review support for such assertions.

For example, the auditor may review interim financial figures or bank statements, trend monthly cash balances or operating results *into the subsequent period, or review supporting documentation for key transactions occurring in the subsequent period such as sales of assets or terms of new debt issuances.*

- **Consider** further financial analysis of financial condition, if needed to better understand the financial effect of noted items or place events or issues in context.

If not already performed, auditors should consider using the "Financial Condition" step in the Ability to Meet Obligations folder.

- **Consider** adding additional representations to the management representation letter to address significant conditions or uncertainties noted.

See AU-C 580 Appendix B for an example representation for circumstances where financial conditions are strained and management is asserting that the entity is able to continue as a going concern. Auditors may also consider additional representations specific to management estimates, contingencies, or specific subsequent events or disclosures.

STEP 3: Conclude as to whether there is a substantial doubt about the government's ability to continue as a going concern for one year beyond the date of the financial statements.

If auditors conclude that there is substantial doubt about the government's ability to continue as a going concern for one year beyond the date of the financial statements, a going concern explanatory paragraph in the audit report is required. See ARS manual Part 3, chapter 9 for instructions and contact TAS for assistance with report modifications.

When this criteria is not met, auditors may choose to include an emphasis-of-a-matter paragraph if significant concerns or uncertainties about the fiscal sustainability of the government are noted. Emphasis-of-a-matter paragraphs are never required, but are always an allowable option for the auditor.

Any significant concerns regarding the ability to continue as a going concern or the long-term fiscal sustainability of the entity should be formally shared with the governing body, even if the auditor concludes that a modification to the report is not necessary.

STEP 4: Evaluate the sufficiency of financial reporting and disclosure surrounding the conditions, liabilities, uncertainties or contingencies that were noted.

As required by accounting standards, when the auditor concludes that there is substantial doubt about the ability of the government to continue as a going concern, we would expect a note disclosure describing the following:

- *Conditions giving rise to substantial doubt about the government's ability to continue as a going concern*
- *Potential effects of conditions*
- *Management's evaluation*
- *Possible discontinuance of operations*
- *Management's plans (including relevant prospective information)*
- *Information about the recoverability or classification of recorded assets and liabilities as required by accounting standards.*

When the auditor has identified issues but concludes there is no going concern issue due to management's plans or other mitigating factors, disclosure of adverse conditions or uncertainties and management's plans may still be necessary for fair presentation.

Policy/Standards:

GASB 56 par 16-19 describes responsibilities of preparers to evaluate going concern and make appropriate disclosures. The BARS Manual and Schools Accounting Manual have parallel requirements in the example notes.

SAO Audit Policy 6440 - Going Concern

Record of Work Done:

STEP 1: Conditions or Issues Noted:
We identified **no** conditions, events or issues that (individually or in aggregate) indicate there could be a substantial doubt about the ability to continue as a going concern for a reasonable period of time.

See work performed at Financial Intelligence Tool. and documented here (Planning Analytical Procedures).

STEP 2: Evaluation of Noted Conditions or Issues
Not applicable.

STEP 3: Going Concern Conclusion
We concluded that there is **no** substantial doubt about the government's ability to continue as a going concern.

STEP 4: Review Financial Reporting
Not applicable.

Columbia County

D.2.PRG - Review Presentation & Disclosure

Procedure Step: Implementation of BARS Changes
Prepared By: MDR, 8/24/2018
Reviewed By: DHO, 8/27/2018

Purpose/Conclusion:

Major BARS changes are effective for FY 2014 through 2016 financial statements. Auditors should review these changes in detail in the year of implementation.

Purpose:
To determine whether major BARS changes have been properly implemented, as applicable.

Conclusion:
Based on the work performed the County has implemented the major BARS changes as noted in the prior year, no new BARS changes are applicable. However we identified a misstatement which we documented on our Aggregation of MisstatementsAggregation of Misstatements (BARS Cash), Level of Recommendation LOR Summaryand recommendation (FS Reporting Misstatement)

Testing Strategy:

BACKGROUND:
In general, BARS changes may be implemented early so long as changes are completely implemented. Effective dates represent when changes are required to be implemented. Implementation questions should be directed to Team LGS.

REQUIRED PROCEDURES:
To determine whether major BARS changes have been properly implemented, auditors are required to perform the following procedures, as applicable, in the year of implementation:

Updated annual report filings (applicable FY 2016 and thereafter, early implementation encouraged)

Columbia County

- The BARS manual now requires cities and counties to provide a BARS code for redemption and specific ID Numbers of debt related to streets/roads to accommodate the DOT Annual Street/Road Finance Report.
- Schedule 22 applicability expanded to all diking/drainage districts, cemetery districts, mosquito/pest/weed districts, TV reception districts and water conservancy boards requiring them to submit Schedule 22.
- Fund Resources and Uses Arising form Cash Transactions (C-4) subcategories were revised and two sections below revenues and expenditures were rearranged to provide greater clarity and state-wide comparability.

Accounts 386, Agency Deposits and 389, Other nonrevenues were pools and rearranged into

- o 38910, *Refundable Deposits*,
- o 38920, *Retainage Deposits*,
- o 38930, *Agency Type Collections*,
- o 38940, *Agency Type Deposits,*
- o 38960, *Agency Type Interest Earnings, and*
- o 38990, *Other Custodial Activities.*

Accounts 586 (1) and 589, *Other Nonexpenditures* were pooled and rearranged into:

- o 58910, *Refunds of Deposits*,
- o 58920, *Refund of Retainage*,
- o 58930, *Agency Type Remittances*,
- o 58940, *Agency Type Disbursements,* and
- o 58990, *Other Custodial Activities.*

To better identify custodial activities in recording receipts and disbursements from fiduciary funds as well as any custodial activity reported in other fund types for ***all non-court related items.***

- Online Filing system now verifies balance sheet/statement of net position minimum variance requirements within $1,000 to file report.
- The 2016 BARS manual contains numerous changes to account codes. While financial statements did not change significantly, some reclassifications will affect this level. Auditors will notice a lot more reclassifications at the GL level. See link for complete list of changes within the chart of accounts, accounting, reporting, and online filing sections: www.sao.wa.gov/local/BarsManual/Cash/Pages/Overview-of-Significant-Changes.aspx

Updated annual report filings (applicable FY 2015 and thereafter, early implementation encouraged)

- Schedule 9 and 16 moved from the SAO Annual Report Schedules category to Supplemental and Other Information Category
- Reporting requirement for Note X – Pension Plans for cash basis local governments to report their pension related liabilities in the new note and on their Schedule 09.
- Schedule 01 for fiscal years ended on or after December 31, 2015 ensures the data submitted is accurate. If online filing system calculates variance in ending balances/net position greater than $1,000, the government will not be able to submit its annual report until corrected.
- Schedule 09 debt and liability IDs were changed from categorizing by fund type to categorizing based on obligation type. Additionally, ID numbers were added to facilitate calculation of debt limit and an ID number was also added for pension liabilities.
- Reporting requirements for Note X – Debt Service Requirements changed from reporting by debt type to reporting principal, interest and total amount. Also, if applicable, required to provide disclosure regarding their refunding and debt guaranty activities.
- Schedule 22 applicability expanded to include all cash-basis fire districts. All conservation districts filing the Schedule 22 are required to submit the requested Schedule 22 attachments.
- The 2015 BARS manual contains numerous changes to account codes. While financial statements did not change significantly, some reclassifications will affect this level. Auditors will notice a lot more reclassifications at the GL level.

Updated annual report filings (applicable FY 2014 and thereafter, early implementation encouraged)

- The BARS manual now requires governments to update their annual reports with any corrections up through the end of the audit of that information. Doing so for schedule 01, 09 and 16 Federal is necessary to audit through LGCS but is now an explicit requirement in addition to a practical necessity.
- The 2014 BARS manual contains numerous changes to account codes as part of a major restricting process. While financial statements did not change significantly, some reclassifications will affect this level. Auditors will notice a lot more reclassifications at the GL level. Also, although debt limit remains a compliance requirement, the 2014 BARS manual no longer requires Schedule 10 (calculation of limit) as part of the annual report. This was moved to accounting guidance section.

Auditors should also evaluate whether the change has a material effect on the comparability of financial statements to the prior year. **Contact Team LGS with any questions regarding BARS criteria or the implementation of new BARS requirements.**

Policy/Standards:

See FYI 2011-02 for more details regarding managerial fund roll-up and fund definitions. Specific criteria for each change can be found in the BARS manual as follows:

Revised C4/C5 presentation (applicable FY 2013 and thereafter)

See BARS Part 4.3.12 and 4.3.13 for the prescribed format of C4 and C5 statements, respectively.

Elimination of Clearing Fund Reporting (applicable FY 2012 and thereafter, but may be early implemented)
See the Matrix of Reporting Requirements in BARS Part 4.1.6 and the Statement C-5 instructions in Part 4.3.13
Special Revenue fund definition (applicable FY 2011 and thereafter)
See BARS Part 3.1.7.50 for definitions and criteria.
Revised Schedule of Liabilities (applicable FY 2010 and again in FY 2011)
See the instructions for Schedule 09 in BARS Part 4.8.13.
Reporting Reserved and Unreserved Fund Balance (applicable FY 2010 and thereafter)
BARS Part 1.15 contains definitions for beginning (308) and ending (508) fund balance.

> "308.10 RESERVED
> The amounts of cash and investments not available for spending at the beginning of the year due to the restrictions imposed on them by external parties (e.g., grantors, creditors, etc.) and/or due to internal commitments. Internally committed resources are resources with limitations imposed by the highest level of government (board of commissioners, city council, board of directors, board of supervisors, etc.) through a formal action (ordinance, resolution) that require a similar formal action on the same level to remove them. Limitations resulting from intended use (informal action) by either legislators or managers are not sufficient to classify the resources as reserved. These resources should be reported as unreserved.
> 308.80 UNRESERVED
> The amounts of cash and investments without any limitations on their use and resources with informal limitations placed on them by either legislators or managers."

Managerial fund rollup (applicable FY 2009 and thereafter)
See BARS Part 3.1.7.50 for discussion.

Record of Work Done:

REQUIRED PROCEDURES:
To determine whether major BARS changes have been properly implemented, auditors are required to perform the following procedures, as applicable, in the year of implementation:

Updated annual report filings (applicable FY 2016 and thereafter, early implementation encouraged)

- The BARS manual now requires cities and counties to provide a BARS code for redemption and specific ID Numbers of debt related to streets/roads to accommodate the DOT Annual Street/Road Finance Report.
- Fund Resources and Uses Arising form Cash Transactions (C-4) subcategories were revised and two sections below revenues and expenditures were rearranged to provide greater clarity and state-wide comparability.

During planning we noted the County used an incorrect BARS code (Planning Analytical Procedures). We discovered that the revenues were coded incorrectly to 386 rather than 389, leaving County revenues misstated by approximately $30M. The expenditure side appears to be coded correctly via the BARS Manual. We added this to our Aggregation of Misstatements (Aggregation of Misstatements (BARS Cash)), Level of RecommendationLOR Summary and issued a recommendation here (FS Reporting Misstatement). We obtained and reviewed the corrected Schedule 1 and noted $31,226,294 coded to 389 and $34,340,619 million coded to 589. The County is using the new BARS coding to identify agency remittances. Please note that the Investment Trust Funds for Special Purpose Districts are now required to be reported under these account codes.

Accounts 386, Agency Deposits and 389, Other nonrevenues were pools and rearranged into
- o 38910, *Refundable Deposits*,
- o 38920, *Retainage Deposits*,
- o 38930, *Agency Type Collections*,
- o 38940, *Agency Type Deposits,*
- o 38960, *Agency Type Interest Earnings, and*
- o 38990, *Other Custodial Activities.*

Accounts 586 (1) and 589, *Other Nonexpenditures* were pooled and rearranged into:
- o 58910, *Refunds of Deposits*,
- o 58920, *Refund of Retainage*,
- o 58930, *Agency Type Remittances*,
- o 58940, *Agency Type Disbursements,* and
- o 58990, *Other Custodial Activities.*

To better identify custodial activities in recording receipts and disbursements from fiduciary funds as well as any custodial activity reported in other fund types for ***all non-court related items.***

- Online Filing system now verifies balance sheet/statement of net position minimum variance requirements within $1,000 to file report.
- The 2016 BARS manual contains numerous changes to account codes. While financial statements did not change significantly, some reclassifications will affect this level. Auditors will notice a lot more reclassifications at the GL level. See link for complete list of changes within the chart of accounts, accounting, reporting, and online filing sections: www.sao.wa.gov/local/BarsManual/Cash/Pages/Overview-of-Significant-Changes.aspx

Updated annual report filings (applicable FY 2015 and thereafter, early implementation encouraged)

- Reporting requirement for Note X – Pension Plans for cash basis local governments to report their pension related liabilities in the new note and on their Schedule 09. We reviewed the notes to the financial statements and verified they were updated accordingly.
- Reporting requirements for Note X – Debt Service Requirements changed from reporting by debt type to reporting principal, interest and total amount. Also, if applicable, required to provide disclosure regarding their refunding and debt guaranty activities. We reviewed the notes to the financial statements and verified they were updated accordingly.

Updated annual report filings (applicable FY 2014 and thereafter, early implementation encouraged)

- The 2014 BARS manual contains numerous changes to account codes as part of a major restricting process. While financial statements did not change significantly, some reclassifications will affect this level. Auditors will notice a lot more reclassifications at the GL level. Also, although debt limit remains a compliance requirement, the 2014 BARS manual no longer requires Schedule 10 (calculation of limit) as part of the annual report. This was moved to accounting guidance section. Not applicable. The County does not submit a Schedule 10.

D.2.PRG - Review Presentation & Disclosure

Procedure Step:	Implementation of Pension Changes
Prepared By:	MDR, 8/27/2018
Reviewed By:	DHO, 8/27/2018

Purpose/Conclusion:

Purpose:
To confirm disclosures and Schedule 9 reporting for pensions.

Conclusion:
We determined the changes to pension disclosures and Schedule 9 reported for pensions were implemented.

Testing Strategy:

The following procedures are **required** to determine whether pension amounts are correctly reported

Columbia County

STEP 1: Determine the type of pension plan(s) in which the employer participates.

Defined Contribution plans: Contact the Pension / OPEB specialist if the government offers a defined contribution pension plan to determine whether any disclosures would be considered necessary for fair presentation.

There are no pension liabilities to report on Schedule 9; therefore *no further work is necessary for Defined Contribution plans.*

Defined Benefit plans: cash basis entities are required to disclose and report on Schedule 9 their participation in state-sponsored and any single-employer plans.

- State sponsored cost-sharing, multiple-employer plans:
  - Public Employees Retirement System (PERS) plans 1, and 2/3
  - School Employees Retirement System (SERS) plan 2/3
  - Teachers Retirement System (TRS) plans 1, and 2/3
  - Public Safety Employees Retirement System (PSERS) plan 2
  - Law Enforcement Officers and Fire Fighters'Retirement System (LEOFF) plans 1, and 2
  - Volunteer Fire Fighters and Reserve Officers Retirement System (VFFRPF)

The above plans are administered by the Department of Retirement Systems (DRS), except for VFFRPF, which is administered by the Board for Volunteer Firefighters and Reserve Officers.

- Single-employer plans: Police and Firefighter plans in existence before state plans were established. These are closed plans with no active members and administered primarily by cities.

STEP 2 for State sponsored plans: Reference central work and get figures from PEFI.

- See instructional video for local governments.
- SAO has centrally reviewed of the CLA audit of DRS and other support for the actuarial valuation (AAG-SLV 13.187.a-e) and allocation schedule figures (AAG-SLV 13.187.f-j) as part of the State CAFR audit (S1Washington-FS15 @ M.19.PRG and S1Washington-FS16 @ M.15.PRG).
- Use the attached spreadsheet to obtain allocation percentages from the PEFI and calculate pension amounts for the employer.

Which measurement date do I use? *The earliest measurement date that can be used by an employer is 12 months earlier than the reporting date.*

Columbia County

Earliest Available Valuation Date	Earliest Available Measurement Date Employer Can Use	Employer Reporting Date
6/30/2014	6/30/2015	6/30/2016
6/30/2015	6/30/2016	8/31/2016
6/30/2016	6/30/2016	12/31/2016

- *Therefore, local governments with a reporting date of 6/30/16 can use* ***either*** *the 6/30/15* ***or*** *6/30/16 schedules for their year-end balances. Due to timing of the publication of the PEFI reports, most local governments have elected to use the 6/30/15 report for the year end balances and the 6/30/14 report for beginning of the year balances.*
- *Local governments with a reporting date of 12/31/16 should use the 6/30/15 schedules for beginning of the year balances and the 6/30/16 schedules for their year-end balances.*

STEP 3 for State sponsored plans: Compare amount reported on Schedule 9 with recalculated amounts from the PEFI.

- Employers have a responsibility to exercise due care in financial reporting by verifying and recalculating amounts specific to them. Employers should use the DRS *eServices Contribution Reconciliation System* to verify the reasonableness of contributions used in the calculation of their proportionate share. Review the employer's supporting documentation for this verification.
- Using the attached spreadsheet from Step 2, test the mathematical accuracy of the calculation of the net pension liability reported on Schedule 9 using the *Schedules of Collective Pension Amounts* in the PEFI. See the "INPUT" and "Cash-Basis-Summary" tabs.

Local governments should report last year's beginning balance, this year's ending balance, and a single addition or deduction for the net change on Schedule 9.

- VFFRPF - The pension asset amounts for each participating employer are published on the Board's website at www.bvff.wa.gov

STEP 4 for single-employer (local) plans: trace pension amounts reported in Schedule 9 to supporting evidence.

- Trace the amount reported on the Schedule 9 to the most recent actuarial valuation report.
- If financial statements are based on OUTDATED or NO actuarial report, auditors should document a likely misstatement. If any understatement of the liability is not expected to be significant (based on consideration of pension assets, number of participants and

their age), auditors do not need to quantify the potential misstatement. If the misstatement may be significant, auditors could conservatively quantify a ceiling for the misstatement by projecting the cash flows for the current year for all remaining participants to age 95. Contact TAS for assistance in evaluating materiality, if needed.

- If selected as an area for testing, auditors would test by completing the "Rely on Specialist" procedures in TeamMate. In doing so, auditors should include evaluation of the discount rate as a key assumption with a significant expected effect on the pension liability and test the accuracy of census data provided to the actuary.

STEP 5 for all defined benefit plans: Review note disclosures for accuracy and completeness.

Compare the pension note disclosure to the sample cash-basis pension note in the BARS Manual for minimum required disclosures.

Policy/Standards:

Record of Work Done:

STEP 1: Determine the type of pension plan(s) in which the employer participates.

The County participates the following defined benefit plans:

- PERS 1
- PERS 2/3
- LEOFF 1
- LEOFF 2

STEP 2 for State sponsored plans: Reference central work and get figures from PEFI.

We obtained the allocation percentages from the PEFI and recalculated pension amounts for the employer at GASB 68 Testing - FYE 12-31-2017 . No exceptions noted.

STEP 3 for State sponsored plans: Compare amount reported on Schedule 9 with recalculated amounts from the PEFI.

We compared amount reported on Schedule 9 for Pension Liabilities of $2,147,076 with recalculated amounts from the PEFI at GASB 68 Testing - FYE 12-31-2017 and noted amounts tied. No exceptions noted.

STEP 4 for single-employer (local) plans: trace pension amounts reported in Schedule 9 to supporting evidence.

Not applicable. The County does not have single-employer plans.

STEP 5 for all defined benefit plans: Review note disclosures for accuracy and completeness.

We compared the pension note disclosure to the sample cash-basis pension note in the BARS Manual for minimum required disclosures and noted all required elements were included.

D.2.PRG - Review Presentation & Disclosure

Procedure Step: Statements & Notes

Prepared By: MDR, 9/12/2018

Reviewed By: DHO, 9/19/2018

Purpose/Conclusion:

Purpose:
To determine whether statements are properly and clearly presented and whether note disclosures are complete, accurate and understandable and that disclosed events have occurred and pertain to the government.

Conclusion:
Based on our review, we determined statements are properly and clearly presented and note disclosures are complete, accurate and understandable and that disclosed events have occurred and pertain to the government.

Testing Strategy:

The following procedures are **required** for reviewing presentation and disclosure assertions (occurrence and rights and obligations, completeness, classification and understandability, accuracy and valuation) for the financial statements and notes.

Review Presentation of Statements:

- Check that the following statements and schedules have been prepared: a Statement C5 for fiduciary funds, a Schedule of Liabilities, a Schedule of Expenditures of Federal Awards and any other supplementary schedules as needed.
- Check that all required funds are presented in the financial statements. All funds should be presented, including fiduciary funds (with the exception of special purpose district agency funds for Counties); see BARS part 4.1.5 and 4.1.6.

For BARS cash basis presentations, component units are not included as part of the reporting entity as a fund on the C4 (regardless of whether they would be considered blended or discrete under GAAP criteria). Rather, they are required to be disclosed in the notes, along with any significant related party transactions. Also, if the entity acts as the treasurer or fiscal agent for the component unit, such activity would be reported as a fiduciary fund on the C5.

In general, we would expect any component units to be subject to a separate SAO audit. If not, auditors should carefully evaluate whether an audit is needed.

- Check classification of funds.

Fund classification is an important presentation element for financial statement users, since it describes the nature of reported activity and affects financial analysis, especially comparisons.

- If statements were obtained from LGCS (that is, generated by online filing), presentation will match the BARS manual. Otherwise, manually determine proper presentation.
- If statements were obtained from LGCS, use the Yellow Flag report to check footing, compare to prior year and compare financial statement relationships. Otherwise, check these relationships manually.

Agree Statements to Accounting Records

- Agree statements to the underlying accounting records (general ledger or County Treasurer reports for governments that don't maintain a GL). At a minimum, trace total revenues, expenditures and ending cash to source accounting records.
- In conjunction with the understanding of the financial statement preparation process documented in the permanent file and testing of year-end and off-book adjusting entries in the Management Override of Controls step, evaluate the completeness and appropriateness of any additions, adjustments, re-classifications or eliminations that are occurring between the GL and financial statements.

NOTE: the extent of procedures should be based on identified risk. We would expect that reconciliation or comparison of financial statement line items to source records along with a detailed list and supporting documentation for each adjustment would be available as part of the government's documentation and controls over statement preparation.

Review Note Disclosures:

- Scan notes to check for the following. Refer to the applicable BARS manual for guidance.
  - Missing disclosures.
  - Disclosures that haven't been updated from the prior year.
  - Information consistent with audit results and known activities and events.

The note disclosures in the Cash Basis BARS manual part 4.6 only represent an example. Entities may deviate from the language or order so long as the notes contain required information.

Auditors should normally communicate any spelling, grammar, font or other similar cosmetic issues for correction as verbal comments. These corrections are considered trivial and should not be included on the aggregation of misstatements unless they have an effect on fair presentation.

- Check footing of tables and agree amounts or totals from the notes to the financial statements or underlying accounting records. If errors are noted, follow-up to determine how the error occurred, as it may indicate control deficiencies and other potential errors made in the statement preparation process.
- Determine whether the disclosed information is clearly expressed(understandable, rather than confusing or misleading).

In addition to minimum required procedures above, auditors should **consider** additional procedures based on risk.

Multi-Year Cycles (if applicable):
For audits on multi-year cycles, auditors are reminded that separate statements and schedules should be presented for each year and that notes may either be separately presented for each year or - if combined - must otherwise completely cover all years.

Guidance related to comparative presentations is not expected to apply, since BARS C4 and C5 statements do not include columns for prior year audited financial statements. Contact TAS/QA if you think the financial statements have a comparative presentation.

Policy/Standards:

BARS Manual prescribes format for statements and schedules:

- Part 4.3.12 for statement C4
- Part 4.3.13 for statement C5
- Part 4.8.13 for schedule 09
- Part 4.8.5 for schedule 16 Federal

- Part 4.6 for note disclosures

BARS Part 3.1.7.50 contains fund type definitions

BARS Part 1 contains account classification definitions

AU-C 330.26 and A72 describes the auditor's responsibilities with regard to auditing note disclosures:
"The auditor should perform audit procedures to evaluate whether the overall presentation of the financial statements, including the related disclosures, are in accordance with the financial reporting framework.

Evaluating the overall presentation of the financial statements, including the related disclosures, relates to whether the individual financial statements are presented in a manner that reflects the appropriate classification and description of financial information and the form, arrangement, and content of the financial statements, including the related notes. This includes, for example, the terminology used, the amount of detail given, the classification of items in the financial statements, and the basis of amounts set forth."

Record of Work Done:

Review Presentation of Statements Columbia County FS
We have checked that the following statements and schedules have been prepared

- a Statement C4, C5 for fiduciary funds,
- a Schedule of Liabilities,
- a Schedule of Expenditures of Federal Awards
- any other supplementary schedules

- We reviewed the C4 and all funds required to be presented within the C4 statement have been included.
- We reviewed the County's funds and based on our review fund classification appears to be appropriate.
- Statements were obtained from LGCS, therefore presentation matches the BARS manual.
- Statements were obtained from LGCS. We reviewed the Yellow Flag Report at Yellow Flag Report.

Agree Statements to Accounting Records

- We obtained the County's 12/31/2017 general ledger from Sharon Richter, County Auditor. We tied revenues and expenditures from the C4 Statement for all County funds. We were able to materially tie the balances to the general ledger with an immaterial difference of less than 0.1 percent.

- We tied the Revenues and Other Decreases & Financing Uses from the C5 statement for all County funds. We were able to materially tie the balances to the general ledger with no issues noted.

Review Note Disclosures

Scan notes to check for the following. Refer to the applicable BARS manual for guidance.

- Missing disclosures. We noted no missing disclosures.
- Disclosures that haven't been updated from the prior year. We did not identify any disclosures that were not updated from the prior year.
- Information consistent with audit results and known activities and events. We reviewed and noted that information was consistent with audit results and known activities and events.
- Check footing of tables and agree amounts or totals from the notes to the financial statements or underlying accounting records. We verified amounts agree from the notes to the financial statements.
- Determine whether the disclosed information is clearly expressed (understandable, rather than confusing or misleading). Based on review, we determined disclosed information is clearly expressed.

D.2.PRG - Review Presentation & Disclosure

Procedure Step:	SI and OI
Prepared By:	MDR, 9/12/2018
Reviewed By:	DHO, 9/19/2018

Purpose/Conclusion:

Purpose:

As applicable, to (1) determine whether supplemental information (SI - for which we will give an opinion in relation to the financial statements as a whole) is fairly presented in accordance with applicable criteria and (2) determine whether other information (OI - for which no assurance will be given) is not misleading.

Conclusion:

We determined whether supplemental information (SI - for which we will give an opinion in relation to the financial statements as a whole) is fairly presented in accordance with applicable criteria and (2) determine whether other information (OI- for which no assurance will be given) is not misleading.

Testing Strategy.:

Check that a Schedule of Liabilities and Schedule of Expenditures of Federal Awards (if applicable) are included as supplemental schedules. If several years of statements are covered by one audit report, check that required schedules are presented for each statement period.

To test supplemental information, auditors are **required** to perform the following procedures. Materiality used for purposes of this testing would be based on a level that represents the entire government (not individual opinion units). If the auditor's report on financial statements contains a qualified, adverse or a disclaimer of opinion, *auditors must contact Team Audit Support for assistance with modifying the audit report.*

Schedule of Liabilities (Schedule 9)

- Obtain an understanding of the preparation process, specifically:
    - Methods of preparing the information (such as calculations for compensated absences)
    - Whether methods have changed from the prior year and if so, the reasons for the change.
    - Any significant assumptions or interpretations underlying the measurement of this information.
    - This schedule is required and defined by the BARS Manual. Therefore, our understanding about the purpose of supplementary information and criteria for preparing it cited in the Policy / Standards tab.
    - Based on BARS Manual requirements for the schedule and Audit Reporting Standards Manual requirements for our report, conditions required by AU-C 725.05 are determined to be met.
- If statements were obtained from LGCS (that is, generated by online filing), presentation will match the BARS manual, contain valid classifications and foot. Otherwise, manually determine proper presentation.
- If statements were obtained from LGCS, use the Yellow Flag report to compare to prior year and other financial statement relationships. Otherwise, check these relationships manually.
- Trace figures to the underlying accounting and other records.
- Read the schedule, considering results of procedures performed and knowledge obtained during the audit.
- **Consider** further testing based on assessed risk, such as recalculating selected liabilities or performing discovery tests to determine if all applicable liabilities were included on the schedule.

Materiality used for testing would be the same level determined in planning for the financial statements taken as a whole.

Schedule of Expenditures of Federal Awards (Schedule 16)
This schedule is only required to be included as a supplemental schedule if a Single Audit is also being done. See the Planning & Audit Plan | Planning | Single Audit Planning | Schedule of Expenditures of Federal Awards step.

Additional Supplemental Information (on which we will give an "in-relation-to" opinion)
If a client requests additional schedules to be included with the published financial report that are not required by the BARS Manual, auditors are **required** to:

- Work with Team Audit Support if unclear whether such additional information would be considered "supplemental" or "other" information and whether conditions required by AU-C 725.05 are met.
- Obtain an understanding of the preparation process for supplementary information, specifically:
- The purpose of supplementary information and criteria for preparing it.
- Methods of preparing the information (such as calculations for compensated absences)
- Whether methods have changed from the prior year and if so, the reasons for the change.
- Any significant assumptions or interpretations underlying the measurement of this information.
- Trace figures to the underlying accounting and other records.
- Read the schedule, considering results of procedures performed and knowledge obtained during the audit.
- Determine that the form and content complies with the criteria.
- Add representations required by AU-C 725.06 to the management representation letter.
- **Consider** further testing based on assessed risk

Materiality used for purposes of this testing would be based on a level that represents the entire government (not individual opinion units).

Other Information (on which no assurance will be given)
If a client requests additional information to be included with the published financial report that is not required by the BARS Manual, auditors are **required** to do the following. These procedures should be completed **prior to** report issuance:

- Work with Team Audit Support to determine if such additional information would be considered "supplemental" or "other" information.
- Read the sections and consider whether there are material inconsistencies with the audited financial statements.

- Communicate with those charged with governance (1) the auditor's responsibility with respect to the information, (2) the nature of the procedures performed, and (3) the results. This communication can be done at the exit conference.
- The auditor will need to take specific actions if material inconsistencies are noted between this information and the audited financial statements, or material misstatements of fact. If management refuses to make the necessary revisions, the refusal should also be communicated to the governing body. Auditors should contact Team Audit Support to determine the effect of that refusal on the audit.
- Consider further review based on assessed risk, such as comparing to information presented in the prior financial statement report, reviewing supporting documentation for selected information, and considering results of procedures performed and knowledge obtained during the audit.

Policy/Standards:

Schedule of Liabilities - see schedule 9 instructions in BARS part 4, chapter 3

Schedule of Expenditures of Federal Awards - see schedule 16 instructions in BARS part 4, chapter 3

Supplementary Information (SI) is addressed in AU-C 725:
The auditor is responsible to perform additional procedures on supplemental information, using the same materiality level as with the financial statements. In our audit report, we will opine on whether supplemental information is "fairly presented in all material respects, in relation to the financial statements as a whole".

Such an opinion is only appropriate for information that was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements and relates to the same period as the financial statements.

Other Information (OI) is addressed in AU-C 720:
Other information consists of all other financial or non-financial information presented with the financial statements other than Required Supplementary Information and Supplementary Information.
The auditor is only responsible to check that other information presented with the financial statements is not materially inconsistent with the financial statements. No assurance is given on other information in our audit report.

Audit reports should not include information other than the minimum expected as shown in the Audit Report Standards Manual Part 3, chapter 3. If clients are required by grants or contracts to include additional schedules, or if clients simply want to include a supplemental schedule with the financial statements, auditors should notify their manager so that the effect on the audit budget and the need for an engagement letter can be evaluated.

Columbia County

AU-C Section 720—Other Information in Documents Containing Audited Financial Statements
Requirements
Reading Other Information
.06 The auditor should read the other information of which the auditor is aware in order to identify material inconsistencies, if any, with the audited financial statements.
.07 The auditor should make appropriate arrangements with management or those charged with governance to obtain the other information prior to the report release date… (Ref: par. .A6)

Reading Other Information (Ref: par. .07)
.A6 Obtaining the other information prior to the report release date enables the auditor to resolve possible material inconsistencies and apparent material misstatements of fact with management on a timely basis. An agreement with management regarding when other information will be available may be helpful. The auditor may delay the release of the auditor's report until management provides the other information to the auditor.

Record of Work Done:

Schedule of Liabilities (Schedule 9) Columbia County FS

- Obtain an understanding of the preparation process, specifically:
  - Methods of preparing the information (such as calculations for compensated absences)
  - The County Treasurer is responsible for preparing the Schedule 09. A majority of the liability balances are determined by the County Treasurer, she uses bank prepared amortization schedules and payment information from the GL to calculate the amounts reported.
  - The Deputy County Auditor is responsible for calculating compensated absences. The County calculates compensated absences based on the amount that would be required for cash out if the employee were to use all of their banked sick and vacation time.
  - Whether methods have changed from the prior year and if so, the reasons for the change. Per our inquiry with Sharon Richter, County Auditor the methods have not changed from the prior year.
  - Any significant assumptions or interpretations underlying the measurement of this information.
  - Compensated absences are calculated by the County Auditor who bases this on total absence balances that would be required to be cashed out if all employees used all their sick and vacation time during the year.
  - This schedule is required and defined by the BARS Manual. Therefore, our understanding about the purpose of supplementary information and criteria for preparing it cited in the Policy / Standards tab.

- Based on BARS Manual requirements for the schedule and Audit Reporting Standards Manual requirements for our report, conditions required by AU-C 725.05 are determined to be met.
- If statements were obtained from LGCS (that is, generated by online filing), presentation will match the BARS manual, contain valid classifications and foot. Otherwise, manually determine proper presentation. Statements were obtained from LGCS.
- If statements were obtained from LGCS, use the Yellow Flag report to compare to prior year and other financial statement relationships. Otherwise, check these relationships manually. We reviewed the Yellow Flag report at Yellow Flag Report.
- Trace figures to the underlying accounting and other records.
  - We traced General Obligations reported on Schedule 9 to amortization tables without exception.
  - We traced Compensated Absences reported on Schedule 9 to the Vacation Sick Accrual spreadsheet which is prepared annually by Cathy Abel, Deputy Auditor to track compensated absences for the County without exception.
  - We traced Pension Liabilities report on Schedule 9 to the PEFI and recalculated amounts using the Pention Tool without exception. Originally the Pension Liabilities beginning balance was omitted from the FS (which has now been corrected), and beginning liabilities were understated. We will issue a recommendation. ML - Pension Liability Balance Final
- Read the schedule, considering results of procedures performed and knowledge obtained during the audit.
- **Consider** further testing based on assessed risk, such as recalculating selected liabilities or performing discovery tests to determine if all applicable liabilities were included on the schedule.

Materiality used for testing would be the same level determined in planning for the financial statements taken as a whole.

Schedule of Expenditures of Federal Awards (Schedule 16)
This schedule is only required to be included as a supplemental schedule if a Single Audit is also being done. See the Planning & Audit Plan | Planning | Single Audit Planning | Schedule of Expenditures of Federal Awards step at Single Audit Planning - Uniform Guidance Audits.

D.2.PRG - Review Presentation & Disclosure

Procedure Step: Consistency of Statements

Prepared By: MDR, 8/23/2018

Reviewed By: DHO, 9/7/2018

Columbia County

Purpose/Conclusion:

Purpose:
To evaluate consistency of the financial statements with those of the preceding period.

Conclusion:
We determined that financial statements are comparable with those of the prior period, except for the implementation of a new accounting standard.

Entities are now (as of 2017 statements) required to report Investment Trust Funds for Special Purpose Districts on their FS. Upon review, the FS appear to reflect this new accounting standard, including the proper note disclosure. No issues noted.

Testing Strategy:

To determine whether financial statements are comparable to those of the prior period, auditors are **required** to perform the following procedures:

- Identify changes that could impact comparability:
  - Implementation of any new standards
  - Other changes in accounting principles
  - Changes in the reporting entity

Changes in reporting entity include changes in component units, mergers, annexations, and acquisitions and disposals of operations.

- Prior period adjustments
- Changes in classification

When classification of a certain balance or transaction stream is changed, auditors should determine whether the change represents a change in accounting principles or correction of a prior period misstatement.

- Changes should be evaluated both individually and in aggregate to determine whether they represent a material effect on comparability of financial statements with those of the prior period. If so, an emphasis of matter paragraph must be included in the report.

An emphasis of matter paragraph (as opposed to an "other matters" paragraph) is presumed since any such change would need to be disclosed under GAAP. Lack of disclosure (or incorrect accounting for) of any non-trivial change would be considered a misstatement. Contact Team Audit Support for questions or assistance with this evaluation, if necessary.

Policy/Standards:

AU-C 708 describes required procedures to evaluate consistency of financial statements with those of the preceding period.

For comparative presentations, consistency should be evaluated between periods presented as well as consistency of the earliest period presented with the preceding period.

Record of Work Done:

Based on review of note disclosures and procedures performed during the course of the audit, we noted the following:

New Standards

Financial statements reflect implementation of the following new accounting standards:

- Entities are now (as of 2017 statements) required to report Investment Trust Funds for Special Purpose Districts on their FS. Upon review, the FS appear to reflect this new accounting standard, including the proper note disclosure. No issues noted.

Other Changes in Accounting Principle

Financial statements reflect no other changes in accounting principles.

Changes in Reporting Entity

Financial statements reflect no changes in the reporting entity.

Prior Period Adjustments

Financial statements reflect the following prior period adjustments:

- Beginning Cash and Investments prior period adjustment of $9,444. Upon inquiry with Sharon Richter, Auditor, we were told that this adjustment was due to a payroll error that ocurred in 2016 that they did not catch in time to adjust on the 2016 statements. Because this amount is immaterial to the FS, we will pass on further review.

Significant Changes in Classification

We identified no significant changes in classification from prior financial statements.

D.3.PRG - Concluding Financial Audit Procedures

Columbia County

Procedure Step: Subsequent Events
Prepared By: MDR, 9/12/2018
Reviewed By: DHO, 9/19/2018

Purpose/Conclusion:

Purpose:
To understand controls over subsequent events, identify any material subsequent events and evaluate whether such events were properly reported or disclosed.

Conclusion:
We gained an understanding of internal controls over subsequent events, noting **no** control deficiencies

We identified **no subsequent events** requiring adjustment or disclosure.

Testing Strategy:

The following procedures are **required** to review for subsequent events:

STEP 1: Controls over Subsequent Events
Obtain an understanding of procedures or controls used by management to identify subsequent events, including subsequent events for any significant components.

Weaknesses in internal controls over subsequent events should be evaluated in the same manner as any other control deficiency, although the system is not presumed to be material unless identified as such on the material balance spreadsheet.

STEP 2: Identify Subsequent Events
Review for potential subsequent events by:

- Reviewing minutes up to the audit report date or as nearly as practicable.
- Reviewing FAWF for news articles or other items that may indicate a subsequent event up to the audit report date or as nearly as practicable.
- Review EIS and consider current results of other SAO audits or engagements, if any, up to the audit report date or as nearly as practicable.

- Inquiry with management to determine whether any significant changes occurred subsequent to the fiscal year end. This assertion will be confirmed in the management representation letter.
- Review interim financial statements, if any.

*In performing these procedures, the auditor should specifically be alert for any of the following **examples** potential subsequent events **requiring adjustment** to the financial statements:*

- *Settlement or resolution of a major estimated liability.*
- *Significant differences in actual vs expected outcomes of accounting estimates (such as actual payments related to estimated liabilities or actual collections related to receivable allowances).*
- *Occurrence of a major lawsuit or contingency if the event causing the liability had taken place prior to fiscal year end.*

*In performing these procedures, the auditor should specifically be alert for any of the following **examples** potential subsequent events requiring **disclosure**:*

- *Initiation or settlement of significant litigation.*
- *Issuance or refunding of long-term debt.*
- *Significant casualty, investment or other losses.*
- *Significant unresolved strike at the time of financial report issuance.*
- *Significant impairments to the government's ability to provide services or continue operations.*
- *Changes to the reporting entity or boundaries.*
- *Major changes in the scope of the government's programs or services that are anticipated to have a significant effect on future statements.*

Auditors should also **consider** additional procedures based on risks identified or follow-up procedures to verify information obtained in minutes, news articles or inquiry or to obtain additional information to better evaluate potential subsequent events.

STEP 3: Evaluate Subsequent Events for Proper Reporting and/or Disclosure

If applicable, auditors are **required** to follow up on reporting and disclosure for any potential subsequent events identified with procedures sufficient to verify and evaluate adjustments or disclosures.

Policy/Standards:

The Cash Basis BARS manual gives the following definition of subsequent events in the instructions for the example "Other Disclosures" note: "Subsequent events occurring after the end of period but before issuance of the statements that have a significant financial impact (e.g., issuance of new debt, settlement of major litigation, or an extraordinary event occurring after the end of the period)."

Columbia County

SAO Audit Policy 6410 - Subsequent Events

Record of Work Done:

STEP 1: Controls over Subsequent Events:
We met with Sharon Richter, Auditor to gain an understanding of procedures used to identify subsequent events.

Sharon stated that she completes a detailed review of all year-end transactions. In addition, she performs a detailed comparison of the previous year's reports to the current reports to ensure information is reported in the appropriate year.

Next, she stated that if she identified an event or transaction that could be considered subsequent that she would consult the SAO helpdesk or SAO staff during the audit. Finally, she indicated that any potential subsequent events would be discussed with the Commissioners.

STEP 2: Identification of Subsequent Events:
In addition to general procedures performed during the course of the audit, we performed the following procedures to identify potential subsequent events affecting any component of the government or part of the financial audit (report, statements, notes, SI or OI):

- Updated our review of minutes up to 8/7/18 as documented at Columbia County Subsequent Minutes Review.
- Following 8/7/18, we reviewed minutes for 8/8/18, 8/10/18, 8/16/18, 8/17/18, 8/20/17, 8/23/18, and 9/4/18 and noted that normal business was conducted. No subsequent events to report.
- Updated our review of Other Engagements & FAWF up to August 2017 as documented at BARS Cash Basis Planning.
- Inquired about any significant changes, events or transactions occurring after year-end with Sharon Richter, Auditor on July 3, 2018.
- The government does not prepare interim financial statements.

We identified **no** subsequent events affecting the financial audit.

STEP 3: Evaluation of Transactions and Disclosures:
We did not identify any subsequent events.

D.3.PRG - Concluding Financial Audit Procedures

Procedure Step: Litigation, Claims & Assessments

Prepared By: MDR, 9/14/2018

Columbia County

Reviewed By: DHO, 9/19/2018

Purpose/Conclusion:

Purpose:
To determine if reporting and disclosure of any liabilities or contingencies related to litigation, claims or assessments are accurate and complete.

Conclusion:
We determined that reporting and disclosure of any liabilities or contingencies related to litigation, claims, or assessments are accurate and complete.

Testing Strategy:

BACKGROUND:
Auditors are required to review for the existence of legal liabilities and contingencies that should be reported or disclosed. Management is the primary source of information about litigation, claims and assessments because these matters are within the direct knowledge and, often, control of management. Since auditors are not ordinarily able to make judgments regarding legal matters, a letter of inquiry to the government's legal counsel is the primary means of corroborating information provided by management.

REQUIRED PROCEDURES:
Auditors are **required** to perform the following risk assessment procedures:

- Inquire and request a list of all litigation, claims and assessments existing as of fiscal year end or arising since that time from in-house legal counsel (if applicable) or management, including a description and evaluation of each item.

Auditors should use the Legal Matters Inquiry Letter available in TeamMate to request this information from in-house legal counsel (such as the County prosecuting attorney) or management. If management does not wish to complete this themselves, they always have the option of having their attorneys respond for them.

- Evaluate management's response to ensure it is clear, contains all items of information requested and covers matters existing as of the financial statement date and through the effective date of the letter. If information is missing or unclear, request and document clarification either verbally or in writing. If obtained verbally, a summary of the discussion must be documented.
- Review legal expenses for outside attorneys to evaluate management's list of litigation, claims and assessments. Auditors should follow-up on unexpected attorney expenses with inquiry of management and review of invoices or correspondence as necessary.
- When the auditor is aware that the government has changed legal counsel or that legal counsel has resigned, the auditor should consider making inquiries of management or others about the reasons.

- Consider results of the minutes review and other audit procedures performed during the course of the audit for indications of litigation, claims and assessments.

Auditors may become aware of actual or potential litigation, claims and assessments through the minutes review, citizen hotlines, newspaper articles, review of contracts and grants, review of expenditures or other audit procedures.

If <u>no</u> matters were identified that indicate a risk of material misstatement, auditors must document this conclusion.

If <u>any</u> matters are identified that indicate a risk, auditors must request an attorney letter from any legal counsel involved in the matter as follows:

- Obtain an attorney letter from every attorney that has devoted substantial attention to matters that may give rise to a risk of material misstatement:
  - Request from the entity an attorney's letter from all attorneys who have the primary responsibility for and knowledge about particular litigation, claims, and assessments of which the auditor is concerned.
  - Auditors should use the "Attorney Letter Request" template in the SAOStore for both state agency and local government audits.
  - Evaluate the attorney's response to ensure it is clear, contains all items of information requested and covers matters existing as of the financial statement date and through the effective date of the letter. If information is missing or unclear, request and document clarification from the attorney either verbally or in writing. If obtained verbally, a summary of the discussion must be documented.

The government should be aware of any time we contact their attorney so they won't be surprised by any bills. See AU-C 501.A56-63 for guidance on evaluating any unexpected limitations on the attorney's response.

- Compare reported or disclosed liabilities or contingent liabilities per the financial statements to the information in management's response, any attorney letters and other evidence obtained. See the policy/standards tab for criteria on when liabilities should be reported or disclosed. Auditors should also **consider** follow-up procedures for any variances, depending on the nature and materiality of potential differences.

Contact the Manager of Legal Affairs for any needed assistance in evaluating or corroborating management's evaluation of legal matters. Management or legal counsel's refusal to provide requested information either in writing or verbally would be a limitation on the scope of the audit sufficient to preclude an unmodified opinion.

Policy/Standards:

BARS describes criteria for evaluating contingent liabilities:

Columbia County

The example Notes in part 4, chapter 5 of the Cash Basis BARS Manual require disclosures on material violations of financial-related legal or contractual provisions (note 2) as well as subsequent events and major future obligations ("other disclosures" note).

Auditors should be alert for indications of material non-compliance affecting reported figures or existence of potential obligations that may need to be disclosed in order to keep the statements from being misleading.

As described in the template request for an attorney letter, we will accept letters that reference FAS 5, ASC 450-20 or GASB 62 as criteria, as all of these sources are substantially the same.

SAO Audit Policy 6420 - Obtaining Legal Letters

Record of Work Done:

List of Legal Matters:

We noted that management does not utilize in-house legal counsel. We requested a list of legal matters from Rea Culwell, Prosecutor. Our request is documented in Legal Matters Inquiry Letter and management's response is documented in Response to Legal Matters Inquiry.

We reviewed and evaluated the list and noted **no** matters that required additional clarification or follow-up procedures.

Other Audit Procedures to Identify Legal Matters:

We were alert for indications of legal matters during the course of the audit including during our review of minutes, review of FAWF items, and other procedures.

We also compared the list of legal matters and description of the use of outside attorneys to legal expenses coded to 515.30 on the financial statements.

Based on our review, the trend appears reasonable. Further, the potential claim noted is not material and will likely be covered by the County's insurance. No issues noted, pass on further review.

Attorney Letter:

Based on the County's response and other audit procedures performed, no legal matters have been identified. It does not appear necessary to further obtain an attorney letter.

Reporting & Disclosure of Liabilities and Contingencies:

Only one liability was disclosed in the Legal Matters letter. The matter is below our materiality limit no disclosure is needed.

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D.3.PRG - Concluding Financial Audit Procedures

Procedure Step: Final Analytical Procedures
Prepared By: MDR, 9/6/2018
Reviewed By: DHO, 9/7/2018

Purpose/Conclusion:

Purpose:
To perform analytical review to evaluate audit conclusions reached and whether financial statements are consistent with the auditor's understanding of the government.

Conclusion:
We performed an analytical review to evaluate audit conclusions reached and whether financial statements are consistent with our understanding of the government with no unexpected items noted.

Testing Strategy:

The **Audit Manager or delegate** is **required** to perform the following procedures in the final review stage of the audit after any necessary adjustments to the financial statements are known.

- At a minimum, read through the final draft financial statements and notes to make sure they are consistent with the auditor's understanding and conclusions. Consider further final analytical procedures depending on risk and circumstances, such as a trend analysis or ratio analysis using figures from the final financial statements.
- As part of this review, consider:
    - Misstatements identified by the audit.
    - Adequacy of evidence obtained for significant risks or for any unusual or unexpected balances identified in planning or during fieldwork.
    - Whether there are any previously unidentified unusual or unexpected balances or relationships in the final draft financial statements.
- Perform follow-up procedures as necessary in response to any issues or concerns noted during the final analytical review.

Policy/Standards:

SAO Audit Policy 6460 - Final Analytical Procedures

Record of Work Done:

As part of our final analytical procedures, we considered:

- Misstatements identified by the audit.
- Adequacy of evidence obtained for significant risks or for any unusual or unexpected balances identified in planning or during fieldwork.
- Whether there were any previously unidentified unusual or unexpected balances or relationships in the final draft financial statements.

We identified no unexpected items that need further investigation.

D.3.PRG - Concluding Financial Audit Procedures

Procedure Step: Aggregation of Misstatements

Prepared By: MDR, 9/5/2018

Reviewed By: DHO, 9/7/2018

Purpose/Conclusion:

Purpose:

To accumulate, evaluate and communicate misstatements in order to determine the impact of identified misstatements on our audit plan and report.

Conclusion:

Based on our accumulation, evaluation and communication of identified misstatements, we determined that all identified misstatements were corrected and no further work is necessary to reduce audit risk to a reasonably low level.

Testing Strategy:

The following procedures are **required** to accumulate, evaluate and communicate misstatements:

STEP 1: Accumulation of Misstatements

Using the worksheet provided in TeamMate, document all non-trivial (above the floor) misstatements identified during the audit in order to evaluate them individually and in aggregate and communicate to the client. For each misstatement:

- Relate it to a financial statement or schedule
- Provide a brief description suitable for sharing with the client, including the nature and amount or range of the misstatement.
- Link or reference the audit documentation supporting the misstatement

Follow up work necessary to conclude on the apparent cause of misstatements should be documented as part of the test that identified the misstatement.

- Conclude on the apparent cause of each misstatement, specifically evaluating whether the misstatement was indicative of fraud or management override.

Auditors should contact their manager if there is reason to believe a misstatement indicates fraud or management override. If intentional misstatements are made by executive management or if possible collusion is involved, auditors should re-evaluate risks identified, our overall COSO evaluation, reliability of evidence obtained and the sufficiency of the audit plan.

- If the misstatement has a quantifiable effect on an opinion unit, enter the amount in the appropriate aggregation column, following instructions on the spreadsheet.

Misstatements may have been identified in the current audit or identified in prior audits. Prior year uncorrected misstatements with a current affect should have been identified and documented on the worksheet as part of the Other Engagements & FAWF planning step.

STEP 2: Communication of Identified Misstatements

Discuss all non-trivial known and likely misstatements with management. For each misstatement, request that management respond as follows:

- **Known Misstatements** – Request correction of misstatements.

Auditors should request corrections be made online to the annual report in order to generate corrected statements and schedules that teams can then access in LGCS. To make corrections, the audit liaison needs to unlock the annual report and re-submit. Contact Duane Walz with questions or for assistance.

- **Likely Misstatements involving projection of a sample** – If material (or close to materiality), request management examine the entire population in order to identify and correct any misstatements. If management reviews the entire population and makes corrections, they should follow the procedures for correcting their annual report and the auditor should re-evaluate the amount of likely misstatement.

- **Likely Misstatements involving differences in accounting estimates** – Request management review the assumptions and methods used in developing their estimate. If management reviews estimates and makes corrections, they should follow procedures for correcting their annual report the auditor should re-evaluate the amount of likely misstatement.
- **Likely Misstatements involving substantive analytical procedures** – Request management investigate and then review or confirm the results. If necessary, the auditor should expand testing to determine whether a known misstatement exists.

As described above, auditors should not request corrections for likely misstatements. If likely misstatements, either individually or in aggregate, approach materiality, the auditor must either perform additional work or else request that management review the entire population to identify any known misstatements. If neither of these options are feasible, auditor judgment should be used in evaluating and aggregating the likely misstatements with other known misstatements and considering the effect on the financial statement opinion.

- Update the aggregation for corrected misstatements.
- For each uncorrected misstatement, understand management's reasons for not correcting or investigating the item.

STEP 3: Reconsideration of Planning

After compiling initial audit results, it is possible that planning decisions may need to be re-evaluated, especially if significant misstatements were identified or if misstatements imply substantially different or increased risks than the audit was originally designed to address. Accordingly, the auditor should re-evaluate the following planning decisions:

- Materiality
- Calculation of opinion units (if significant misstatements were identified)
- Significant risks, especially risk of fraud and management override of controls
- Material balances
- Relevant assertions
- Significant accounting systems
- Control risk assessments
- The nature and extent of substantive audit procedures

STEP 4: Evaluation of impact of Uncorrected Misstatements on the Report

Evaluate the individual and net aggregate effect of uncorrected misstatements on each opinion unit. When making this evaluation, the auditor should consider:

- Quantitative factors, such as whether the net effect of misstatements approaches or exceeds the quantitative materiality threshold. Note that quantitative considerations would not be applicable to certain aspects of the statements (such as presentation and disclosure).

- The possibility of additional undetected misstatements.
- Qualitative factors affecting the fair presentation of the statements. Refer to the Policy/Criteria tab for examples of qualitative factors to consider.
- Management's reasons for not making corrections.

For example, if management's reason for not correcting a misstatement is a concern about user perceptions, it would be a strong indicator that the misstatement may be qualitatively material.

STEP 5: Communication of Uncorrected Misstatements

Communicate all uncorrected known and likely misstatements identified during the audit to both management and those charged with governance.

A list of all uncorrected known and likely misstatements must be provided with the Management Representation Letter and the Exit Conference handout. Auditors may provide the list as an attachment or include it in the Rep Letter template and Exit Conference handouts. The Exit Conference handout must also note any material corrected misstatements.

Policy/Standards:

SAO Audit Policy 6450 - Misstatements

Aggregation of Misstatements Floor

The "floor" to the aggregation of misstatements is the threshold below which misstatements are considered trivial and do not need to be accumulated or communicated to management. The floor should be set to an appropriately low level such that un-accumulated misstatements would never reasonably be material - either individually or when aggregated with other misstatements - and considering the possibility of additional undetected misstatements.

The default floor is 0.002 multiplied by the lower of the balance sheet or operating statement materiality, rounded up to the nearest $1,000. Auditors may use professional judgment to adjust the default floor.

Evaluating Misstatements

Both quantitative and qualitative factors should be considered when evaluating misstatements for effects on our plan (re-evaluation of risk assessment) and on our report (determining opinion). Qualitative considerations include:

- Significance relative to reasonable user needs or sensitivities (such as to liabilities, related party transactions, etc).
- Potential effect of the misstatement on trends, especially financial sustainability trends.
- Significance to the presentation of financial position or results of operations, such as a misstatement that changes net position from positive to negative, a net loss into a net gain.
- Potential effect on compliance with laws, bond covenants, contractual agreements or regulatory provisions.

- Nature of the misstatement and management's reasons for not correcting it. For example, misstatements due to fraud, non-compliance or other illegal acts or intentional misstatements management is making in order to hide information from users or influence user perceptions, etc.
- Whether the misstatement is part of a possible pattern of management bias or represents a risk of possible additional undetected misstatements.
- Whether the misstatement is known or likely, and the potential range and degree of subjectivity for likely misstatement.
- Whether the misstatement would be obvious to a reasonable user.
- Likelihood that a misstatement that is currently immaterial may have a material effect in future periods.
- Cost of making the correction.

Record of Work Done:

STEP 1: Accumulation of Misstatements
During the course of our audit, we gained an understanding of and accumulated all known and likely misstatements above the floor as documented in Aggregation of Misstatements (BARS Cash).

STEP 2: Communication of Identified Misstatements
We discussed and requested correction of all identified misstatements with Sharon Richter, Auditor during our audit in August 2017.

STEP 3: Reconsideration of Planning
We re-considered planning decisions based on initial audit results, specifically considering whether any accumulated results affect our risk assessment or indicate previously unrecognized risks, including risks of fraud. We concluded that no changes to planning decisions were needed

STEP 4: Evaluation of Impact of Uncorrected Misstatements on the Report
There were no uncorrected misstatements.

STEP 5: Communication of Uncorrected Misstatements
We communicated about misstatements as part of our representation letter request and exit conference as documented in those steps.

D.3.PRG - Concluding Financial Audit Procedures

Procedure Step: Changes to FS Audit Plan

Columbia County

Prepared By: MDR, 8/28/2018

Reviewed By: DHO, 9/7/2018

Purpose/Conclusion:

Purpose:
To document changes in the overall audit strategy and plan and determine whether changes caused audit objectives not to be met.

Conclusion:
No changes were necessary to the audit plan.

Testing Strategy:

Auditors are **required** to:

- Describe or reference any changes to the original audit plan.

Changes made during the course of the audit should be differentiated from the original audit plan. These changes may be documented in the Record of Work Done below or as part of the original audit plan (ex: using a different font color or listing the changes in a separate section of the original plan). For changes that result in a new engagement letter or addendum in accordance with policy 2140 and 1220, refer to the Engagement Letter step in Teammate.

- Determine whether changes to the original audit plan support audit objectives.

Auditors should consider:

- *Possibility for a significant issue in any areas not completed*
- *Sufficiency of procedures to conclude on the existence and extent of any significant issues in areas where exceptions or new risk information was noted*
- *Any needs for an unplanned area to be tested based on new risk information gained during the course of the audit*

In making this determination, the lack of budget would not be a valid reason for dropping a planned area. Rather, the team must either conclude that the likelihood of a significant issue is reasonably low, or - if team management determines that more work may be necessary to achieve the audit objectives - the budget should be adjusted in accordance with requirements of Audit Policy 1220 as necessary.

Audit risk for certain areas may be able to be addressed through other engagements or mitigated through further inquiries or reporting the potential risk to the government and recommending internal review or other follow-up.

Auditors should consider whether permanent file information needs to be updated to capture any significant new information discovered during the course of the audit.

Policy/Standards:

SAO Audit Policy 6210 - Planning Financial Statement Audits

Record of Work Done:

Based on additional information obtained throughout the audit, we re-evaluated:

- Materiality and tolerable misstatement
- Significant risks, including risk of fraud
- Material balances, relevant assertions and our description of what could go wrong
- Material systems
- Control Risk, Inherent Risk and the Risk of Material Misstatement
- Other elements of our overall audit strategy, such as scope and needed resources

We made **no** substantive changes to the plan

D.3.PRG - Concluding Financial Audit Procedures

Procedure Step: FS Summary & Report

Prepared By: MDR, 9/13/2018

Reviewed By: DHO, 9/19/2018

Purpose/Conclusion:

Purpose / Conclusion:

To ensure (1) audit evidence is sufficient and appropriate to support the opinion on the financial statements and (2) determine audit results to be included in our reports as detailed in the Record of Work Done.

Testing Strategy:

Auditors are **required** to perform the following procedures to determine whether audit evidence is sufficient and appropriate to reduce audit risk to a reasonably low level and to determine the content of our audit report:

(1) Evaluation of Evidence Obtained and Audit Risk

The assessment of the effect of uncorrected known and likely misstatements in the Aggregation of Misstatements step affects the determination of the auditor's opinion. Using that information, you must now determine if you have sufficient, appropriate audit evidence to reduce audit risk (the risk of giving an incorrect opinion) to an appropriately low level.

Required matters to evaluate:

- **Completion of audit work:** Check that all financial statement work is completed.

Reminder: all work supporting the financial statements must be completed and reviewed prior to the date of our financial statement audit report. This includes any work documented in other audits or sections that support the financial statement opinion (ie: single audit or accountability work referenced in financial statement testing, review of the Schedule of Expenditures of Federal Awards, separate audits done to opine on component units, etc).

- **Identified risks:** Determine whether risks identified in planning and during the audit were adequately addressed in documented audit procedures.
- **Audit evidence:** Determine whether procedures and results provided audit evidence of an appropriate quality and in a sufficient amount to opine.

"Sufficient" refers to the amount of evidence obtained. "Appropriate" refers to the quality of the evidence supporting your opinion. "Quality" refers to applicability of the evidence to the assertions related to the material balances.

If evidence is not sufficient or of an appropriate quality to opine on a particular opinion unit, the auditor should perform further tests or procedures to obtain the necessary evidence. If this is not possible, then a qualified opinion or disclaimer of opinion may be appropriate.

- **Communication with the Governing Body:** Evaluate whether two-way communication with those charged with governance has been adequate for the purpose of the financial statement audit. If not, there is a risk that all of the audit evidence required to form an opinion on the financial statements has not be obtained. In such cases, the auditor should take appropriate action to address the effectiveness of the communication prior to opining.

The objective of this evaluation is to consider whether we have all the information we need from the governing body before issuing the report. While an exit conference (or planned exit conference) may be necessary in some circumstances to obtain or confirm views of the governing body, the auditor may conclude that communication is adequate and the report may be issued prior to the exit conference.

In evaluating communication, auditors should consider:

- *Whether the audit results in modifications of our opinion or findings or there were difficulties or disagreements during the course of the audit that necessitate specific communication with the governing body*
- *Whether the views of the governing body are important to any key audit evidence (such as managements plans in light of potential going concern issues)*
- *The apparent awareness and understanding of the governing body to any critical issues or business risks identified by the audit*
- *The apparent openness of the governing body in their communications with auditors and their willingness and ability to meet with auditors*
- *The apparent level of communication by management with the governing body regarding the audit*
- *Whether any members of the governing body have expressed interest or concern about any audit areas or issues*

(2) Financial Statement Audit Reports

Determine the audit results to be included in our audit reports. If any conclusions require additional explanation or description that is not documented elsewhere in the audit, such explanation or description should be included in this section.

- **Opinion on Fair Presentation of Statements (F report):** Determine the opinion for each opinion unit based on the auditor's evaluation of uncorrected misstatements and the sufficiency and appropriateness of audit evidence obtained.
- **Opinion on Fair Presentation of Other Information (F report):** If the report includes other information for which we give an opinion (such as the SEFA or budgetary comparison schedules for which we give an opinion on fair presentation in relation to the financial statements taken as a whole), determine our opinion for each schedule based on the auditor's evaluation of uncorrected misstatements and the sufficiency and appropriateness of audit evidence obtained.
- **Emphasis of Matter and Other Matter Paragraphs (F report):** In certain circumstances, our audit report is required to include emphasis and other matter paragraphs. In addition, the auditor always has the option to emphasize important matters regarding the financial statements in the auditor's report.

A comprehensive list of circumstances requiring an emphasis of matter paragraph is included in the ARS manual. The most common situations are as follows:

- *Required supplementary information (ie: MD&A) has been omitted, contains material departures from standards or when the auditor has not been able to adequately determine whether information conforms to standards.*
- *Auditor's opinion is based in part on the report of another auditor*

- *There is substantial doubt about the entity's ability to continue as a going concern for one year beyond the date of the financial statements.*
- *There has been a material change in accounting principles from the prior year's statements. This may be the result of the entity implementing a new accounting standard (in which case, standard language is available in ORCA) or it may be the result of the entity changing methods or application of principles (in which case, special language would need to be drafted).*
- *Partial or incomplete prior period presentation when reporting on comparative financial statements.*

Examples of matters the auditor may wish to emphasize include:

- *Significant concerns or uncertainties about the fiscal sustainability of the government or other matters that may have a significant impact on the financial condition or operations of the government beyond one year from the financial statement date.*
- *Unusual or catastrophic events that will likely have a significant ongoing or future impact on the entity's financial condition or operations.*
- *Significant uncertainties surrounding projections or estimations in the financial statements.*
- *Unusually important subsequent events or related party transactions.*
- *Accounting matters, other than those involving a change in accounting principles, affecting the comparability of the financial statements with those of preceding years.*
- *Any other matter that the auditors consider significant for communication to users and oversight bodies in the auditor's report*

- **Controls over Financial Reporting (I report):** Check internal control documentation in the permanent file folder for any significant deficiencies or material weaknesses identified. Also consider whether exceptions or misstatements identified by the audit – whether individually or in combination - indicate a significant deficiency or material weakness.

For example, if the audit identifies a material misstatement, it would indicate a potential material weakness in controls over financial reporting (since the controls did not prevent or detect and correct the material misstatement).

Also, if the audit identifies a number of control deficiencies that were not individually considered a material weakness, auditors should evaluate the potential effect of these deficiencies together to determine whether they may represent a significant deficiency or material weakness in combination

- **Compliance and other matters (I report):** Based on the work performed in the audits of the financial statements, federal programs, and accountability, determine if fraud, illegal acts, abuse, and violations of contracts or grants occurred or are likely to have occurred. If so, determine if they materially (either quantitatively or qualitatively) affect the financial statement amounts or other financial data significant to the audit. If the effect is more than inconsequential, refer to the ARS Manual for guidance in how to report instances of non-compliance.

(3) Report Preparation & Distribution:

- Route Findings and Management Letters to the appropriate personnel. **Reminder: the level of reporting should be approved and the draft ML/Finding should be in-process prior to report creation.**
- Prepare the audit report using ORCA and the ARS manual.
    - Review the draft report using the report review checklist in the ARS part 3, chapter 2 and attach the completed checklist to this step.
    - Compare the draft report to the prior year report for consistency. If differences are noted, they should be fully investigated to ensure the current report is correct.
    - Compare the draft report to the ARS manual templates and instructions to ensure the report has the appropriate information and details.
- All modifications to the standard, unmodified opinion must be reviewed by TAS/QA. Contact TAS/QA for assistance with any special reporting situations or questions.
- Review report distribution in ARTS to ensure standard distribution and distribution to any additional parties that may need to be informed of the audit.

Policy/Standards:

Refer to ARS manual for details regarding audit report contents and preparation.

SAO Audit Policy 6510 - Reporting on Financial Statement Audits

SAO Audit Policy 2310 – Protocol for Findings and Management Letters

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AU-C 330 par 28-29 and A75 describes the auditor's responsibilities related to sufficient appropriate audit evidence:
"The auditor should conclude whether sufficient appropriate audit evidence has been obtained. In forming a conclusion, the auditor should consider all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements.

If the auditor has not obtained sufficient appropriate audit evidence about a relevant assertion, the auditor should attempt to obtain further audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor should express a qualified opinion or disclaim an opinion on the financial statements."

"The auditor's professional judgment about what constitutes sufficient appropriate audit evidence is influenced by such factors as the:

- Significance of the potential misstatement in the relevant assertion and the likelihood of its having a material effect, individually or aggregated with other potential misstatements, on the financial statements.
- Effectiveness of management's responses and controls to address the risks.
- Experience gained during previous audits with respect to similar potential misstatements.
- Results of audit procedures performed, including whether such audit procedures identified specific instances of fraud or error.
- Source and reliability of available information.
- Persuasiveness of the audit evidence.
- Understanding of the entity and its environment, including its internal control."

AU-C 260, par 19 and A44 describes the auditor's responsibilities related to communication:
"The auditor should evaluate whether the two-way communication between the auditor and those charged with governance has been adequate for the purpose of the audit. If it has not, the auditor should evaluate the effect, if any, on the auditor's assessment of the risks of material misstatement and ability to obtain sufficient appropriate audit evidence and should take appropriate action."

Standard audit documentation may need to be modified to fit the situation for modified opinions, especially for adverse and disclaimer situations:

Documentation should support:

- Description of the facts and circumstances leading to the modified opinion.
    - Information or evidence necessary to support the contents of our report, including any findings or emphasis of matter or other matter paragraphs.
    - Conclusions regarding the risk of fraud, noncompliance and abuse and the auditor's evaluation of whether further procedures are necessary for these purposes.
    - Communications with the entity, including the governing body, to ensure we understand their views on the situation.
    - Appropriate representations that reflect the situation. The purpose of the representation letter in a disclaimer or adverse opinion situation is to confirm there isn't anything important about their situation that they know of but haven't told us about. In absence of this confirmation, our audit would need to seriously consider additional procedures to respond to increased uncertainty for fraud, noncompliance or other issues that may be intentionally concealed. This should include representations for:
        - Acknowledgment of management's responsibilities.

- Confirmation they are not aware of any fraud or noncompliance beyond anything they may have shared with us.
- Confirmations of any specific facts or assertions about the situation that are the reason for our modified opinion. For example, that management is unable to provide certain documentation due to a certain reason.

- In some situations, documented communication with the entity may take the form of memos, meeting agendas and/or a modified representation letter rather than engagement letters or other standard documents.
- Any steps or workpapers that didn't accomplish any substantial work should be deleted.
- Documentation of substantial work started or completed should be left in the workpapers. To resolve any steps that were started but not completed, auditors should add a quick note or appropriate conclusion to indicate where and why work was stopped. For example, we may conclude that work was stopped at request of the client, or that we were unable to obtain sufficient appropriate evidence or unable to complete procedures we felt were necessary.
- The concluding folder with the following steps will always be needed:
  - Response to finding (presumed necessary)
  - FS Summary & Report
  - FS Letter of Representation
  - FS Exit Conference
  - FS Quality Assurance Certification

When a modified opinion is likely, auditors should be in communication with their Deputy in accordance with Audit Policy 2310. Modified opinion situations – in particular disclaimer and adverse opinions - also require greater effort to ensure adequate two-way communication with the governing body, as required by professional standards. This normally takes the form of a special meeting to discuss the situation. In accordance with Audit Policy 6510, auditors should contact Team Audit Support for review of the modified opinion. Team Audit Support and the team's Deputy are also available to consult on audit, communication and reporting strategies and evaluations.

Record of Work Done:

(1) Evaluation of Evidence Obtained and Audit Risk

We determined that sufficient, appropriate audit evidence was obtained and documented in order to support our audit report and reduce audit risk to an appropriately low level. In making this determination, we:

- **Completion of work:** checked that all work necessary to support our opinion was completed.
- **Identified risks:** checked that risks identified in planning were adequately addressed by documented audit procedures.
- **Audit evidence:** considered quality and amount of audit evidence, in relation to identified risks.
- **Communication with governing body:** considered sufficiency and effectiveness of our communication with management and those charged with governance.

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(2) Financial Statement Audit Report

We analyzed accumulated misstatements in the Aggregation of Misstatements step and accumulated control weaknesses in the attached LOR Summary. Based on our audit and consideration of results at both individual and aggregate levels, we made the following conclusions that will be reflected in our audit report:

Opinion on Fair Presentation of Statements (F report):

Our opinion on the fair presentation of financial statements will be: **unmodified for all opinion units**.

Opinion on Fair Presentation of Other Information (F report):

Our opinion on the fair presentation of all other information will be: **unmodified.**

Explanatory and Emphasis Paragraphs (F report):

We determined that **no explanatory paragraphs were necessary**.

In addition, we decided that **the following matters needed emphasis** in our audit report: Counties are now required to report Special Purpose District Funds on their financial statements, which affects the comparability of financial statements from 2016 to 2017.

Controls over Financial Reporting (I report):

We evaluated all identified deficiencies individually and in combination and noted **no significant deficiencies and material weaknesses in controls** over financial reporting.

We noted **the following deficiencies reported as management letters** that will be referenced in our financial report:

- We found an omission that resulted in a $3.36M understatement of beginning liabilities. This is considered a significant deficiency in controls. See at Yellow Flag Report.

Compliance and Other Matters (I report):

We noted **no material instances of noncompliance, fraud or abuse** that impact the financial statements as a finding and **no compliance matters reported as management letters** that will be referenced in our financial report.

(3) Report Preparation & Distribution:

In preparing the report, we:

- Routed Findings and Management Letters to the appropriate personnel, as applicable.
- Prepared the audit report using ORCA and the ARS manual:
  - Reviewed the draft report using the report review checklist at Report Review Checklist.

- Compared the draft report to the prior year report for consistency. Differences noted, if any, were fully investigated to ensure the current report is correct.
- Compared the draft report to the ARS manual templates and instructions to ensure the report has the appropriate information and details.
- Reviewed report distribution in ARTS to ensure standard distribution and distribution to any additional parties that may need to be informed of the audit.

Report preparation, technical report review, issuance, distribution, report date and the final official version of the report are documented in ORCA and the ARTS database.

Report distribution will not be limited. The report will be distributed publicly by publishing on our website. Links to the published report will be sent to the audit liaison (on behalf of the government's management and governing body), representatives of oversight bodies and other officials as appropriate, and additionally to any parties with applicable subscriptions.

D.3.PRG - Concluding Financial Audit Procedures

Procedure Step:	GAAP Opinion Summary
Prepared By:	MDR, 9/6/2018
Reviewed By:	GLW, 9/10/2018

Purpose/Conclusion:

Purpose:
To determine (1) if audit evidence is sufficient and appropriate to support our modified GAAP opinion on the financial statements and (2) audit results to be included in our GAAP opinion.

Conclusion:
We determined that our audit work provides a sufficient basis on which to render a GAAP opinion. Based on our audit, we determined that **no** variances from the ARS manual example adverse GAAP opinion are needed.

Testing Strategy:

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Auditors are **required** to perform the following procedures to address our GAAP opinion:

Evaluation of Evidence Obtained and Audit Risk
Since financial statements present individual funds, these funds would be considered separate opinion units (major funds) for purposes of our GAAP opinion.

Considering assessed risk, testing procedures, and our anticipated modified opinion, determine if the audit has resulted in sufficient, appropriate audit evidence to reduce audit risk (the risk of giving an incorrect opinion) to an appropriately low level.

Departures from GAAP
Check that the notes adequately describe accounting policies and how the special purpose framework differs from GAAP. Summarize all identified departures from GAAP, including:

- Accounting policies that are acceptable under the special purpose framework, but would not be under GAAP. We would expect all such departures to be described in Note 1.
- Misstatements (which would represent a departure from both the special purpose framework and GAAP)

We would expect that departures from GAAP would match the example note in the BARS Manual, which describes cash basis reporting. Contact Team Audit Support if you identify additional accounting policies that represent departures from GAAP that are not adequately described in the Notes.
We would presume that these differences are material.

Determine GAAP opinion
Based on the identified departures from GAAP, if any, document the opinions to be given for each opinion unit/fund. An opinion for a fund may be unmodified, qualified, or adverse, or a disclaimer of opinion could be given, if necessary. If different types of opinions are involved, the documentation should separately state the opinion for each opinion unit.

Departures from GAAP may include valuation, presentation or disclosure matters. AU-C 800.15 does not require quantification of departures from GAAP in relation to special purpose financial statements. Rather, identified departures would be presumed material unless the auditor has documented an analysis of the quantitative and qualitative effect to support the conclusion that the departure is trivial. Contact Team Audit Support for any assistance with this evaluation.

Policy/Standards:

In situations when financial statements are prepared on a basis other than GAAP and are intended for general distribution, AU-C 800.21 requires the auditor to give a "dual" opinion on both fair presentation of the financial statements in accordance with the regulatory method and fair presentation in accordance with GAAP.

Columbia County

This step is to address our GAAP opinion, whereas the "FS Summary & Report" step is to address our regulatory basis opinion and the rest of our audit report. Contact TAS with any reporting questions.

Record of Work Done:

Evaluation of Evidence and Audit Risk

We evaluated our risk assessment, testing and conclusions - including our aggregation of misstatements - as a basis for our modified GAAP opinion, considering identified departures from GAAP as described below.

We determined that our audit work provides a sufficient basis on which to render a modified GAAP opinion. No further procedures are considered necessary.

Departures from GAAP

We reviewed the summary of significant accounting policies in the notes to determine whether description of accounting policies and how the special purpose framework differs from GAAP was adequately described. Based on our testing and review of presentation & disclosure, we confirmed the following non-trivial departures from GAAP:

- Statements are presented on a cash basis
- All funds are presented rather than a focus on major funds
- Ending balances are not presented using classifications defined by GAAP

Determine Opinion based on GAAP

Based on our audit, we considered materiality by opinion unit and made the following conclusions that will be reflected in our audit report:

Our opinion on the fair presentation of financial statements in accordance with GAAP will be **adverse for all opinion units**. Our opinion will not address the lack of government-wide statements and RSI since these are not required by the BARS Manual.

We determined that **no variances from the ARS manual example are needed.**

D.3.PRG - Concluding Financial Audit Procedures

Procedure Step: FS Letter of Representation

Prepared By: MDR, 8/27/2018

Columbia County

Reviewed By: DHO, 8/28/2018

Purpose/Conclusion:

Purpose:
To confirm the continuing applicability of management's explicit or implicit representations and reduce the possibility of misunderstanding.

Conclusion:

Testing Strategy:

Auditors must either (A) obtain and review the representation letter on the report date or (B) confirm with management on or before the report date that the representation letter will be signed without exception, in which case the letter may be obtained and reviewed any time before report issuance.

To confirm management's representations, auditors are **required** to perform the following procedures:

STEP 1: Identify necessary representations
Using the TeamMate template letter located in the SAOStore (Audit Administration | Audit Wrap-Up folder), determine the applicable written representations needed from management for all periods covered by our audit report. The template should be modified as needed to reflect the audit scope and situation.

> *The "general representations" section should be included in all situations; other sections should be deleted if unneeded. For example, auditors should delete the "additional representations related to the financial statements" section if a financial statement audit is not done or when issuing an opinion on single audit work at a later date than the financial statement opinion.*

Determine whether any additional representations need to be obtained beyond the standard representations included in the template and modify the template as needed. Contact TAS if you need assistance regarding any additional representations that may be needed.

> *The following are common examples of additional representations (see also AU-C 580, Exhibit B):*
>
> - *The government has used the work of a specialist, such as for determining environmental remediation, pension, OPEB, self-insurance or landfill obligations.*

- *The government has changed accounting principles.*
- *Supplementary information is being presented (such as CAFR or grant schedules).*
- *Financial circumstances are strained and we are reporting either an emphasis of a matter or going concern paragraph.*

STEP 2: Request letter of representation

Auditors should request the letter of representation by letter or email using the template located in the SAOStore. Since representations include reference to uncorrected misstatements (if any), the auditor's final list of uncorrected misstatements should either be included in the letter or attached.

If an updated letter is needed, auditors may either request a new letter of representation with the correct date or may request an updating letter which refers to the original letter of representation.

STEP 3: Review representations

Obtain and review the representation letter to ensure:

- All representations were properly made and are consistent with expectations
- It is dated as of our report date
- It is signed by appropriate members of current management.

The representation letter must be dated as of the report date. However, the letter may be received after the report date so long as auditors document their confirmation that management has reviewed and will sign the representation letter without exception and are able to obtain and review it before issuing the report.

The letter should be signed by members of management with overall responsibility of financial and operating matters who are responsible and knowledgeable about, directly or through others in the entity, the matters covered in the representations. Generally, the letter is signed by the chief executive officer (e.g. city manager, mayor, superintendent) and the chief financial officer (e.g. finance officer, business manager, clerk/treasurer).

When such persons were not present during all periods referred to in the letter, they may claim they are not in a position to provide some or all of the representations. This fact, however, does not diminish management's responsibilities and would not be a reason for the auditor to accept this risk or responsibility.

Policy/Standards:

SAO Audit Policy 3420 - Obtaining Management Representation Letters

Columbia County

Record of Work Done:

See at Concluding Accountability Audit Procedures.

D.3.PRG - Concluding Financial Audit Procedures

Procedure Step: FS Exit Conference

Prepared By: MDR, 8/27/2018

Reviewed By: DHO, 8/28/2018

Purpose/Conclusion:

Purpose / Conclusion:
To communicate the results of our audit with management and those charged with governance.

Testing Strategy:

If no exit conference was held or if the report was issued prior to the date of the exit conference, explain the situation in this step (and in the Exit Conference Explanation field in the Custom tab of the Profile) and document how the auditor ensured that adequate communication with management and elected officials occurred.

Pre-Exit Meetings:

If pre-exit or departmental exit conferences are held, the official handout (if any) should be attached and the meeting documented in this step. Attachments for pre-exit or departmental exit meetings should be clearly labeled to distinguish them from the official exit conference.

BEFORE the Exit Conference:

- Communicate with management as to who will attend the exit conference and arrange for a convenient time and location for the exit conference.
- Invite elected officials to the exit conference (approved invitation letter templates are available in the SAOStore).

- Prepare the exit conference handout using the template available in the SAOStore. *Note: management letter, finding and status of prior audit finding templates are also available in the SAOStore, if needed.*
- Prepare the draft audit report(s) for presentation at the exit conference.
- Prepare a separate handout for exit items and share these items with management prior to the exit conference along with any draft management letter or finding issues.

Exit items are referenced, but not included, in the exit conference document. Auditors should bring the handout to the exit and be prepared to discuss exit items if requested.

- For financial statement audits, print a schedule of uncorrected misstatements from the Aggregation of Misstatements spreadsheet to attach to the exit handout. Also attach a copy of the Management Representation Letter.
- Plan the presentation of audit results by considering the following:
- Who will attend from SAO?
- Who will present each section?
- Detail of audit scope?

DURING the Exit Conference**:**

- Present Exit conference handout. The conference must include discussion of significant audit results, such as:
- Contents of the draft report.
- All non-trivial uncorrected misstatements. Auditors should attach a schedule of uncorrected misstatements by following the printing instructions on the Aggregation of Misstatements spreadsheet.
- Any material corrected misstatements, if not already reported as part of a significant deficiency or material weakness finding.
- Representations requested from management. A copy of the Management Representation Letter should be attached.
- Significant disagreements with management and their resolution.
- Significant difficulties encountered during the audit.
- Our views on significant questions that management consulted with other CPAs about.
- Any other significant issue related to the governing body's financial reporting responsibilities.

AFTER the Exit Conference:

- Document the conference attendees (SAO and entity) in the Record of Work Done.

- Send copies of the exit document to any elected officials who were not able to attend the conference (do not include the handout of exit items).
- Include the official exit document and handout of exit items in the AS2 Team Reports folder.
- Ensure that exceptions documented in TeamMate match the official handout of exit items, management letter and findings, as applicable.

The final exit conference document, handout of exit items, management letters and findings should be attached at AS2: Team Reports.

Policy/Standards:

SAO Audit Policy 2130 - Inviting Officials to Entrance and Exit Conferences

SAO Audit Policy 2220 - Conducting Exit Conferences

SAO Audit Policy 2310 – Protocol for Findings and Management Letters

Record of Work Done:

See at Concluding Accountability Audit Procedures.

D.3.PRG - Concluding Financial Audit Procedures

Procedure Step:	FS Quality Control Assurance Certification
Prepared By:	MDR, 9/6/2018
Reviewed By:	GLW, 9/10/2018

Purpose/Conclusion:

Purpose / Conclusion:
To review and certify adherence to applicable audit standards and policy with regard to the financial statement audit.

Testing Strategy:

This step should be signed-off by the Auditor-in-Charge, the Assistant Audit Manager, and the Audit Manager. The Quality Control Assurance

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Certification should be signed-off **before** the Financial Statement report is issued.

NOTE: if a CAFR Letter is issued, the QAC should be signed before the CAFR Letter is issued.

If a requirement does not apply, it should be noted on the certification. If a requirement was not met an explanation needs to be documented and approved by the Audit Manager. No other modifications to the form should be made. It is not necessary to reference applicable sections of the certification to the audit documentation.

Policy/Standards:

SAO Audit Policy 3430 – Quality Control Assurance Certification

Record of Work Done:

Quality Control Assurance Certification
The certification should be signed-off __before__ the Financial Statement report is issued.

Auditor in Charge Statements

1. I am free, both in appearance and in fact, from personal and external impairments to objectivity and independence in matters related to this audit (Audit Policy 3110).

2. I informed assistants, if any, of responsibilities and objectives of the procedures they were planned to perform and all relevant information related to those responsibilities (Audit Policy 3160).

3. I monitored the audit budget compared to actual audit hours and requested approval in advance from the supervisor and Audit Manager if additional audit hours were needed (Audit Policy 3160).

4. I promptly informed my supervisor of potential audit issues encountered (Audit Policy 3160).

5. I informed my supervisor of modifications to the audit plan (Audit Policy 3160).

6. Work performed was documented in accordance with Audit Policy 3310.

7. I reviewed audit documentation prepared by assistants to ensure work was adequately performed and properly documented (Audit Policy 3160).

8. I promptly resolved any coaching notes (Audit Policy 3160).

9. Sufficient and appropriate audit evidence was obtained and evaluated to ensure audit objectives were achieved (Audit Policy 3210).

10. In planning the financial statement audit, all planning steps in TeamMate were completed and documented (Audit Policy 6210).

11. All concluding audit steps in TeamMate were completed and documented (Audit Policy series 6400).

12. All government elected officials or the audit committee members were invited to official entrance and exit conferences in accordance with Audit Policy 2130.

13. An entrance conference was conducted in accordance with Audit Policies 2130 and 2210.

14. An exit conference was conducted in accordance with Audit Policies 2130 and 2220.

Assistant Audit Manager (Supervisor) Statements

1. I am free, both in appearance and in fact, from personal and external impairments to objectivity and independence in matters related to this audit (Audit Policy 3110).

2. I reviewed audit documentation to ensure work was adequately performed and evaluated whether the results are consistent with the conclusions presented in the engagement report. My review was completed prior to the exit conference and report issuance (Audit Policy 3160).

3. I ensured that all coaching notes were resolved (Audit Policy 3160).

4. I informed the Audit Manager of significant problems or audit issues (Audit Policy 3160).

5. I agree with the certification statements made by the auditor-in-charge.

Audit Manager Statements

1. I am free, both in appearance and in fact, from personal and external impairments to objectivity and independence in matters related to this audit (Audit Policy 3110).

2. I reviewed audit documentation to ensure work was adequately performed and evaluated whether the results are consistent with the conclusions presented in the engagement report. My review was completed prior to the exit conference and report issuance (Audit Policy 3160).

3. I requested approval for audit budget changes from the Director of State and Local Audit or delegate (Audit Policy 1220). Also, I

communicated audit budget changes to Team Financial Services.

4. In my opinion, the staff assigned to conduct each engagement collectively possess adequate professional competence for the tasks required (Audit Policy 3140).

5. I immediately informed the Director of State and Local Audit or delegate if the report was anticipated to be issued 30 days or more after the timeliness goals established in Audit Policy 2320.

6. The protocol for findings and management letters as outlined in Audit Policy 2310 was followed.

E.1.PRG - Concluding Single Audit Procedures

Procedure Step: Subsequent Events

Prepared By: MDR, 9/12/2018

Reviewed By: DHO, 9/19/2018

Purpose/Conclusion:

Purpose:
To determine if there are events or transactions that occurred subsequent to fiscal year-end that (1) provide additional information about compliance during the audit period or (2) indicate noncompliance occurring subsequent to the audit period but before the date of the auditor report.

Conclusion:
We identified **no** subsequent events relevant to our compliance conclusions.

Testing Strategy:

The following procedures are **required** to review for subsequent events:

- Inquire with management about any relevant investigations or reports issued during the subsequent period by internal auditors, other auditors, and grantors or pass-through agencies. This assertion will be confirmed in the management representation letter.
- Review minutes up to the audit report date or as nearly as practicable.

- Review EIS and consider current results of other SAO audits or engagements, if any, up to the audit report date or as nearly as practicable.
- Review FAWF for news articles or other items that may indicate a subsequent event up to the audit report date or as nearly as practicable.

If any potential subsequent events are identified:

- Auditors should also consider additional procedures based on risks identified or follow-up procedures to verify or better evaluate potential subsequent events.
- For events providing more information about compliance and controls during the audit period, consider the effect on our audit opinions. Contact the Single Audit Specialist for assistance with this evaluation, if needed.
- For events related to noncompliance that occurred after FYE, consider whether noncompliance occurring in the subsequent period is of such nature and significance that disclosure is necessary to prevent report users from being misled. Contact the Single Audit Specialist for assistance with this evaluation, if needed.

Policy/Standards:

AU-C 935 - *Compliance Audits*, paragraphs 25-27

Record of Work Done:

In addition to general procedures performed during the course of the audit, we performed the following procedures to identify potential subsequent events affecting any component of the government or aspect of the single audit:

- Updated our review of minutes up to 8/7/18 as documented at Columbia County Subsequent Minutes Review
- Following 8/7/18, we reviewed minutes for 8/8/18, 8/10/18, 8/16/18, 8/17/18, 8/20/17, 8/23/18, and 9/4/18 and noted that normal business was conducted. No subsequent events to report.
- Updated our review of Other Engagements & FAWF up to July 19, 2018 as documented in the planning step Other Engagements & FAWF.
- Inquired about any relevant investigations or reports issued during the subsequent period by internal auditors, other auditors, and grantors or pass-through agencies with Sharon Richter, Auditor on July 3, 2018.

We identified no subsequent events.

E.1.PRG - Concluding Single Audit Procedures

Procedure Step: Prior Federal Findings

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Prepared By: MDR, 7/19/2018
Reviewed By: DHO, 9/7/2018

Purpose/Conclusion:

The Summary Schedule of Prior Audit Findings must report the status of all findings reported in the prior audit, including financial statement related findings. The Summary Schedule must also include all findings from the prior audit's Summary Schedule of Prior Audit Findings listed as either unresolved or partially resolved.

Purpose:
To complete and evaluate the Summary Schedule of Prior Audit Findings for the single audit report.

Conclusion:
Not applicable - the County did not have any prior findings.

Testing Strategy:

Updated 6/1/17
The following procedures are **required** to complete and evaluate the Summary Schedule of Prior Audit Findings, if applicable:
1. If your follow-up work was documented in conjunction with an audit of a major program, provide a link to this work in the Record of Work Done below. If your follow-up work pertained to a non-major program, document the results of your follow-up work in Record of Work Done below.

> *Major Programs: Prior year conditions that continue to be uncorrected during the current audit may need to be reported again as a finding in accordance with our materiality thresholds.*
> *Non-major programs: We do not have to re-report internal control weaknesses or noncompliance for non-major programs unless we become aware of questioned costs exceeding $25,000.*

If your follow-up work was documented in conjunction with the financial statement audit, provide a link to this work in the Record of Work Done below.
2. Use the template provided in TeamMate or ORCA to draft the schedule, excluding the status and description of corrective action sections which are prepared by the entity. Request the auditee draft the status of corrective action and description of corrective action schedules.
3. Review the corrective action status and description provided by the auditee and compare it with the results of your follow-up work. If information is misleading or inaccurate, request the auditee modify the information. If the auditee declines to modify its information, and you believe the information materially misrepresents the status of the finding, we can report this in a finding per 2 CFR 200.516(a)(7).

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Policy/Standards:

ARS Manual Part 5, Chapter 5 describes requirements for the Summary Schedule of Prior Audit Findings (Federal Single Audits)

Uniform Guidance, 2 CFR 200.511

Record of Work Done:

1. We identified the following prior audit findings from the previous audit report (including those reported as prior audit findings that were not fully resolved) requiring follow-up in the current audit. Results of follow-up procedures were performed in conjunction with:
   - Major Program(s) - None
   - Non-major program(s) - None
   - Financial Statement Audit - None

The Summary Schedule of Prior Audit Findings is not applicable; there are no prior or unresolved financial or federal single audit findings requiring follow-up.

E.1.PRG - Concluding Single Audit Procedures

Procedure Step: SA Summary & Report

Prepared By: MDR, 9/5/2018

Reviewed By: DHO, 9/7/2018

Purpose/Conclusion:

Purpose:
To determine (1) if audit evidence is sufficient and appropriate to support Single Audit opinions and (2) the audit results to be included in our reports.
Conclusion:
We determined that audit evidence is sufficient and appropriate to support Single Audit opinions and the audit results to be included in our

reports.

Testing Strategy:

ARRA alert: Refer to the special ORCA instructions below.

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

(1) Evaluation of Evidence Obtained

- **Completion of audit work:** Check that all work is completed.

Reminder: all work supporting the report must be completed and reviewed prior to the date of our audit report. This includes any referenced work documented in other audits or sections.

- **Audit evidence:** Determine whether procedures and results provided audit evidence of an appropriate quality and in a sufficient extent to support the report.

"Sufficient" refers to the amount of evidence obtained; "appropriate" refers to the quality of the evidence; "quality" refers to applicability of the evidence to the audit objective.
If evidence is not sufficient or of an appropriate quality to conclude on a particular area, the auditor should perform further tests or procedures to obtain the necessary evidence.

- **Communication with the Governing Body:** Evaluate whether two-way communication with those charged with governance has been adequate for the purpose of the audit. If not, there is a risk that all of the audit evidence required to support the audit report has not be obtained. In such cases, the auditor should take appropriate action to address the effectiveness of the communication prior to reporting.

The objective of this evaluation is to consider whether we have all the information we need from the governing body before issuing the report. While an exit conference (or planned exit conference) may be necessary in some circumstances to obtain or confirm views of the governing body, the auditor may conclude that communication is adequate and the report may be issued prior to the exit conference.
In evaluating communication, auditors should consider:

- *Whether the audit results in findings or there were difficulties or disagreements during the course of the audit that necessitate specific communication with the governing body*
- *Whether the views of the governing body are important to any key audit evidence*
- *The apparent awareness and understanding of the governing body to any critical issues or business risks identified by the audit*
- *The apparent openness of the governing body in their communications with auditors and their willingness and ability to meet with auditors*

- *The apparent level of communication by management with the governing body regarding the audit*
- *Whether any members of the governing body have expressed interest or concern about any audit areas or issues*
- **Changes:** If there were changes to the Schedule of Expenditures of Federal Awards made after planning the single audit, ensure that the required percentage of federal expenditures coverage is met.

(2) Single Audit Report

Reference the summary spreadsheet that was completed for each major program. Those spreadsheets will be used to prepare the Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with Uniform Guidance (S-2 Report).

It is critical that the type and level of findings indicated in the major program summary spreadsheets are reflected in the audit report. For example, if you concluded that a significant deficiency over internal control is a material weakness, you must select this level in ORCA. Further, if you qualified your opinion on compliance for a major program, our audit report should reflect this decision.

(3) Report Preparation & Distribution:

- Prepare the audit report using ORCA and the ARS manual.

ARRA Alert: When selecting your major programs from the drop down list in ORCA, you will not see every ARRA program listed. In such a case, you will need to manually enter an ARRA program and be sure to add the prefix "ARRA" to the title of the program.
It is important that any major program containing both ARRA and non-ARRA funds with the same CFDA number be listed in the Federal Summary with an "ARRA" designation in a separate line. For example, if you audited CFDA 66.468-Drinking Water State Revolving Fund which included both ARRA funds and non-ARRA funds, you will need to enter the ARRA component of this program in a separate line in the Federal Summary.
Example: 66.468 Drinking Water State Revolving Fund
66.468 ARRA - Drinking Water State Revolving Fund

- Review report distribution in ORCA to ensure standard distribution and distribution to any additional parties that may need to be informed of the audit.
- (added 9/13/16) **Ensure all applicable laws and regulations (criteria) are included in the finding. See ARS Manual Part 5 Chapter 2 (note change to the citation for single audits).** Contact the Single Audit Specialist with questions regarding applicable criteria.
- Route Findings and Management Letters to the appropriate personnel.
- Contact the Single Audit Specialist for assistance with any special reporting situations or questions. Reports involving a modified opinion on a federal program should be reviewed by Team Audit Support/QA.

Policy/Standards:

Refer to ARS manual for details regarding audit report contents and preparation.

SAO Audit Policy 5410 – Federal Findings, Questioned Costs, and Management Letters

SAO Audit Policy 5510 – Reporting on Single Audits

SAO Audit Policy 2310 – Protocol for Findings and Management Letters

Record of Work Done:

(1) Evaluation of Evidence Obtained

We determined that sufficient, appropriate evidence was obtained and documented in order to support our audit report. In making this determination, we:

- **Completion of work:** checked that all work was complete.
- **Audit evidence:** considered quality and amount of audit evidence, in relation to identified risks.
- **Communication with governing body:** considered sufficiency and effectiveness of our communication with management and those charged with governance.
- **Changes:** we ensured that the required percentage of federal expenditures coverage is met - we tested the following major programs which equals 74% of the total federal expenditures.

(2) Single Audit Report

We analyzed accumulated issues in the attached LOR Summary. Based on our audit and consideration of results at both individual and aggregate levels, we determined reporting level of audit issues and determined content of our audit report. A spreadsheet for each major program was completed, which summarizes the audit results:

Major Federal Program - Local teams

(3) Report Preparation & Distribution:

Report preparation, technical report review, issuance, distribution, and the final official version of the report is documented in ORCA and the ARTS database.

Standard report distribution will include the audit liaison (on behalf of the government's management and governing body), representatives of oversight bodies and other officials as appropriate. Report distribution will not be limited. The report will be published on our website and further distributed by email to any parties with applicable subscriptions.

E.1.PRG - Concluding Single Audit Procedures

Columbia County

Procedure Step: Corrective Action Plans
Prepared By: MDR, 9/13/2018
Reviewed By: DHO, 9/19/2018

Purpose/Conclusion:

This step is applicable if the auditor is reporting any financial statement or federal grant findings.

Purpose / Conclusion:
To ensure the auditee prepares a corrective action plan for each financial or single audit finding in our report.

Testing Strategy:

Updated 6/16/16
For each finding included in the single audit report (including all federal program findings and any financial audit findings as well), the auditee is required by federal law to prepare a corrective action plan to be included in the submission to the Federal Clearinghouse. This corrective action plan is needed in addition to the auditee's response that is provided in the actual finding.

For each financial or single audit finding, auditors are **required** to:

- Enter the current year finding reference number(s) and caption(s) in the template, provide the auditee with a copy of the template, and instruct them to fill out the remaining sections. The template is available in the Store in the Single Audit cabinet (Work Papers/Concluding Single Audit Procedures folder). The template is also in ORCA.
- Check the corrective action plan to ensure it is complete.
  - If any comments are inconsistent or in conflict with the finding, check with your manager and deputy to determine appropriate follow-up procedures to investigate and attempt to resolve the inconsistency or conflict.
  - Auditors have no responsibility for accuracy or feasibility of the corrective action plan.
- Insert (copy/paste) the completed template into the audit report.

Policy/Standards:

2 CFR 200.511 requires corrective action plans for federal audit findings and for financial audit findings included with the single audit report.

"(c) Corrective action plan. At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in 200.516 Audit findings, a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons."

ARS Manual Part 5, Chapter 6 provides instructions regarding Corrective Action Plans

Record of Work Done:

For each financial or single audit finding, auditors are **required** to:

- Enter the current year finding reference number(s) and caption(s) in the template, provide the auditee with a copy of the template, and instruct them to fill out the remaining sections. The template is available in the Store in the Single Audit cabinet (Work Papers/Concluding Single Audit Procedures folder). The template is also in ORCA.

We obtained the corrective action plan template from TMT, filled in the finding reference numbers and captions, and provided a copy to the auditee. See at Template - Corrective Action Plan.

- Check the corrective action plan to ensure it is complete.

We received the completed template from the auditee (see at PW Finding Response - Columbia Countypage 2) and verified that it is complete.

- Insert (copy/paste) the completed template into the audit report.

We put the completed finding template into the audit report.

E.1.PRG - Concluding Single Audit Procedures

Procedure Step: Review Finding Response

Prepared By: MDR, 9/13/2018

Reviewed By: DHO, 9/19/2018

Purpose/Conclusion:

This step is only applicable if findings are reported, otherwise it can be deleted.

Purpose:
To request and evaluate the views of responsible officials on draft findings to ensure adequate communication has occurred and our report is accurate, complete and objective.

Conclusion:
We requested and evaluated the views of responsible officials on draft findings to ensure adequate communication has occurred and our report is accurate, complete, and objective.

Testing Strategy:

Auditors must either (A) obtain and review the finding response on or before the report date or (B) confirm with management on or before the report date that the response will not contain any new information or disagreement that might cause us to re-evaluate our finding, in which case the response may be obtained and reviewed any time before report issuance.

Audit issues should be discussed in detail with the audit liaison and other responsible parties as part of concluding on audit tests. These discussions should be completed prior to providing a draft finding and requesting a response. To request and evaluate the views of responsible officials on draft findings, auditors are **required** to perform the following procedures:

- Use the "Request for Finding Response" template in TM to obtain a response to draft findings.

Normally, coordination of a response will be handled by the audit liaison. But in some circumstances it may be appropriate for the auditor to also directly communicate with other officials or the governing body or request meetings with key staff for this purpose.

- Obtain and evaluate the Auditee's Response. If any comments are inconsistent or in conflict with the finding, check with manager and deputy to determine appropriate follow-up procedures to investigate and attempt to resolve the inconsistency or conflict.

The response should normally be received and reviewed on or before report date. However, the response may be received after the report date (but before report issuance) so long as auditors document their confirmation that management and the governing body has reviewed the finding and their response will not include any new facts or perspectives that might cause us to re-evaluate our finding.

If a response was not provided or was edited by the auditor, auditors should document the circumstances and rationale. Appropriate follow-up may include:

- *Discussions or meetings with the government to ensure understanding of issue or to ensure adequate two-way communication with responsible officials and those charged with governance*

- *Audit procedures or report review to evaluate the validity of comments*
- *Modifications to the finding or report*
- *Audit procedures to develop the Auditor's Response*
- *Discussion at the exit conference regarding disagreements with management*

- Develop an appropriate Auditor's Response

Policy/Standards:

GAS 4.33-39 describe the auditor's responsibility to obtain the views of responsible officials and evaluate responses.

ARS Part 5, Chapter 2 provides guidance on development of findings, including the auditee's response and auditor's response sections.

Record of Work Done:

Obtaining the views of responsible officials:
We presented the draft finding to Lisa Ronnberg, PW Business Manager/Interim Director on 9/7/18 (Template - Finding).

We requested a response from Lisa Ronnberg on 9/7/18 as documented in Request for Finding Response.

Evaluating the response:
We obtained the response as documented in PW Finding Response - Columbia County. We reviewed it and noted:

- No new evidence was presented.
- No information that was contradictory or inconsistent with facts presented in our finding.
- No new perspectives were shared that would cause us to re-consider our description of the condition, cause, effect or recommendation.

We developed the Auditor's Response section of our finding based on this evaluation.

E.1.PRG - Concluding Single Audit Procedures

Procedure Step: SA Letter of Representation

Prepared By: MDR, 9/6/2018

Columbia County

Reviewed By: DHO, 9/7/2018

Purpose/Conclusion:

Purpose:
To confirm the continuing applicability of management's explicit or implicit representations and reduce the possibility of misunderstanding.

Conclusion:
We confirmed the continuing applicability of management's explicit or implicit representations and reduced the possibility of misunderstanding.

Testing Strategy:

Auditors must either (A) obtain and review the representation letter on the report date or (B) confirm with management on or before the report date that the representation letter will be signed without exception, in which case the letter may be obtained and reviewed any time before report issuance.

STEP 1: Identify necessary representations
Using the TeamMate template letter located in the SAOStore (Audit Administration | Audit Wrap-Up folder), determine the applicable written representations needed from management for all periods covered by our audit report. Auditors should use one of the following templates:

- **GAAP** – use for all GAAP presentations (including ESDs and GAAP basis school districts)
- **BARS Cash Basis** – use for all governments that are reporting on a BARS Cash Basis or that do not prepare financial statements.
- **School F196** – use for all school districts that report using the F196 on a cash or modified accrual basis.

The template should be modified as needed to reflect the audit scope and situation.

The "general representations" section should be included in all situations; other sections should be deleted if unneeded. For example, auditors should delete the "additional representations related to the financial statements" section if a financial statement audit is not done or when issuing an opinion on single audit work at a later date than the financial statement opinion.

Consider whether any additional representations need to be obtained beyond the standard representations included in the template and modify the template as needed. Contact TAS if you need assistance regarding any additional representations that may be needed.

The following are common examples of additional representations (see also AU-C 580, Exhibit B):

- *The government has used the work of a specialist, such as for determining environmental remediation, pension, OPEB, self-insurance or landfill obligations.*
- *The government has changed accounting principles.*
- *Supplementary information is being presented (such as CAFR or grant schedules).*

- *Financial circumstances are strained and we are reporting either an emphasis of a matter or going concern paragraph.*

STEP 2: Request letter of representation

Auditors should request the letter of representation by letter or email using the template located in the SAOStore. Since representations include reference to uncorrected misstatements (if any), the auditor's final list of uncorrected misstatements should either be included in the letter or attached.

If an updated letter is needed, auditors may either request a new letter of representation with the correct date or may request an updating letter which refers to the original letter of representation.

STEP 3: Review representations

Obtain and review the representation letter to ensure:

- All representations were properly made and are consistent with expectations
- It is dated as of our report date
- It is signed by appropriate members of current management.

The representation letter must be dated as of the report date. However, the letter may be received after the report date so long as it is obtained before issuing the report.

The letter should be signed by members of management with overall responsibility of financial and operating matters who are responsible and knowledgeable about, directly or through others in the entity, the matters covered in the representations. Generally, the letter is signed by the chief executive officer (e.g. city manager, mayor, superintendent) and the chief financial officer (e.g. finance officer, business manager, clerk/treasurer).

When such persons were not present during all periods referred to in the letter, they may claim they are not in a position to provide some or all of the representations. This fact, however, does not diminish management's responsibilities and would not be a reason for the auditor to accept this risk or responsibility.

Policy/Standards:

SAO Audit Policy 3420 - Obtaining Management Representation Letters

Record of Work Done:

See work performed at AC Letter of Representation.

E.1.PRG - Concluding Single Audit Procedures

Procedure Step: SA Exit Conference

Columbia County

Prepared By: MDR, 9/12/2018
Reviewed By: DHO, 9/19/2018

Purpose/Conclusion:

Purpose / Conclusion:
To communicate the results of our single audit with management and the governing body.

Testing Strategy:

Typically communication of single audit results occurs at the financial statement exit conference, which is documented in a separate step. Auditors should ensure that single audit results are communicated at this conference and that the conference is held prior to issuance of the single audit report.

If no exit conference was held or if the report was issued prior to the date of the exit conference, explain the situation in this step (and in the Exit Conference Explanation field in the Custom tab of the Profile) and document how the auditor ensured that adequate communication with management and elected officials occurred.

If a separate exit conference is held to communicate single audit results, auditors must document invitations, conference date, attendees and discussion topics (see the financial statement exit conference step for detailed instructions).

Policy/Standards:

SAO Audit Policy 2130 - Inviting Officials to Entrance and Exit Conferences

SAO Audit Policy 2220 - Conducting Exit Conferences

SAO Audit Policy 2310 – Protocol for Findings and Management Letters

Record of Work Done:

Single audit results were communicated with management and those charged with governance at the financial statement exit conference – see AC Exit Conference for details.

E.1.PRG - Concluding Single Audit Procedures

Procedure Step: Data Collection Form
Prepared By: MDR, 9/19/2018
Reviewed By: DHO, 9/19/2018

Purpose/Conclusion:

Purpose:
To complete and submit the online data collection form, upload the audit report and corrective action plan .pdf file, and certify completeness.

Conclusion:
We completed and submitted the online data collection form, uploaded the audit report and corrective action plan, and certified completeness.

Testing Strategy:

UPDATED 3/19/18:
SINGLE AUDIT DATA COLLECTION FORM (Form SF-SAC)

It is recommended auditors review the new instructions and follow the Internet Data Entry System (IDES) user manual when completing the DCF (see links below).

- SAO creates a new data collection form on-line at: https://harvester.census.gov/facweb/
    - Instructions for the Data Collection Form can be found at: https://harvester.census.gov/facides/Files/2015_2018%20Checklist%20Instructions%20and%20Form.pdf. Note the "What's New" for this new DCF on pages 2-3 of the instructions.
    - The IDES User Manual, which contains **step by step detailed instructions** for completing the data collection form can be found at: https://harvester.census.gov/facides/Files/IDES%20Instructions%20UG%202016.pdf
    - Another useful resource is the Frequently Asked Questions, which can be found at: https://harvester.census.gov/facweb/FAQs.aspx

- SAO accesses the IDES system. First-time users must create a user account. To register, you enter your first and last name and email address. To complete the registration, you will need to create a password. User accounts are based on the users email and password. Once registered, the data collection form can be started.

- SAO fills out all the information on the form and accurate data input is critical. Please use the following specific inputs for consistency:
    - Audit Firm/Organization:**Office of the Washington State Auditor**
    - Audit Firm/Organization EIN: **91-6001098**

- OS will e-mail the audit manager and AIC the .PDF file that contains both the Audit Report and Corrective Action Plan (as applicable).

- SAO will upload the audit report file (.PDF file).

- SAO audit manager (or team designee) and the auditee contact person will be prompted via an email notification to certify the report.

- The auditee clicks on 'SUBMIT TO FAC FOR PROCESSING' after both parties have certified the report.

Auditor's note regarding Part II: Federal Awards tab

- Federal awards should be in the same order as shown in the SEFA. There are two ways to enter the federal awards. Auditors may enter in the information into the DCF line by line or may add multiple federal awards using the Federal Awards Worksheet template (see 4.2 of the IDES User Manual for instructions). If the latter is chosen (**strongly recommended and note that entities with more than 80 lines must use the upload feature**) use the LGCS download information and copy and paste (one column at a time using the data in the spreadsheet) into the Uniform Guidance upload worksheet.

    - Note that the information in LGCS will need to be accurate/corrected if revisions were made to the audited SEFA. The BARS Manual directs entities to make corrections to their Schedule 16 information if changes are identified before or during the audit; therefore, auditors should request that entities make changes when necessary.

- A frequently asked question is whether the same CFDA # should be combined into one line in the DCF. The answer to this question is No for the following reasons:
    - When an award consists of both direct and indirect funds, list the direct expenditure detail on one line and the indirect expenditure detail on a second line (distinction between direct and indirect is required).

    - Also, if the program contains funding from multiple pass-through entities or contracts/awards, report those on a separate line (pass through entities are required to be identified). The form accepts up to 10 pass-through entity names and contract information per program. (If there are more, you will need to start a new line). For multiple contracts from the same pass-through entity, you can combine those into one line or list them separately as space allows.

- Clarification from USDA and the Environmental Protection Agency on reporting:
    - The following programs do <u>not</u> have continuing compliance requirements – <u>don't</u> include the beginning balance in expenditures on the SEFA or DCF
        - CFDA 10.760 – Waste and Waste Disposal Systems for Rural Communities
        - CFDA 10.766 – Community Facilities Loans and Grants

    - These programs are <u>not</u> federally guaranteed loans – <u>don't</u> report them this way on the DCF
        - CFDA 66.458 – Capitalization Grants for Clean Water State Revolving Funds
        - CFDA 66.468 - Capitalization Grants for Drinking Water State Revolving Funds

Auditor's Note regarding Part III, Item 2(a)(i-iii): Audit Info tab

(a) Financial Statement Information -
(i) What were the results of the auditor's determination of whether the financial statements of the auditee were prepared in accordance with generally accepted accounting principles (GAAP)?
If the financial statements were not prepared in accordance with GAAP but were prepared in accordance with a special purpose framework (see note below), **mark "Financial statements were not prepared in accordance with GAAP but were prepared in accordance with a special purpose framework."** (Reference AU-C Section 800, "Special Considerations – Audits of Financial Statements Prepared in Accordance With Special Purpose Framework," for additional information.)
Note: Special Purpose framework means those entities that prepare financial statements that are other than GAAP (e.g. the BARS Manual, Schools Accounting Manual or other method)

Complete Items (ii), (iii), and (iv) only if the statements were prepared in accordance with a special purpose framework.
(ii) What was the special purpose framework? - Mark the applicable special purpose framework that was used as the basis of accounting using the definitions in AU-C Section 800. **Auditors should mark the <u>"Regulatory basis"</u> box for all cash basis and modified accrual entities <u>with the exception</u> of commodity commissions, which should be reported as "cash basis".**

(iii) Was the special purpose framework used a basis accounting required by state law or tribal law? - Mark either "Yes" or "No" as applicable. Mark "No" if the special-purpose framework was permitted by state law but not required. The response to this question will affect whether an entity can qualify as a low-risk auditee in the two subsequent audit periods (see 2 CFR 200.520(b). **Auditors should mark "No" for all entities <u>except for school districts</u>, for which auditors should mark "Yes".**

Auditor's Note regarding Part III: Federal Awards Audit Findings

Column g: Modified Opinion – Select Y or N if the auditor identified the finding in the Report on Compliance for each Major Federal Program as the basis for a Modified Opinion (qualified, adverse, or disclaimer of opinion).

Column h: Other Matters – Select Y or N if the auditor identified the finding in the Report on Compliance for each Major Federal Program as the basis for Other Matters (questioned costs findings, and/or material non-compliance findings, and/or fraud/abuse findings).

Column i: Material Weakness – Select Y or N if the auditor identified the finding in the Report on Internal Control over Compliance as a Material Weakness.

Column j: Significant Deficiency – Select Y or N if the auditor identified the finding in the Report on Internal Control over Compliance as a Significant Deficiency.

Column k: Other Findings – Select Y or N if there are no Compliance Findings or Internal Control Findings. If the Auditor marked N in all four columns (indicating there are no compliance audit findings or internal control audit findings), mark Y to indicate Other Findings. This will be rare; generally, findings are reported in other matters. Contact the Single Audit Specialist and/or Reporting Specialist before selecting Y.

The chart below shows the nine different possible combinations of findings for columns (g) through (k):

(g)	(h)	(i)	(j)	(k)
Compliance Audit Findings		**Internal Control Audit Findings**		Other Audit Findings
Modified Opinion	Other Matters	Material Weakness	Significant Deficiency	
Y	N	N	N	N
Y	N	Y	N	N
Y	N	N	Y	N
N	Y	N	N	N
N	Y	Y	N	N

N	Y	N	Y	N
N	N	Y	N	N
N	N	N	Y	N
N	N	N	N	Y

Auditor’s should refer to the Federal Compliance and Internal Control Testing Summary in the Major Federal Program Worksheet.

Policy/Standards:

2 CFR §200.512 Report submission.

(b) Data Collection. The FAC is the repository of record for Subpart F—Audit Requirements of this part reporting packages and the data collection form. **All Federal agencies, pass-through entities and others interested in a reporting package and data collection form must obtain it by accessing the FAC.**

(c) Reporting package. The reporting package must include the:
(1) Financial statements and schedule of expenditures of Federal awards discussed in §200.510 Financial statements, paragraphs (a) and (b), respectively;
(2) Summary schedule of prior audit findings discussed in §200.511 Audit findings follow-up, paragraph (b);
(3) Auditor's report(s) discussed in §200.515 Audit reporting; and
(4) Corrective action plan discussed in §200.511 Audit findings follow-up, paragraph (c).

(d) Submission to FAC. The auditee must electronically submit to the FAC the data collection form described in paragraph (b) of this section and the reporting package described in paragraph (c) of this section.

Record of Work Done:

1. Date completed:

AIC: 9/13/2018 12:15:49 PM
AAM: 9/19/18 Will complete process when audit report is published.

Columbia County

E.1.PRG - Concluding Single Audit Procedures

Procedure Step: SA Quality Control Assurance Certification
Prepared By: MDR, 9/6/2018
Reviewed By: GLW, 9/7/2018

Purpose/Conclusion:

Purpose / Conclusion:
To review and certify adherence to applicable audit standards and policy with regard to the Single Audit.

Testing Strategy:

This step should be signed-off by the Auditor-in-Charge, the Assistant Audit Manager, and the Audit Manager. The Quality Control Assurance Certification should be signed-off **before** the Single Audit report is issued.

If a requirement does not apply, it should be noted on the certification. If a requirement was not met an explanation needs to be documented and approved by the Audit Manager. No other modifications to the form should be made. It is not necessary to reference applicable sections of the certification to the audit documentation.

Policy/Standards:

SAO Audit Policy 3430 – Quality Control Assurance Certification

Record of Work Done:

Quality Control Assurance Certification
*The certification should be signed-off **before** the Single Audit report is issued.*

Auditor in Charge Statements
1. I am free, both in appearance and in fact, from personal and external impairments to objectivity and independence in matters related to this audit (Audit Policy 3110).

2. I informed assistants, if any, of responsibilities and objectives of the procedures they were planned to perform and all relevant information related to those responsibilities (Audit Policy 3160).

3. I monitored the audit budget compared to actual audit hours and requested approval in advance from the supervisor and Audit Manager if additional audit hours were needed (Audit Policy 3160).

4. I promptly informed my supervisor of potential audit issues encountered (Audit Policy 3160).

5. I informed my supervisor of modifications to the audit plan (Audit Policy 3160).

6. Work performed was documented in accordance with Audit Policy 3310.

7. I reviewed audit documentation prepared by assistants to ensure work was adequately performed and properly documented (Audit Policy 3160).

8. I promptly resolved any coaching notes (Audit Policy 3160).

9. Sufficient and appropriate audit evidence was obtained and evaluated to ensure that specific audit objectives were achieved (Audit Policy 3210).

10. The audit of federal programs was conducted using all applicable audit steps in TeamMate and Audit Policy 5000 series - Federal Audits.

11. An entrance conference was conducted in accordance with Audit Policies 2130 and 2210.

12. An exit conference was conducted in accordance with Audit Policies 2130 and 2220.

Assistant Audit Manager (Supervisor) Statements

1. I am free, both in appearance and in fact, from personal and external impairments to objectivity and independence in matters related to this audit (Audit Policy 3110).

2. I reviewed audit documentation to ensure work was adequately performed and evaluated whether the results are consistent with the conclusions presented in the engagement report. My review was completed prior to the exit conference and report issuance (Audit Policy 3160).

3. I ensured that all coaching notes were resolved (Audit Policy 3160).

4. I informed the Audit Manager of significant problems or audit issues (Audit Policy 3160).

5. I agree with the certification statements made by the auditor-in-charge.

Audit Manager Statements

1. I am free, both in appearance and in fact, from personal and external impairments to objectivity and independence in matters related to this audit (Audit Policy 3110).

2. I reviewed audit documentation to ensure work was adequately performed and evaluated whether the results are consistent with the conclusions presented in the engagement report. My review was completed prior to the exit conference and report issuance (Audit Policy 3160).

3. I requested approval for audit budget changes from the Director of State and Local Audit or delegate (Audit Policy 1220). Also, I communicated audit budget changes to Team Financial Services.

4. In my opinion, the staff assigned to conduct each engagement collectively possess adequate professional competence for the tasks required (Audit Policy 3140).

5. I immediately informed the Director of State and Local Audit or delegate if the report was anticipated to be issued 30 days or more after the timeliness goals established in Audit Policy 2320.

6. The protocol for findings and management letters as outlined in Audit Policy 2310 was followed.

E.2.PRG - Highway Planning and Construction Grant

Procedure Step:	Compliance Requirements
Prepared By:	MDR, 7/31/2018
Reviewed By:	DHO, 7/31/2018

Purpose/Conclusion:

Purpose/Conclusion:
To determine the compliance requirements that have a direct and material effect for this major program.

Testing Strategy:

COMPLIANCE SUPPLEMENT

The auditor must use the compliance supplement that is applicable for the period under audit. For example, the auditor must use the **2017** Compliance Supplement for audits of fiscal years beginning after 6/30/16. The Compliance Supplement contains guidance from the Uniform Guidance (2 CFR 200) and the OMB Circulars. Links to the Compliance Supplements are found on the Federal Grant Resources page.

For audits of fiscal years beginning after June 30, 2017, auditors should use the AICPA's 2018 Compliance Supplement Access Tool (per HUB announcement 6/4/2018) also found on the Federal Grant Resources page (titled Compliance Supplement Access Tool for 2018).

IDENTIFY DIRECT AND MATERIAL COMPLIANCE REQUIREMENTS

Determine if the requirement is direct *and* material for your auditee's award and activity (document your decisions on the attached template). Make sure to consider additional requirements in the grant contract/application. "Direct" means the activity is applicable/occurred for the federal award being audited while "material" is determined as:

At a Glance:

Materiality	Is material when…	Example Materiality
Quantitative	Costs or activity related to the requirement exceeds our threshold established in the planning stage, usually 10% of total program expenditures.	They procured $100,000 of equipment during the audit period, which is 15% of the expenditures. The procurement compliance requirement is material.
Qualitative	Usually when the requirement is specifically listed in Part 4 of the Compliance Supplement. (even if it is below quantitative materiality.) Other considerations are possible.	Quantitative materiality is 10%. The Compliance Supplement includes a 3% earmark for your program. It is material even though it is less than 10%.

Reminders:

If you choose not to audit a certain compliance area, you must document the reason(s) for this decision in the attached worksheet.

Refer to the Policy/Standards tab for more detailed guidance and examples.

ARRA Alerts have been removed from this testing strategy. However, be aware that there may be a few lingering programs to which it may apply.

The Compliance Supplement divides Part 3 (compliance requirements) into two sections to accommodate the continuing government-wide transition from the OMB Circular A-102 (Common Rule)/A-110 to Uniform Guidance (2 CFR 200). Section 3.1 covers the requirements for A-102/A-110 and Section 3.2 covers Uniform Guidance requirements (for awards issued on or after 12/26/14). The award should specify which requirements apply.

DIRECT AND MATERIAL CONSIDERATIONSFOR THE 12 BASIC COMPLIANCE REQUIREMENTS

A. Activities Allowed or Unallowed: This requirement is direct and material to most awards by its nature. Generally does not apply to:

1) fixed price awards (where they meet milestones instead applying costs against the award)
2) most fee-for-service awards (e.g. 10.555 National School Lunch Program).

B. Allowable Costs / Cost Principles: This requirement is applicable to most awards when Activities Allowed is direct and material. Generally, does not apply to:

1) fixed price awards
2) most fee-for service awards
3) education allowance/tuition loans, scholarships, fellowships, or traineeships
3) institution of higher education capitation awards

C. Cash Management - This requirement is always direct and material to cash awards, whether the entity operations on a reimbursement or cash advance basis. It is not applicable for non-cash awards (e.g. federal equipment, real property, supplies or commodities received). You must identify and test internal controls.

D. RESERVED. Davis-Bacon Act requirements were moved to special tests and provisions (see below).

E. Eligibility: This requirement is “direct” when a program has targeted participants (e.g. Section 8 housing and school Nutrition Cluster participants must be low-income). It is qualitatively material when an eligibility requirement is included in the program’s scope per the Compliance Supplement or award documents.

F. Equipment and Real Property Management:
Definitions per Uniform Guidance:

"Equipment": 1) Tangible personal property having a useful life of more than one year and an acquisition cost per unit that is the lesser of $5,000 or the grantee’s fixed asset capitalization threshold. 2) Intangible property purchased with program funds (not developed or produced from the program).

"Real property": land, land improvements, buildings and appurtenances (accessories) thereto, acquired or improved with federal funds.

Determining materiality for this requirement should include qualitative measures because the audit objective encompasses testing requirements related to:

Inventory, maintenance, and safeguarding of equipment from the same program/CFDA obtained during the audit period *and* in the past;

Disposal of equipment or real property over $5,000 from the same program/CFDA from assets obtained during the audit period *and* in the past; *and*

Acquisition and/or improvement of equipment or real property during the audit period.

Use auditor judgement to determine the significance of these activities in relation to the program. Consider things such as the amount of federal equipment from this CFDA program (for example a fleet of vehicles currently and/or previously purchased with the same type of federal funds would be hard to justify not being material), current purchases/construction is significant to the award project or total expenditures, etc.

G. Matching: This is "direct" when and entity is required to contribute state/local funds to "match" the federal award. It is qualitatively material when it is included in the program's scope per the Compliance Supplement or awarding documents. Also, consider that if they provide less match than required, it could result in questioned costs. See an example in the policy tab.

G. Level of Effort: This is "direct" when and entity is required to complete a minimum level of effort, such as Maintenance of Effort or Supplanting. It is qualitatively material when it is included in the program's scope per the Compliance Supplement or awarding documents.

G. Earmarking: This is "direct" when and entity is required to set aside funding for certain purposes. The requirement is qualitatively material when the requirement is included in the Compliance Supplement, despite the size of the earmark. Other qualitative factors can apply when the requirement is not in the Compliance Supplement, such as the significance a grantor places on the requirement or the auditor's judgement of risk.

H. Period of Performance (formerly Availability): It is qualitatively "direct *and* material" when the award *starts* and/or *ends* during the audit period. Consider the timing of the start/end date and/or if it has been audited previously (for example the start or end date was just one month out and we had not previously audited it, consider it material).

*Note: We have to audit whether costs are in the period of performance as one of the cost principles (test B). However, we only identify and test key controls over the period of performance when it is direct and material. We will also perform additional risk-based testing.

Columbia County

I. Procurement and Suspension and Debarment (S&D):

Procurement – quantitative measures are generally used in determining materiality with additional qualitative considerations. Use this decision matrix to determine if the requirement is direct and material. Notice there are several situations that would result in procurement being direct and material:

Procurement-Direct & Material Decision Matrix

	Question	Yes	No
1	Are a material amount of expenditures during the audit period the result of procurement completed during the audit period?	These expenditures are Direct and Material	Go to the next question.
2	Are a material amount of expenditures during the audit period the result of procurement completed during the prior year and were those contracts/purchases were previously unaudited?	These expenditures are Direct and Material	Go to the next question.
3	Are expenditures from #1 and #2 added together quantitatively material (total contracts/purchases)? *Exp. that result from procurement completed more than one year ago do not have to be considered.	These expenditures are Direct and Material	Go to the next question.
4	Did the entity complete procurement for significant purchases/contracts during the audit period that will lead to material expenditures in the future (no or immaterial expenditures during the audit period)?	Procurement could be considered direct and material. Auditor judgement (which year to audit).	Procurement is not Direct and Material.

UPDATED GUIDANCE - Suspension and Debarment – Determining materiality for this requirement should be based on qualitative factors, whether or not the auditee had any **covered transactions** as opposed to associated expenditures. The reason you consider covered transactions as opposed to associated expenditures is the audit objective requires determining if the auditee "verified" the status of each covered transaction. Therefore, if there is a covered transaction during the audit period, the requirement would be direct and material.

What is a covered transaction?	
Award made to:	Threshold
Subrecipient	No threshold. They must verify S&D for each new subaward.

Vendor/Contractor	Contracts and purchases over $25,000. Applies to each new contract (or total purchases to one vendor/contractor during the audit period).

J. Program Income: This is "direct" when the operations of the federal program generate money (e.g. collection of loan origination fees for loan programs, inoculation fees for vaccine programs, or sale proceeds from federally purchased/improved assets for some programs.) Use quantitative materiality to determine if either program income revenue or program income expenditures during the audit period are material since the requirement focuses on both the collection and management of the revenue, and the associated expenditures.

K. RESERVED: There are no requirements for this section.

L. Reporting: This is "direct" and qualitatively material when then entity is required to complete reports per the Compliance Supplement or grant agreement, or submits reimbursement requests or advance requests. The Compliance Supplement does not always include reimbursement and advance requests, but if the entity completes either for the audit period, the reports must be tested for compliance because errors will affect program funding.

M. Subrecipient Monitoring: This is "direct" when the entity has subrecipients. It is quantitatively material when total disbursements to subrecipients is at least 10% of the program's expenditures during the audit period.

N. Special Tests and Provisions – Wage Rate Requirements (Davis Bacon Act): This is "direct" when the entity uses construction contractors, who are paid $2,000 or more. Use quantitative materiality based on the amount of vendor construction expenses applied to the federal award during the audit period.

N. Other Special Tests and Provisions: These are program-specific requirements that are based on qualitative materiality measurers. They are direct and material when either:

a. The requirement is included in the Compliance Supplement, Part 4, for your program and:

1) it applies to your entity type (state or local)

2) and/or it applies to the activity of the audit period (e.g. if there is a special test for the relocation of utilities on highway right-of-ways [CFDA 20.205] but there were no utilities in the project, then it doesn't apply.)

b. The requirement is included in the award contract between the auditee and their grantor. Limit the testing to those that:

1) can result in material noncompliance and/or known questioned costs exceeding $25,000
2) affect a significant part of the program (significant dollar amounts)
3) there are penalties for non-compliance, such as the entity must repay the award or the grantor will reduce future awards.

Policy/Standards:

CCOMPLIANCE SUPPLEMENT

The auditor must use the compliance supplement that is applicable for the period under audit. For example, the auditor must use the **2017** Compliance Supplement for audits of fiscal years beginning after 6/30/16. The Compliance Supplement contains guidance from the Uniform Guidance (2 CFR 200) and the OMB Circulars. Links to the Compliance Supplements are found on the Federal Grant Resources page.

For audits of fiscal years beginning after June 30, 2017, auditors should use the AICPA's 2018 Compliance Supplement Access Tool (per HUB announcement 6/4/2018) also found on the Federal Grant Resources page (titled Compliance Supplement Access Tool for 2018).

WHICH COMPLIANCE REQUIREMENTS DO I TEST?

1. Use the following sources of information to identify the compliance requirements that apply to your grant program.

Obtain a copy of the grant agreement(s) or contract(s) that were in effect during the audit period. Determine which criteria applies to the award(s) – Uniform Guidance or the OMB Circulars.

Obtain a report of federal expenditures for the program (sorted by object) and determine the areas in which funds were spent. Examples: salaries and benefits, materials/supplies, equipment, travel, contracts for goods and services, construction, etc.

Review the Compliance Supplement available on the SAO Intranet under AUDITOR RESOURCES / REFERENCE GUIDE / FEDERAL:

--Part 3 (this is general information for the 12 standard compliance areas). NOTE: The Compliance Supplement divides Part 3 (compliance requirements) into two sections to accommodate the continuing government-wide transition from the OMB Circular A-102 (Common Rule)/A-110 to Uniform Guidance (2 CFR 200). Section 3.1 covers the requirements for A-102/A-110 and Section 3.2 covers Uniform Guidance requirements (for awards issued on or after 12/26/14). The grant agreement/contract should specify which requirements apply.

--Part 4 (this is program-specific guidance for certain compliance areas like allowable activities, eligibility, matching, reporting, etc. and contains a copy of the compliance matrix from Part 2 related to it)

> NOTE: Part 4 will not address all of the compliance requirements - it is designed to give you specific information for certain areas that are unique to a federal program. Other areas that are more general in nature (e.g., cash management, equipment, etc.) will not be listed in Part 4, but still could be applicable to your grant (so look to Part 3).

--Part 7 (this is guidance for programs not included in Part 4 of the supplement). If available, obtain a copy of federal handbook or program guidelines (most federal websites will have this information).

--Appendix VI contains program-specific audit guides for use by auditors for Education (student financial aid programs) and HUD programs.

2. Next, of the requirements that apply to your grant, determine those that have a direct and material effect. You can limit your testing to only those compliance areas that have a **direct** and **material** effect on the program. Even though a compliance requirement applies to the Federal program in general, it may not apply at a particular auditee, either because that auditee did not have activity subject to that type of compliance requirement or the activity does not have a material effect on a major program.

Examples:

(1) You are auditing a city that received as pass-through grant from a state agency. You look in Part 4 of the Compliance Supplement and see that a federal Financial Status Report (called the 'SF269') is listed as being applicable to the program. However, you find that this **Reporting** requirement is a responsibility of the state pass-through agency, not your city. Therefore, this compliance area is not applicable to your audit.

(2) You read the terms and conditions of the grant agreement and see that the **Period of Performance of Availability** is for three years, with a beginning date that started before your audit period and an ending date that closes after your audit period. While this requirement applies to the grant, it is not direct and material in your audit period.

(3) You find in the grant agreement that the auditee is required to comply with all state and local laws for **Procurement** of goods and services. Your review of the auditee's transactions shows only two contractor purchases totaling $5,000. The total grant award was $200,000. Therefore, procurement is applicable, but it is not material to your audit (i.e., transactions relating to the procurement requirement were only 2.5% of the total grant when our minimum materiality threshold was established at 10%).

(4) For **Equipment**, using the same information in #3, the total purchases were only $5,000, 2.5% of the program. But in the last three years, the auditee has received a contract from the same program (same CFDA number) and has 100 pieces of equipment from that program with a total acquisition cost of $300,000. On a qualitative level, there are many pieces of equipment associated with the program. Although purchases are not significant this year, there are continuing requirements on the other equipment items that we would test such as inventory procedures and disposal. Therefore, we would pick the requirement as direct and material.

(5) A grantee earned and spent $25,000 of **Program Income** during the year. This amount is 1% of the total grant. Even though this amount meets our $25,000 questioned cost threshold, this does not cause Program Income to be a material compliance area because it is less than 10%. (During your planning, or in the course of the audit, if you become aware of known questioned costs that exceed $25,000 in a compliance requirement that is not otherwise material to the program, we should report this in a finding.)

MATCHING MATERIALITY EXAMPLE
This is "direct" when and entity is required to contribute state/local funds to "match" the federal award. It is always qualitatively material when it is included in the program's scope per the Compliance Supplement or contract/agreement. Also, consider that if they provide less match than required, it could result in questioned costs.

For example, a $100,000 award was 95% federal and 5% local match. The entity applied $95,000 to the federal award and was reimbursed. If they only had $4,000 in allowable match costs that means:

1. $4,000 must represent 5% of the program.
2. The total program at that point is only $80,000 ($4,000/5% = $80,000).
3. Allowable federal expenditures could not exceed $76,000 ($80,000 x 95% = $76,000).
4. We would identify *questioned costs* of $19,000 ($95,000 - $76,000 = $19,000).

Record of Work Done:

We identified the direct and material compliance requirements: Major Federal Program - Local teams

Based on our review of the Grant Cluster, we judgementally selected the two projects with the largest amount of reimbursements, equaling 92% of our total cluster. We listed all of the grants within the cluster below and highlighted the selected grants. The total of the grants not reviewed is

$72,975 (which is below our 10% threshold).

Highway Planning and Construction Cluster: (awarded after 12/26/14 = Post-UG)

Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	LA-7970	33,609
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	LA-7976	31,309
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	LA-8139	247
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	LA-8140	907
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	LA-8659	6,903
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	LA-8944	52,992
Federal Highway Administration (fhwa), Department Of Transportation (via WA State Dept of Transportation)	Highway Planning and Construction	20.205	LA-9043	798,758
Total Highway Planning and Construction Cluster:				**924,725**

In consideration of the above grants, we determined that 10% of the total ($924,725) for the grant cluster, or **$92,473,** was our threshold for materiality.
The Highway Plalnning and Construction cluster contained grants that were pre and post uniformed guidance (UG). Both of the grants selected for testing were Post-UG.

Grant Overview:
The objective of this grant is to assist State transportation agencies in the planning and development of an integrated, interconnected transportation system important to interstate commerce and travel by constructing and rehabilitating the National Highway System (NHS), including the Eisenhower Interstate System; and for transportation improvements to most other public roads; to provide aid for the repair of Federal-aid highways following disasters; to foster safe highway design; to replace or rehabilitate deficient or obsolete bridges; and to provide for other special purposes.

Regulations for construction projects are provided in the WSDOT Local Agency Guidelines (LAG) manual.
We reviewed the SEFA and have vouched the grants related to the major program.

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We reviewed each compliance requirement and the County grant files to determine direct and material requirements. We also obtained and reviewed the A-133 compliance supplement to determine which requirements are applicable to our audit.

See summary of applicable compliance requirements at Major Federal Program - Local teams.

Compliance Requirements
Per our review of the Compliance Supplement Program Requirements Matrix, we determined the following requirements are not applicable to this program:

E. Eligibility

Per our review of the Compliance Supplement, we determined that the following requirements are applicable but not direct and material for this program:

F. Equipment and Real Property Management - Applicable, but not Direct and Material. Per Lisa Ronnberg, PW Accounting/Business Manager, the County did not purchase any equipment or real property with federal funds in 2017. We reviewed the expenditure reports for the grants and noted no instances of equipment or real property purchases.
G. Level of Effort and Earmarking - Not applicable per Compliance Supplement.
H. Period of Performace (see table below) - Applicable, but not Direct and Material because the start and end dates are outside of our audit scope.

Project	Contract Start Date	Contract End Date
LA-8944 Bridge Inspections	8/9/2016	6/30/2021
LA-9043 Tucannon Bridge Project	12/31/2014	9/30/2018

J. Program Income - Applicable, but not Direct and Material Per Lisa Ronnberg, Public Works does not purchase any real property with Federal funds unless they have to for Right of Way. Thus, no income would come from the sale, lease, or use of that real property. Further, we reviewed the FY15 single audit and found there was no program income. We noted no instances of program income during our review.
M. Subrecipient Monitoring - Applicable, but not Direct and Material. Per Lisa Ronnberg, PW Accounting/Business Manager, the County did not have any subrecipients in 2017. We noted no instances of subrecipient monitoring during our SEFA vouch.
N. Special Tests and Provisions - Some are not applicable**.** See compliance spreadsheet for details on special tests listed below Major Federal Program - Local teams.
-Use of Other State or Local Govt Agencies - Not applicable. From our review, it does not appear that the State used other public land acquisition organizations or private consultants to carry out its authority.
-Davis-Bacon - Testing will be done under Wage Rate Requirements listed below.

-Replacement of Publicly Owned Property - Not applicable. We spoke with Lisa Ronnberg, Public works accounting/business manager, and she informed us that no publicly owned real property was used or replaced in any of the projects. We did noted no instances of publicly owned real property use during our review.
-Quality Assurance - Not applicable. No projects were part of the NHS, per Lisa Ronnberg. All projects were County Roads projects, which we confirmed during our review of the projects.
-Contractor Recoveries - State requirement only.
-Project Approvals - State requirement only.
-Value Engineering - State requirements only.
-Utilities - State requirement only.

Per our review of the compliance supplement, we determined the following requirements are applicable and direct and material to these programs and will be reviewed:

A. Activities Allowed or Unallowed.
B. Allowable Costs / Cost Principles
C. Cash Management
G. Matching
I. Procurement / Suspension and Debarment

L. Reporting

N. Special Tests and Provisions - See compliance spreadsheet for details on special tests listed below Major Federal Program - Local teams.

-Wage Rate Requirements
-Administration of Engineering and Design-Related Service Contracts

E.2.PRG - Highway Planning and Construction Grant

Procedure Step:	A-B-H Activities Allowed/Allowable Cost/Period of Performance
Prepared By:	MDR, 8/23/2018
Reviewed By:	GLW, 8/27/2018

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Purpose/Conclusion:

Purpose:
To determine if internal controls provide reasonable assurance that 1) Federal awards are expended only for allowable activities, 2) the costs of goods and services charged to Federal awards comply with the applicable cost principles, and 3) Federal awards are obligated within the appropriate period, and to test compliance with those requirements.

Conclusion:

We determined that internal controls provide reasonable assurance that 1) Federal awards are expended only for allowable activities, 2) the costs of goods and services charged to Federal awards comply with the applicable cost principles, and 3) Federal awards are obligated within the appropriate period, and tested compliance with those requirements with no issues noted.

Testing Strategy:

This testing strategy combines Pre-Uniform Guidance and Uniform Guidance (UG) requirements. Each compliance test in Step 8 will identify the guidance it relates to.

Perform the following steps:
1. Read and gather information.
2. Assess inherent risk (IR).
3. Gain an understanding of internal controls.
4. Assess preliminary control risk (CR).
5. Test internal controls.
6. Assess final control risk (CR).
7. Assess the risk of material noncompliance (combined IR and CR).
8. Test for compliance with the requirement.

Step 1: Read and Gather Information
ACTIVITIES ALLOWED & COST PRINCIPLES
Identify Allowable Activities: Determine which activities and types of costs are specifically allowed or unallowed, by reviewing the following:
1. Award agreement or approved application for scope of work, terms and conditions, and approved budget.
2. Part 4 of the Compliance Supplement that applies to your audit period.

3. Available program guidelines or handbooks. (Ex. WSDOT's LAG Manual)
4. If above information is not available, look to the federal regulations (contact the single audit specialist if you need assistance with this).

A. Direct Costs

Payroll Expenditures: When payroll costs are selected for our single audit, our focus is on whether the portion of payroll charged to the program (allocation) is supported by appropriate time and effort and meets the cost principles. Note that awarding agencies may require specific forms of documentation to support payroll charged to its award. See the policy/standard tab for specific time and effort requirements for **school districts**.

Automated Controls: If you are auditing a **school district** that relies on **Skyward** to calculate payroll and allocate those costs to federal programs (most districts), there is an automated control. Look below for information on how to rely on work of others because we have centrally completed this testing.

Workers Compensation and Unemployment Insurance: The entity may apply these costs through an indirect method such as internal service fund billings, external claims service arrangement, risk pool, etc.

Compensated Absences (leave cash-outs or accrual): The entity may include employees' use of leave (which is included in their regular salary payments). If the entity charges any **leave cash-outs** or the **accrual of leave** to the grant, there are special rules, see extra guidance in the policy tab. There is a high risk the costs are unallowable.

Non-Payroll Expenditures: Generally, auditors should test internal controls and compliance for non-payroll expenditures when those costs are quantitatively material (10%) to the program.

B. Indirect Costs

Generally, auditors should test internal controls and compliance for indirect costs when those costs are quantitatively material (10%) to the program.
Overview: There are five general methods used in federal programs to apply indirect costs to the award, as identified in the auditee's agreement. These are discussed in the policy tab in further detail, for when indirect costs are material to the program.

1. Rate provided by the grantor
2. Required to use the pass-through entity's (PTE's) negotiated indirect cost rate
3. De Minimis Indirect Cost Rate method
4. Negotiated rate or cost allocation plan approved by the cognizant agency

5. Negotiated rate or cost allocation plan approved or accepted by the pass-through entity (PTE)

Special – Review In-process Proposals: If the entity is preparing an Indirect Cost Rate Proposal during the audit period in order to submit it to the federal cognizant agency, we are required to review the accuracy of the base data and calculations.

PERIOD OF PERFORMANCE/AVAILABILITY

Identify Period: Review the grant award notice to determine the period that grant funds are available for expenditure (the official starting and ending dates) and whether there are any provisions for carryover. Sometimes the period is set by grantor standards (common for Federal Transportation Agency awards) and not explicitly stated in the award. If not evident in the agreement, request from the entity and confirm.

Requirement: Funds must be obligated during the period of performance and liquidated/paid no later than 90 calendar days after the end date of performance. Grantors could allow pre-award costs that occur before the award is officially issued, through prior written approval.

Carry-over Funds: The treatment of unspent award funds varies by grantor. Some grantors extend the period of performance for unspent funds. On the other hand, some grantors combine unspent funds with a new grant award, defining a new period of performance.

Obligation Definition: "Obligations" can vary by award but in general it means orders placed for property and services, contracts and subawards made, and similar transactions that require payment by awardee during the same or a future period (i.e funds are committed to be spent). See the policy tab for the definition and examples of obligation.

Step 2: Assess Inherent Risk (IR)

See steps to assess inherent risk in the Single Audit Planning Guide.

Step 3: Gain an Understanding of Internal Controls

Key controls are those effective in preventing and detecting noncompliance. Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

Activities Allowed & Cost Principles

(a) Activities Allowed: grant funds are used only for allowable activities (this may include review of expenditures, program monitoring, preparing the reimbursement requests, establishment of programs);

*SCHOOL DISTRICTS AUDITS: For payroll costs, there are controls you must use and can rely on work of others. Follow instructions in the policy tab under "School District Payroll Controls."

(b) Cost Principles: direct and indirect costs charged to the grant comply with the cost principles set forth in 2 CFR 200 Subpart E/OMB

Circular A-87 (this may or may not be the same control activity for (a))
(c) Activities Allowed-Indirect Costs: if material (10%), the entity uses the proper indirect cost rate as documented in their award contract. Controls should also focus on how the entity properly calculates the direct cost base that the indirect rate is applied to.

For instance, the controls should ensure that they are using only allowable types of costs in the MTDC or other direct base as applicable, that those costs are not used twice or that they occurred during the contract's period of performance. Note: These controls are likely different from those in (a) and possibly (b).

Period of Performance/Availability

(d) Federal funds are obligated within the period of performance (this may include review of expenditures to determine if they are within the period of the grant, or if the entity is applying for and receiving approval for carryover).

*Avoid the use of "knowledge" or generic program oversight as the control. A control is likely performed during the preparation of the reimbursement request.

(e) Obligations are liquidated within the required time period.

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as **"low"** when:

(1) there is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or

(2) the auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Deficiencies Identified: Use the decision matrix in the "Major Federal Program" spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).

Step 5: Test Internal Controls

If preliminary control risk is:

LOW: test the key internal controls to determine whether they are effective in preventing and detecting noncompliance with the requirement.

HIGH: do not test the controls. Complete a level of reporting (LOR) form to report a "significant deficiency" or "material weakness."

Examples: Refer to the Single Audit Planning Guide for suggestions and examples of control testing.

Dual Purpose Testing: Consider whether the control can be tested in conjunction with a test of compliance to increase audit efficiency. If dual-purpose testing is performed, you must clearly document separately the results of control tests and compliance tests. See the policy tab for an example.

Automated Controls: If a key control is automated, control testing must include testing of both the automated control and related general controls. *See additional information in the planning guide.*

Deficiencies Identified: Use the decision matrix in the "Major Federal Program" spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).

Step 6: Assess Final Control Risk (CR)

LOW: No significant deficiencies or material weaknesses identified. If your compliance testing in Step 8 finds non-compliance, you must reassess the final control risk here to determine if non-compliance is the result of a control failure.

HIGH: Complete a level of reporting (LOR) form to report a "significant deficiency" or "material weakness."

Step 7: Assess the Risk of Material Non-Compliance (IR and CR)

The risk is based on auditor judgment in consideration of the inherent risk and control risk. Use the planning guide to assess risk.

LOW

MODERATE

HIGH: Does not result in a finding. But the auditor should consider the risk when designing the nature and extent of compliance testing.

Step 8: Test Compliance

A. Direct Costs

Determine the method for how transactions are to be selected for testing. Options include, with details in the policy tab:

1. Sampling
2. Haphazard Selection
3. Judgmental Selection
4. Judgmental Population
5. All quantitatively material transactions

Reminders:

- Do not ignore types of costs that exceed 10% of the program, individually or in aggregate. These types of costs may have different control systems. See policy tab for example considerations if you are not familiar with this requirement.
  - Not required if you use the sampling or judgmental population methods.
- Consider expanding testing if errors are identified. It may not be necessary if sampling is used since it can extrapolate errors.
- Be alert for federal expenditures that were transferred from state or local program. Transferred costs may not have met federal requirements (adequate support, federal procurement, period of performance, not allowable, etc.).

1. Selected Expenditures: *(Pre-UG & UG)*
Test selected expenditures for compliance with the activities allowed and the cost principles using the A-B Expenditure Testing spreadsheet. All of the attributes are included on the spreadsheet. Use the cell comments for additional guidance on each requirement.

2. Applicable Credits: *(Pre-UG & UG)*
Inquire with the grant or program coordinators, review financial reports or other activities to identify credit transactions (refunds, reimbursements, discounts, liquidated damages, etc.). Select some credits and determine if they reduced program costs for reimbursement (i.e. reduced a subsequent billing) or repaid the amount to the grantor since the credit must be passed along.

3. Impact of improper payments or unallowable costs *(Pre-UG & UG)*
The auditor *should* consider the impact errors would have for "directly associated costs." Directly associated costs are incurred solely as a result of incurring another cost and would not have been incurred if the other cost had not happened.

    Example: fringe benefits are "directly associated" with payroll costs. When an unallowable cost is incurred, directly associated costs are also unallowable.

B. Indirect Costs
Required: You must test if indirect costs are at least 10% of the federal expenditures during the audit period.

1. Method: Select the testing strategy in the policy tab that matches the entity's method.

    Rates Provided in Contract (including PTE's negotiated rate)

    Minimis Indirect Cost Rate

    Negotiated Rates & Allocation Plans – from Federal Cognizant Agency

    Negotiated Rates & Allocation Plans – from Pass-Through Entity

2. Impact of improper payments or unallowable costs *(Pre-UG & UG)*

The auditor *should* consider the impact indirect cost errors would have for "directly associated costs." Directly associated costs are incurred solely as a result of incurring another cost and would not have been incurred if the other cost had not happened.

3. Special Audit Procedures for Indirect Cost Rate Proposals (ICRP): *(UG only)*
   Reminder: If the entity is preparing an ICRP *during* the audit period to submit it to the *federal cognizant agency or its designee*, we are required to review the accuracy of the base data and calculations. The Compliance Supplement does not require this test for indirect cost rate/allocation plans negotiated with pass-through agencies.

   Interim Testing: If the audit is completed before the ICRP is completed, consider performing interim testing the cost pools and allocation bases and complete the testing in the next year's audit. For audit exceptions from interim testing, corrective action may be taken earlier to minimize questioned costs in the completed testing.

   Tests: If this situation applies to you, use the testing strategy in the policy tab.

D. Period of Performance/Availability

1. Awards with a performance period beginning during the audit period *(Pre-UG & UG)*
   Test transactions for costs recorded before or at the beginning date of the period of performance and verify that the costs were not incurred prior to the start of the period of performance unless authorized by the grantor in writing.

2. Awards with performance period ending dates during the audit period: *(Pre-UG & UG)*
   Test transactions charged to the grant during the latter part and after the period of performance to verify that the costs had been incurred/obligated within the period of performance and paid within the allowable liquidation period.

3. Adjustments and transfers: *(Pre-UG & UG)*
   If there are adjustments (e.g., year-end journal entries) that add expenses to the federal award, test adjustments and verify that these adjustments only added transactions that occurred during the period of performance.

Evaluate the results.

Note: Netting Questioned Costs: If you find the entity overbilled and underbilled the program, you *cannot* net them to determine total questioned costs.Overbilled amounts represent unallowable costs that are used to determine the level of non-compliance. Underbilled amounts just represent the availability of other costs that could be considered allowable and are not an error.

Policy/Standards:

Internal Control Understanding
Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

COST DEFINITIONS

Cost means an amount as determined on a cash, accrual, or other basis of accounting acceptable to the federal awarding or cognizant agency.

Cost objective means a function, organizational subdivision, contract, grant, or other work unit for which cost data are needed and for which provision is made to accumulate and measure the cost of processes, projects, jobs and capitalized projects.

Direct costs are those that can be identified specifically with a particular final cost objective (i.e., a particular award, project, service, or other direct activity of an organization). Examples of Direct Costs: payroll costs of employees who perform work that is directly related to the grant program; the cost of supplies and materials used for the purpose of the grant; equipment and other approved capital expenditures made for the grant; or professional services contracted to accomplish specific grant/contract objectives.

Indirect costs are those costs incurred for a common or institution-wide objective that benefits more than one grant program or project. Such costs are not readily assignable to the cost objective specifically benefited. Examples of Indirect Costs: depreciation and use allowances of non-federal equipment and buildings; facility operation and maintenance (lights, heat, phone, janitorial, grounds, etc.); and general administrative expenses such as accounting, payroll, legal and data processing expenses.

SCHOOL DISTRICT TIME AND EFFORT DOCUMENTATION REQUIREMENTS

OSPI's imposed time and effort requirements are more restrictive than the federal requirements. In other words, until further notice, OSPI expects districts to continue to support compensation with semi-annual certifications, monthly PARs, or an approved substitute system. Refer to the policy tab for examples. Districts must follow OSPI's guidance as outlined in the **Addendum to Bulletin 048-17**. Examples are found in Attachments 1-4 of this Bulletin as follows:

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Attachment 1 – semi-annual certification – single cost objective

Attachment 2 – monthly PAR – multiple cost objective/reconciliation to payroll records

Attachment 3 – monthly PAR with multiple cost objectives for employee with fixed-schedule (if not using "fixed schedule" system)

Attachment 4 – employee certification and schedule – employee with fixed schedule (if using "fixed schedule" system)

See also OSPI's Time and Effort Reporting Frequently Asked Questions here

Time and Effort Documentation (support for payroll charges to grant)

OSPI's imposed time and effort requirements are more restrictive than the federal requirements. In other words, until further notice, OSPI expects districts to continue to support compensation with semi-annual certifications, monthly PARs, or an approved substitute system**.** Refer to the policy tab for examples and resources.

What is a…?		
	PAR	Semi-Annual Certification
It's a:	Certification for working on multiple activities related to more than one cost/funding objective.	Certification for working only on activities related to one cost/funding objective.
Looks like:	Accounts for total work activity. May have separate PARs for the base and supplemental contracts or have them together. Similar to a timesheet. Identifies the cost objectives.	Done as a list of instructors or for individual instructors. Identifies the cost objectives.
Timely:	Done at least monthly, which must coincide with one or more pay periods.	Done at least twice a year (once every six months).
Actual Time:	Reflect actual time after work is performed.	Reflect actual time after work is performed (they certify this was the actual time to support or adjust the estimated time they've charged in the last six months)

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Signatories:	Signed and dated by the employee. OSPI encourages supervisors with first-hand knowledge to sign the form.	Signed and dated by either employee or supervisor with first-hand knowledge of actual work performed.
Other:	Agrees with any supporting documentation.	

In brief, in most cases, time and effort requirements are:

General Time and Effort Methods

Position	Building Funding Model	OSPI's Requirement*
Admin & Management (e.g. program director) allowable in limited situations	Works at District Office Targeted Assistance Building Schoolwide Building	PAR (e.g. monthly timesheet)
Instructor	Targeted Assistance	PAR (e.g. monthly timesheet)
Instructor	Schoolwide	Semi-annual certification – if they *only* teach at schoolwide buildings and *only* paid from funding sources combined in the schoolwide plan. In this instance, instruction is considered to be single cost objective. (PARs are also allowed but not required.)
Instructor	Schoolwide	PAR (e.g. monthly timesheet) - if they teach part-time at a schoolwide building and part-time at another building. Or, if their base contract is for them to perform part-time instruction and part-time admin/management.

*This is the method used in most cases. However there can be exceptions. If your testing shows they used a contradictory method to this table, inquire with them regarding any exceptions and read OSPI's time and effort Bulletin and FAQ linked in the policy tab.

SCHOOL DISTRICT SUBSTITUTE (I.E. ALTERNATE) TIME DISTRIBUTION SYSTEM PLANS

The use of such alternative or substitute time and effort systems requires the prior approval of OSPI (the plan is submitted to OSPI and retained for audit). Uniform Guidance requires these systems use statistically sound methods whereby time and effort for multiple cost objective staff is allocated to each of the various cost objectives based on a limited, but representative, sample of actual work done. Substitute systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee work. Districts may find such systems to be more efficient than actual daily/monthly time and effort records for employees who do not have fixed schedules and/or appropriately serve different numbers of program eligible students from day to day.

The Department of Education (ED) permits the Office of Superintendent of Public Instruction (OSPI) to implement a substitute time and effort system for employees whose salaries are supported by multiple cost objectives, but who work on a fixed pre-determined schedule. In those cases, a Semi-Annual Certification (certifying the schedule reflects the actual time worked) is completed rather than a Personnel Activity Report (PAR). Districts that wish to implement the substitute system must ensure the system meets the guidelines published by ED, document and retain the system for audit, and then complete and return to OSPI the "Substitute System Fixed Schedule Certification Form" (please note that OSPI does not "approve" the fixed schedule flexibility substitute system, but the district must submit the required certification form). Second, they provided guidance to clarify the meaning of a "single cost objective." The latter has no policy impact on districts, it's merely for the sake of clarification. This published guidance is entitled "Granting Administrative Flexibility for Better Measures of Success". OSPI guidance on the substitute time and effort requirements can be found at: http://www.k12.wa.us/SAFS/TT/TimeEffort.asp

SCHOOL DISTRICT PAYROLL CONTROLS

We have centrally completed testing of the Skyward system regarding its ability to calculate payroll costs and allocate them to federal programs (based on entered parameters). Most districts rely on the system to perform these activities after the parameters are entered. When they do, you should identify and test the following controls for activities allowed:

Payroll costs: grant funds are used only for allowable activities. Starting FY 2017, you **must** identify these controls and rely on work of others for the automated control:

1. General control for allocation of payroll: Identity who creates or edits employee profiles to assign their payroll costs to funding sources (ex. 30% to Title 1, 70% to Basic Ed) and how the district ensures it is correct. This may be the same person who enters the allocation or someone who performs a double-check.

2. Automated control for allocation of payroll: Hyperlink the IT Control Testing - Skyward Payroll Calculation located in the School F196 Perm File here and follow the testing strategy there.

3. Time and Effort: Identify how the entity ensures appropriate time and effort supports payroll costs charged to the program and how they ensure payroll charged to the program is adjusted for changes in actual time worked (if applicable).

Non-payroll costs: grant funds are used only for allowable activities (this may include review of expenditures, program monitoring, preparing the reimbursement requests, establishment of programs);

*This is here as a reminder to include controls for non-payroll costs too (if they are material).

COMPENSATED ABSENCES AND LEAVE CASH-OUTS

If the entity is charging leave cashouts or the accrual of leave to the grant, special rules apply. For the application of any leave cashouts, prior grantor approval is required. Leave should only be applied to the federal award in the same proration as salaries and wages or other equitable rates.

Fringe Benefits - Leave Charged to Grants		
	Cash & Modified Accrual Basis*	Accrual Basis**
Rule	Can only bill for leave actually used/taken.	Bill for the lesser cost of earned/accrued or funded leave liability.
What does that include?	Leave cash-outs at termination or retirement. Limited to: 1. Unused *current* year leave accrual: Can apply as a direct cost in the same proportion salaries/wages are charged to the program. 2. Unused *prior year* leave accrual: Can	"Funded"= a reserve *must* be paid to a *third-party* trustee (or insurer) who maintains a trust fund or reserve for the sole purpose of paying the specific fringe benefit for which the reserve is established. "Accrued"= the dollar value of leave earned by employees each pay period. (individuals' wage rate x hours earned)

	apply indirectly as part of a general admin expense or part of the approved indirect cost plan.	
	Leave taken (paid to employee as part of the normal monthly payroll)	If "funded" = ZERO (e.g. they don't fund leave accruals), costs are recognized when leave is paid.

*Requirements per: 2 CFR 200.431(b), COFAR FAQ https://cfo.gov//wp-content/uploads/2017/08/July2017-UniformGuidanceFrequentlyAskedQuestions.pdf **Requirements per: 200.431(b)(3)(ii)

GENERAL COST PRINCIPLES AFFECTING ALLOWABILITY OF COSTS (2 CFR 200.403)

(a) Be **necessary** and **reasonable** for the performance of the Federal award and be allocable thereto under these principles.

(b) Conform to any **limitations** or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.

(c) Be **consisten**t with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.

(d) Be **accorded consistent treatment**. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

(e) Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.

(f) **Not be included as a cost or used to meet cost sharing or matching requirements** of any other federally-financed program in either the current or a prior period. See also §200.306 Cost sharing or matching paragraph (b).

(g) Be **adequately documented**. See also §§200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.

<u>What is a Reasonable Cost (§200.404)? (cost principles)</u>
A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

Other factors that must be considered in determining whether a cost is reasonable are:

whether the cost is generally considered as ordinary and necessary to the operation of the grantee or the performance of the federal award/program;

the restraints or requirements imposed by such factors as sound business practices, arms-length bargaining, federal, state and other laws and regulations, and terms and conditions of other federal awards, or sponsored agreements;

market prices for comparable goods and services;

whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the grantee, its employees, where applicable its students or membership, the public at large, and the federal government;

whether the grantee significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the federal awards costs.

EXAMPLES:
1.A grantee is planning to purchase computers and printers with federal funds. The purchasing agent obtained phone quotes from three contractors. One contractor has a direct family relationship with the grantee’s purchasing agent. It so happens that this contractor’s quote was 20% higher than the other two. The grantee should not contract with this contractor because the price is unreasonable and has a conflict of interest (regardless of the price).

2. A grantee has been permitted in its grant contract to lease a vehicle so that it can travel within its region to deliver grant-related services to clients. The grantee has obtained quotes for a standard 4-door sedan and a luxury 4-wheel drive SUV that is twice the cost of the sedan. Which vehicle should the grantee choose? This is not to say a 4-wheel drive is not necessary or reasonable, but the price may dictate the type or model of vehicle.

What is an Allocable Cost (§200.405)? (cost principles)
A cost is considered allocable if the goods or services involved are chargeable or assignable to to the federal award or cost objective (i.e., a specific function, project, sponsored agreement, service, or grant) in accordance with the relative benefits received.

Any cost allocable to a particular federal award may not be charged to other federal awardsto overcome fund deficiencies, to avoid restrictions imposed by federal statutes, regulations, or terms and conditions of federal awards, or for other reasons.

If a grantee intends to recover the portion of its indirect costs (overhead, central administration, etc.) that relates to its grant programs, Uniform Guidance requires the grantee to develop a central service cost allocation plan and/or indirect cost rate proposal. Requirements pertaining to central service cost allocation plans and indirect cost proposals are found in Appendix III-VII to Part 200 (Uniform Guidance).

EXAMPLES:
1. An employee works on two different federal grant projects. The time spent on each project varies from day to day. This employee must keep monthly time and effort records that account for actual time spent on each project. By tracking actual effort, each grant will be charged its fair share of the costs.

2. A grantee held a training workshop for its employees. Included in the cost of the workshop was room rental, food, and travel. The workshop included a session that was specific to a federal program and a session that covered general personnel and human effectiveness training. The grantee should allocate the cost of the training among all programs/divisions that benefited from the training. Next, it should charge the allocated amount only to those awards that specifically allow for this type of cost.

Applicable Credits (§200.406) (cost principles)
A “credit” means a receipt or reduction in expenditures that offset or reduce direct or indirect cost items. Examples include:

purchase discounts;
rebates or allowances;
recoveries or indemnities on losses;
insurance refunds or rebates; and
adjustments of overpayments or erroneous charges.

When such credits are applicable to allowable costs, they must be credited to the federal award either as a cost reduction or a cash refund. In some instances, the amounts received from the federal government to finance a grantee's activities or service operations should be treated as applicable credits.

EXAMPLE:

A grantee paid a contractor for materials it needed for a project. It was determined later that the vendor had over-billed the grantee and was issuing a refund check. This refund should be netted against the total amount charged to the grant as a cost reduction. If the grant project had already been closed out, the refund should be remitted to the grantor agency that sponsored the project. Consult with the grantor agency in such a case.

Prior written approval (§200.407) (cost principles)

Under any given Federal award, the reasonableness and allocability of certain items of costs may be difficult to determine. In order to avoid subsequent disallowance or dispute based on unreasonableness or nonallocability, the non-Federal entity may seek the prior written approval of the cognizant agency for indirect costs or the Federal awarding agency in advance of the incurrence of special or unusual costs. Prior written approval should include the timeframe or scope of the agreement. The absence of prior written approval on any element of cost will not, in itself, affect the reasonableness or allocability of that element, unless prior approval is specifically required for allowability as described under certain circumstances in the following sections of this part:

(a) §200.201 Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts, paragraph (b)(5);
(b) §200.306 Cost sharing or matching;
(c) §200.307 Program income;
(d) §200.308 Revision of budget and program plans;
(e) §200.311 Real property;
(f) §200.313 Equipment;
(g) §200.332 Fixed amount subawards;
(h) §200.413 Direct costs, paragraph (c);
(i) §200.430 Compensation—personal services, paragraph (h);
(j) §200.431 Compensation—fringe benefits;
(k) §200.438 Entertainment costs;
(l) §200.439 Equipment and other capital expenditures;
(m) §200.440 Exchange rates;
(n) §200.441 Fines, penalties, damages and other settlements;
(o) §200.442 Fund raising and investment management costs;
(p) §200.445 Goods or services for personal use;
(q) §200.447 Insurance and indemnification;
(r) §200.454 Memberships, subscriptions, and professional activity costs, paragraph (c);
(s) §200.455 Organization costs;
(t) §200.456 Participant support costs;
(u) §200.458 Pre-award costs;
(v) §200.462 Rearrangement and reconversion costs;

(w) §200.467 Selling and marketing costs;
(x) §200.470 Taxes (including Value Added Tax); and
(y) §200.474 Travel costs.

Consistency (2 CFR §200.403(d) (cost principles)
A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

EXAMPLE:
A grantee has five departments. It allocates the cost of its basic telephone service to each department based on the number of telephones in each department. Each department should treat the telephone cost consistently for all grants it administers. That is, if a department has 3 grant programs, that department should treat this telephone cost as either a direct cost or indirect cost for all 3 grants, but not a mix of each. Next, if treated as a direct cost, a department should only request reimbursement for this type of cost if permitted under the terms of its grant agreement(s).

Grant Agreement Limitations (§200.408) (cost principles)
To be allowable, the cost being charged must conform to any limitations or exclusions set forth in the terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

EXAMPLE:
A grantee paid for a television advertisement to promote its new grant-funded health program. However, the approved grant contract limited the cost of advertising to brochures and radio ads. Therefore, the grantee should not include the cost of the television advertisement in its request for reimbursement even though "advertising" is an otherwise allowable cost according to Circular A-87.

Adequate Supporting Documentation (2 CFR §200.403(g) (cost principles)
Amounts charged to federal awards must be supported by source documentation, including:

- payroll reports
- time and attendance records
- invoice vouchers from subrecipients
- receiving reports
- original vendor invoices
- cost allocation plans

(Documentation may be in an electronic form, but make sure the integrity of the electronic documentation can be maintained for the duration of the applicable record retention period).

EXAMPLE:
A grantee made a year-end adjustment to a federal award using a journal voucher entry. The accounting entry must be supported by adequate documentation that demonstrates both allowability and allocability.

SMALL POPULATION – SELECTION SIZE
Policy 3240 contains the following table for determining sample sizes for small populations:

a. For populations of 365 or less, auditors may use the following table:

Population Size	Assurance Needed and/or Expected Deviations		
	Low	**Moderate**	**High**
Formula (rounded up) where N = population size	N * 1 / SQRT(N) * 0.68	N * 1 / SQRT(N)	N * 1 / SQRT(N) / 0.68
4 (quarterly)	2	2	do not sample
12 (monthly)	3	4	5
24 (semi-monthly)	4	5	8
52 (weekly)	5	8	11
260 (business days)	11	17	24
365 (daily)	13	20	28

Use of this table is considered non-statistical sampling. This table should only be used for small populations and <u>not</u> for small strata of larger populations.

ADDITIONAL TESTING SELECTION INFO & EXAMPLES

Selection Options		
Method	Process	Next Steps
Sampling	This is the preferred method for large populations (over 365). Use sampling tool from teammate.	Get the sample tool from Teammate. Take the sampling training if needed.

Haphazard Selection	May use for populations less than 365. Auditor haphazardly picks transactions. It feels random but only true "random" samples can be done by the computer in the sampling method.	Use policy 3240 table in the policy tab to determine minimum selection size (policy tab)
Judgmental Selection	May use for populations less than 365. The auditor has a specific reason, associated with a risk, to pick certain or certain transactions. Explain risks in the ROWD and how transactions not selected are lower risk.	Use policy 3240 table in the policy tab to determine minimum selection size (policy tab). See examples there.
Judgmental Population	First, the auditor has a specific reason, associated with a risk, to pick certain **types** of transactions (judgmental population). Explain risks in the ROWD and how populations not selected are lower risk (you can refer to the testing strategy if we have done this for you already). Next, the auditor selects transaction from the judgmental population using the sampling method above.	Get sample tool from Teammate. Take training for the form if needed.
All quantitatively material transactions	Use **only** when a few very large transactions make up the majority of grant activity. You will test all of these material transactions.	Keep in mind: If 10% or more of the population is made up of *other* types of costs, those transactions should be tested in some way, as well.

DUAL PURPOSE TESTING EXAMPLE
For allowable costs the key control is, "The Business Manager reviews the reimbursement request, reconciling the items requested to invoices to determine they are supported and allowable." You will test it by reperforming the Business Manager's review to determine if it is effective in preventing and detecting noncompliance. You may check the requests to see if they have the Business Manager's signature of approval but that will only tell you if they consistently do it, which is important. However, you should reperfom the control.

To complete compliance testing you are tracing expenditures from the requests to support to determine if they are supported and allowable per the program.

In this case, for testing both controls and compliance you are completing the same process. However, you need to document that you tested both and clearly show the conclusion of each even though they are related. Control testing should conclude whether the control was effective in preventing or detecting noncompliance and compliance testing whether the entity was in compliance.

INDIRECT COST UNDERSTANDING OF RATES/ALLOCATIONS

Columbia County

Overview: There are five general methods used in federal programs to apply indirect costs to the award, as identified in the auditee's agreement.

1. Rate provided by the grantor
2. Required to use the pass-through entity's (PTE's) negotiated indirect cost rate
3. De Minimis Indirect Cost Rate method
4. Negotiated rate or cost allocation plan approved by the cognizant agency
5. Negotiated rate or cost allocation plan approved or accepted by the pass-through entity (PTE)

1. Rate Provided by Grantor: The federal grantor or PTE can give the entity an indirect cost rate in the award, usually outlined in the budget section and based on the availability of funding. There is no separate or formal rate agreement and it is not considered negotiated.

2. Use PTE Negotiated Rate: The federal grantor, PTE or federal guidance can require the entity to use PTE's negotiated indirect cost rate. This requirement can be found in the Compliance Supplement and federal pass-through guidance. The PTE will place the rate in their award with the entity. This is common for school districts.

3. De Minimis Indirect Cost Rate: If the entity elects to use the de minimis rate, a flat 10% (of Modified Total Direct Costs), in their grant application, no direct or pass-through grantor can deny its use so long as the entity qualifies.

Restrictions: The entity can use the method so long as they have **never** had a negotiated indirect cost rate or allocation plan approved by the federal cognizant agency **or** the PTE.

UPDATED GUIDANCE: Federal guidance now clarifies that negotiated rates and allocation plans negotiated by **PTEs** can prevent the use of the de minimis rate.

Consistency: If used, the entity must use the de minimis method for all of their Uniform Guidance federal programs that allow indirect costs.

Rate:Indirect costs are calculated as base costs multiplied by a flat 10% rate that <u>does not</u> require a true-up to actual indirect expenses.

Base Used: The 10% is multiplied by the modified total direct costs (MTDC) base.

MTDC Base	
Includes	Excludes
Direct Salaries & Wages	Equipment & Capital Expenditures
Direct Fringe Benefits	Charges for Patient Care
Materials & Supplies	Participant Support Costs

Services	Rental Costs
Travel	Tuition remission, Scholarships & Fellowships
Up to $25,000 of *each* subaward (regardless of the period of performance)	The potion of each subaward in excess of $25,000

4. Negotiated Rates & Allocation Plans – Cognizant Agency: Only major governments are required to obtain a cognizant agency approved negotiated rate or allocation plan. Smaller governments can opt to do so. The "cognizant agency for indirect costs" is designated as:

For central service cost allocation plans: the federal agency with the largest dollar value of ***total*** federal awards

For indirect cost rates and cost allocation plans: the federal agency with the largest dollar value of ***direct*** federal awards

Once designated, the federal entity remains the cognizant agency for five years. Under this method, the entity will be awarded a formal contract for the rate/allocation. All awarding agencies must accept the rate/allocation plan when the entity elects to use it in their program application.

Various allocation plans can be approved, but there are four types of rates:

1. Provisional: The provisional rate is temporary and expires upon the completion of the federal award. It requires a true-up to actual expenditures by the end of the project or whenever the entity obtains a final rate. The rate is adjusted by using the final rate.

2. Final: The rate is permanent and is calculated after the actual costs are known (i.e. at the conclusion of the federal project). It is used to adjust the indirect costs from the provisional rate.

3. Predetermined: This is a permanent rate and is calculated using actual costs from previous periods. It does not require a true-up to correspond with actual current year costs. The rate is effective between two to five years.

4. Fixed: This is a permanent rate and is calculated using actual costs from previous periods. It requires a true-up to correspond with actual current year costs. The variance between the costs used to create the rate and the actual costs incurred during the year the rate was used is carried-forward as an adjustment to the current rate. The entity will either recover or "pay back" the variance going forward. The rate is effective for two years and then can be annually renewed.

5. Negotiated Rates & Allocation Plans – PTE: Indirect Cost Rate Proposals and Cost Allocation Plans are not required by UG to be submitted to/approved by PTE's, but the PTEs may require it. Usually a formal contract for the rate/allocation is not issued and they just review and/or approve the plan instead. Other pass-through entities are not required accept the rate/allocation plan but they can choose to accept it.

INDIRECT COST COMPLIANCE TESTS – BY TYPE OF RATE/ALLOCATION

Select the testing criteria below that match the entity's method (De Minimis Cost Rate, Federally Negotiated Cost Allocation Plans/Rates and other indirect rates).

Rates Provided in Contract (including PTE's negotiated rate)

Reminder: Use these tests only for those indirect cost rates that are not negotiated. The rate is just provided by the grantor or the entity is required to use someone else's negotiated rate.

1. Rate: *(Pre-UG & UG)*
Select reimbursement requests using the small population table and determine whether the rate used was the one provided in the award contract. They are allowed to charge a smaller rate in most instances.

Alternatively, you can check the project end total direct costs vs. indirect costs to determine if, by the end of the project, the indirect cost proportion was the same as the rate provided in the award contract.

2. Base & Calculation: *(Pre-UG & UG)*
If the contract requires the awardee to use a modified base, such as certain direct costs have to be excluded, use your selection from test #1 and determine whether the appropriate base was used.

De Minimis Indirect Cost Rate – UG only

1. Restrictions: *(UG only)*
Determine if the entity is allowed to use the method. You are only required to check that they have not had a negotiated rate for the three fiscal years before the current audit period. The auditor may want to record this information in the FAWF for the future.

2. Consistency: *(UG only)*
Inquire with the grant managers throughout the entity, including at other departments if applicable, to determine if they use the de minimis method for all UG awards that include indirect costs.

3. Base & Calculation: *(UG only)*
Select reimbursement requests using the small population table and determine if the items included in the MTDC were allowable per the Uniform Guidance requirements in the Understanding section.

Negotiated Rates & Allocation Plans – from Federal Cognizant Agency

1. Rate: *(Pre-UG & UG)*
Obtain and read the indirect cost rate agreement (ICRA) in effect during the audit period that was **approved** by the cognizant agency.

Select reimbursement requests using the small population table and determine whether the rate used was the one from the approved ICRA.

2. Base & Calculation: *(Pre-UG & UG)*
Determine if the cost base used was appropriate, such as:

- it includes only the types of costs mentioned in the ICRA,
- the costs were related to the program (allowable and meet the cost principles),
- the costs included are consistently treated in the current year as they were in the base year (e.g. the allocation base is total direct costs, verify that the audit year direct costs do not include items that were treated as indirect costs in the base year, as documented in the rate agreement), etc.

3. Provisional Rate: *(Pre-UG & UG)*
If the entity had a **provisional rate**, determined if the amount was trued-up accurately per supported actual costs through the final rate at the end of the project (as applicable depending on the period covered by audit.)

4. Fixed Rate: *(Pre-UG & UG)*
If the entity had a **fixed rate**, determine if the rate was trued-up on the required timeline, the true-up is accurate per supported actual costs, and the carry-forward is properly calculated.

Negotiated Rates & Allocation Plans – from Pass-Through Entity

1. Rate: *(Pre-UG & UG)*
Obtain and read the rate/allocation proposal in effect during the audit period that was **approved** by a pass-through entity. Select reimbursement requests using the small population table and determine whether the rate used was the one from the approved rate/allocation proposal.

2. Base & Calculation: *(Pre-UG & UG)*
Determine if the cost base used was appropriate, such as:

- it includes only the types of costs mentioned in the approved proposal,
- the costs were related to the program (allowable and meet the cost principles),
- the costs included are consistently treated in the current year as they were in the base year (e.g. the allocation base is total direct costs, verify that the audit year direct costs do not include items that were treated as indirect costs in the base year, as documented in the rate agreement), etc.

INDIRECT COST TESTS – INDIRECT COST RATE PROPOSAL SPECIAL TESTS *(UG Only)*

Reminder: If the entity is preparing an ICRP *during* the audit period to submit it to the *federal cognizant agency or its designee*, we are required to review the accuracy of the base data and calculations. The Compliance Supplement does not require this test for indirect cost rate/allocation plans negotiated with pass-through agencies.

Interim Testing: If the audit is completed before the ICRP is completed, consider performing interim testing the cost pools and allocation bases and complete the testing in the next year's audit. For audit exceptions from interim testing, corrective action may be taken earlier to minimize questioned costs in the completed testing.

(a) Plan Elements: Verify that the ICRP includes these required elements:

Rates proposed	Required certification statement.
Subsidiary worksheets and other doc. reconciled and cross-referenced to financial data that support proposed rates.	Approx. amount of direct costs related to federal awards. Show salaries/wages separate from other direct costs.
Copy of financial data (annual reports, budgets, etc.) on which the rates are based.	Organizational structure chart, identifying duties or all agency units.

*Refer to the next section in the policy tab below additional detail.

(b) Indirect Cost Pool - Exclusions: Determine if these unallowable costs were excluded from the indirect cost pool:

Indirect Cost Pool
Costs Exclude
Capital expenditures
General government costs not allocable to federal awards
Unallowable per law or regulation
Unallowable per the Cost Principles and 2 CFR 200.420
Unallowable per terms/conditions of the federal award

(c) Indirect Cost Pool – Changes: Identify significant changes in expense categories between the prior ICRP and the current ICRP. Test a sample of transactions to verify the allowability of the costs.

(d) Indirect Cost Pool – Central Service: Trace the central service costs in the indirect cost pool to the approved State/local government or central service cost allocation plan, or to plans on file when the entity is not required to include the plan in their ICRP.

(e) Direct Cost Base – Allocability: (1) Determine that the proposed direct cost base(s) include all activities that benefit from the indirect costs being allocated.

(f) Direct Cost Base – Exp. Other than Salaries/Wages: If the base is not limited to direct salaries /wages, determine that distorting items are excluded from the base:

Direct Cost Base	
Distorting Items	
Capital expenditures	
Charges for patient care	
Participant Support Costs	
Rental Costs	
Tuition remission, Scholarships & Fellowships	
The potion of each subaward in excess of $25,000	
General government costs not allocable to federal awards	
Unallowable per law or regulation	*However*, unallowable costs must be included if they represent activities to which indirect costs are properly allocable.
Unallowable per the Cost Principles and 2 CFR 200.420	
Unallowable per terms/conditions of the federal award	

(g) Direct Cost Base – Relatable Base: Determine the appropriateness of the allocation base (e.g., salaries and wages, modified total direct costs). The base should be relatable to the indirect costs being allocated.

(h) Payroll Records: Examine employee compensation records to determine if:

1. payroll records are accurate (2 CFR 200.430),
2. salaries/wages are allowable
3. salaries/wages are properly allocated in the plan to the activities to which they were charged (paid from).

(i) Multiple Allocation Base Method: If the ICRP was prepared using the multiple allocation base method, test statistical data (e.g., square footage, audit hours, salaries and wages) to determine if the proposed allocation or rate bases are reasonable, updated as necessary, and do not contain any material omissions.

INDIRECT COSTS – DETAIL OF ICRP ELEMENTS
The elements are outline in 2 CFR 200 Appendix VII, Paragraph D:

"2. Documentation of Proposals - The following must be included with each indirect cost proposal:

a. The rates proposed, including subsidiary work sheets and other relevant data, cross referenced and reconciled to the financial data noted in subsection b. Allocated central service costs will be supported by the summary table included in the approved central service cost allocation plan. This summary table is not required to be submitted with the indirect cost proposal if the central service cost allocation plan for the same fiscal year has been approved by the cognizant agency for indirect costs and is available to the funding agency.

b. A copy of the financial data (financial statements, comprehensive annual financial report, executive budgets, accounting reports, etc.) upon which the rate is based. Adjustments resulting from the use of unaudited data will be recognized, where appropriate, by the Federal cognizant agency for indirect costs in a subsequent proposal.

c. The approximate amount of direct base costs incurred under Federal awards. These costs should be broken out between salaries and wages and other direct costs.

d. A chart showing the organizational structure of the agency during the period for which the proposal applies, along with a functional statement(s) noting the duties and/or responsibilities of all units that comprise the agency. (Once this is submitted, only revisions need be submitted with subsequent proposals.)

3. Required certification - Each indirect cost rate proposal must be accompanied by a certification in the following form:

Certificate of Indirect Costs
This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

(1) All costs included in this proposal [identify date] to establish billing or final indirect costs rates for [identify period covered by rate] are allowable in accordance with the requirements of the Federal award(s) to which they apply and the provisions of this Part. Unallowable costs have been adjusted for in allocating costs as indicated in the indirect cost proposal

(2) All costs included in this proposal are properly allocable to Federal awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government will be notified of any accounting changes that would affect the predetermined rate.

I declare that the foregoing is true and correct…[signatures]"

PERIOD OF PERFORMANCE
Definition of obligation: an obligation is not necessarily a liability in accordance with GAAP. When an obligation occurs (is made) depends on the type of property or services that the obligation is for (34 CFR section 76.707 – see for table demonstrating obligations).

IF AN OBLIGATION IS FOR --	THE OBLIGATION IS MADE --
(a)Acquisition of real or personal property.	On the date on which the State or subgrantee makes a binding written commitment to acquire the property.
(b)Personal services by an employee of the State or subgrantee.	When the services are performed.
(c)Personal services by a contractor who is not an employee of the State or subgrantee.	On the date on which the State or subgrantee makes a binding written commitment to obtain the services.
(d)Performance of work other than personal services.	On the date on which the State or subgrantee makes a binding written commitment to obtain the work.
(e)Public utility services.	When the State or subgrantee receives the services.
(f)Travel.	When the travel is taken.
(g)Rental of real or personal property.	When the State or subgrantee uses the property.
(h)A pre-award cost that was properly approved by the State under the cost principles.	On the first day of the subgrant period.

Record of Work Done:

Inherent Risk of Noncompliance
In accordance with AU-C sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Understanding of Internal Controls
In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring). See the Permanent File folder for additional documentation of our overall COSO evaluation.

ACTIVITIES ALLOWED / ALLOWABLE COSTS

Key Personnel:
Andrew Woods, County Engineer
Robert Yates, Engineering Tech (Contract Administrator/Project Manager)
Lisa Ronnberg, Accounting/Business Manager

Engineering Staff and Contractors meet to review the progress of the project, agree on the amount to pay for each item, and agree on the percentage of work complete. The Engineering Staff uses inspection reports, quantity tickets, and other documentation to determine the majority of the line items. The County Engineer prepares and reviews the progress estimates.

To make contractor payments, PW staff create a pay item report. The pay item report includes any calculations made to determine a quantity or the weight tickets. The pay notes are then reviewed by the county engineer. Once a pay note is approved, the pay item and quantity are added to the next progress estimate. The progress estimate is then reviewed and signed by the contractor and the county engineer (or their designee). **The County Engineer reviews the progress estimate to ensure all charges are allowable per the program and project specifications.**

Progress estimates are sent to the Contractor for signature. Once signed by the Contractor, the progress estimate is signed by the County's preparer and County Engineer. Once the County Engineer has approved the pay estimate, it is sent to the Accounting/Business Manager for disbursement. Lisa Ronnberg, Accounting/Business Manager codes the pay estimate and processes it for disbursement. She reviews expenditures to ensure they are appropriately charged and documented in program reports and accounting records.

For projects completed by County Road staff, timesheets include project codes and hours worked for each code. Timesheets are submitted to the Operations Supervisor (for local crew) or County Engineer (for office staff, like the Engineering Tech) on a weekly basis who reviews them for reasonableness. Because they assigns the jobs, they are able to determine if project codes and hours worked appear to be correct. Once the Operations Supervisor/County Engineer completes their review, they approve and submit the timesheets to Lisa for processing. Lisa enters hours worked for each project on an Excel payroll spreadsheet. The spreadsheet has each employees wages and is designed similarly to a timesheet as it includes daily hours worked. She then sorts the spreadsheet by project code and account code.

The payroll spreadsheet generates a Summary Sheet, which lists amounts for each account code. The Summary Sheet and support is submitted to the County Auditor for processing. Lisa sorts the spreadsheet by project code and account code, and enters hours into CAMS, the County Road's project accounting system. **Lisa reconciles the amounts from CAMS to the Summary Sheet of the payroll spreadsheet by code. Lisa ties the account code amounts from the Summary Sheet to CAMS.**

Amounts reported in CAMS are used to generate grant reimbursement request claims.

Please note: Public Works does not charge indirect costs to their grants.

Key Controls:
Every one or two months, when the General Contractor prepares it, the County Engineer reviews the progress estimate to ensure all charges are allowable per the program and project specifications. The project estimate includes all activities performed and materials purchased by the General Contractor to date, which Public Works uses as an invoice for making payments to the General Contractor. Every week, the County Engineer reviews employees' weekly timesheets to ensure that the employee time to be charged to each grant is accurate and allowable. He signs the timesheets to indicate approval. Once approved, payroll can be processed.

Evaluation of Results:
Did you identify any control deficiencies? **No.**

<u>Preliminary Control Risk Assessment</u>
Based on our understanding of key internal controls, we assess preliminary control risk at:
Activities Allowed & Cost Principles LOW
Period of Performance N/A

<u>Internal Control Testing</u>
ACTIVITIES ALLOWED / ALLOWABLE COSTS

The County Engineer reviews the progress estimate to ensure all charges are allowable per the program and project specifications.
We obtained the project files for the Tucannon Road Phase 3 and Bridge Inspection projects, which included contracts, reimbursement requests,

and various forms of supporting documentation. We reviewed the project files and tested all three of the progress estimates (100%) to determine if they were reviewed and charges were allowable per the program and project specifications. Please note that the Bridge Inspections project did not have pay estimates due to the nature of the project (they hire a contractor to perform bridge inspections). We noted that the expenses charged to the program were allowable. In addition, we noted tic marks and signatures indicating review.

See testing at Grant Reimbursement Testing under Control attributes C and D.

Based on our review, this control appears to be in place and working as intended.

Every week, the County Engineer reviews employees' weekly timesheets to ensure that the employee time to be charged to each grant is accurate and allowable. He signs the timesheets to indicate approval. Once approved, payroll can be processed.
We judgementally selected to review October payroll for the projects because October had the highest payroll charged to the project ($14,394). We obtained October 2017 timesheets of employees that had payroll charged to the Tucannon Road or Bridge Inspections projects, along with the CAMS report and payroll summary sheet, which is used by the Accounting/Business Manager for processing payroll. We noted that the timesheets were signed by the County Engineer, indicating approval. We also noted that the number of hours coded to our chosen projects (via the timesheets) appeared reasonable in comparison with how much the employees were paid from the project code. In the table below, we tested to see if the staff that charged payroll to the project were reasonable based on their position. We reviewed all staff with work coded to the Tucannon Road and Bridge Inspections projects in October 2017.

Project	Employee Names	Employee Title	Payroll	Amount	CAMS report match payroll summary?	Is this Payroll Allowable?	Is the Activities Allowed/Allowable Costs control in place and working?
Tucannon Road Phase 3 PWP 07-02	Andrew Woods	County Engineer	October 2017	$1,105.27	-	Yes	Yes
"	Lara Francesco	PW Operator	October 2017	$256.73	-	Yes	Yes
"	Lisa Ronnberg	Business Manager	October 2017	$291.33	-	Yes	Yes
"	Eian Ray	GIS Tech	October 2017	$349.88	-	Yes	Yes
"	Robert Yates	Engineering Tech	October 2017	$2,362.01 + $1,301.11	-	Yes	Yes

"	Jeff McCowen	Engineering Tech	October 2017	$3,723.58	-	Yes	Yes
			Total	**$9,389.91**	**Yes**	**Yes**	Yes
Bridge Inspections PWP 16-70	Robert Yates	Engineering Tech	October 2017	$480.41	-	Yes	Yes
"	Amber Phinney	Assistant Business Mgr	October 2017	$10.20	-	Yes	Yes
			Total	**$490.60**	**Yes**	**Yes**	Yes

Based on our review, this control appears to be in place and working.

Evaluation of Results:
Did you identify any control deficiencies? **No.**

Final Control Risk Assessment
We assess final control risk at:
Activities Allowed & Cost Principles LOW
Period of Performance N/A

Risk of Material Noncompliance
We assess the risk of material noncompliance at:
Activities Allowed & Cost Principles LOW
Period of Performance N/A

Compliance Testing
A. Direct Costs
Determine the method for how transactions are to be selected for testing. Options include, with details in the policy tab:

1. Sampling
2. Haphazard Selection
3. Judgmental Selection
4. Judgmental Population
5. All quantitatively material transactions

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Reminders:

- Do not ignore types of costs that exceed 10% of the program, individually or in aggregate. These types of costs may have different control systems. See policy tab for example considerations if you are not familiar with this requirement.
    - Not required if you use the sampling or judgmental population methods.
- Consider expanding testing if errors are identified. It may not be necessary if sampling is used since it can extrapolate errors.
- Be alert for federal expenditures that were transferred from state or local program. Transferred costs may not have met federal requirements (adequate support, federal procurement, period of performance, not allowable, etc.).

1. Selected Expenditures: ***(Pre-UG & UG)***
Test selected expenditures for compliance with the activities allowed and the cost principles using the A-B Expenditure Testing spreadsheet. All of the attributes are included on the spreadsheet. Use the cell comments for additional guidance on each requirement.

We haphazardly selected grant expenditures from an Expenditure Report (Invoice Distribution) provided by Lisa Ronnberg in PW to test for compliance with the activities allowed and the cost principles requirements. We had two populations (one for each project selected), and used the SA Sampling spreadsheet from TeamMate to determine our required sample size and summaraized our results here (see at SA Sampling). We also selected individually significant items for testing. We used the A-B Expenditure Testing spreadsheet in TeamMate to perform our testing. See details on populations, sample sizes, and materiality below:

Tucannon Bridge Phase 3 | PWP 07-02

- Population Size - 51 line items
- Assurance Needed - High
- Compliance Failure Rate - 10%
- Sample Size - 11 line items
- Total Population Amount - $798,758 (Total expenditures less matching)
- Materiality - $157,503
- Individually Significant Items - 3

Bridge Inspections | PWP 16-70

- Population Size - 29 line items
- Assurance Needed - High
- Compliance Failure Rate - 10%
- Sample Size - 8 line items

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- Total Population Amount - $52,992 (total expenditures less matching) Materiality - $6,157
- Individually Significant Items - 4

See testing at A-B Expenditure Testing - Tucannon Road Project and A-B Expenditure Testing - Bridge Inspections.

Based on our testing, it appears the County is in compliance with Activities Allowed and Cost Principles requirements. No issues noted.

2. Applicable Credits: ***(Pre-UG & UG)***
Inquire with the grant or program coordinators, review financial reports or other activities to identify credit transactions (refunds, reimbursements, discounts, liquidated damages, etc.). Select some credits and determine if they reduced program costs for reimbursement (i.e. reduced a subsequent billing) or repaid the amount to the grantor since the credit must be passed along.

We obtained and reviewed the Expenditure Report (Invoice Distribution) and noted one credit transactions on May 2017 payroll where the payroll was charged and then taken out, resulting in a net effect of zero. We spoke with Lisa Ronnberg about the transaction, and she explained that the Engineer accidentally put in the wrong code on his timesheet in April 2017. They realized this and corrected it in May 2017. This all occurred in the middle of their billing quarter, so by the time the reimbursement request form was filled out, the eligible expenses had already been corrected.

Based on our review, it appears the County is in compliance with applicable credits requirements.

3. Impact of improper payments or unallowable costs ***(Pre-UG & UG)***
The auditor *should* consider the impact errors would have for "directly associated costs." Directly associated costs are incurred solely as a result of incurring another cost and would not have been incurred if the other cost had not happened.

> **Example: fringe benefits are "directly associated" with payroll costs. When an unallowable cost is incurred, directly associated costs are also unallowable.**

Not applicable. No improper payments or unallowable costs occurred, based on our testing.

B. Indirect Costs
Required: You must test if indirect costs are at least 10% of the federal expenditures during the audit period.

Not applicable. Based on our review of the expenditures, none of the projects reviewed charged indirect costs to the grants. We also spoke with Lisa Ronnberg who explained that PW does not charge indirect costs to their grants.

1. Method: Select the testing strategy in the policy tab that matches the entity's method.

   Rates Provided in Contract (including PTE's negotiated rate)

   Minimis Indirect Cost Rate

   Negotiated Rates & Allocation Plans – from Federal Cognizant Agency

   Negotiated Rates & Allocation Plans – from Pass-Through Entity

2. Impact of improper payments or unallowable costs *(Pre-UG & UG)*
The auditor *should* consider the impact indirect cost errors would have for "directly associated costs." Directly associated costs are incurred solely as a result of incurring another cost and would not have been incurred if the other cost had not happened.

3. Special Audit Procedures for Indirect Cost Rate Proposals (ICRP): *(UG only)*
   Reminder: If the entity is preparing an ICRP *during* the audit period to submit it to the *federal cognizant agency or its designee*, we are required to review the accuracy of the base data and calculations. The Compliance Supplement does not require this test for indirect cost rate/allocation plans negotiated with pass-through agencies.

   Interim Testing: If the audit is completed before the ICRP is completed, consider performing interim testing the cost pools and allocation bases and complete the testing in the next year's audit. For audit exceptions from interim testing, corrective action may be taken earlier to minimize questioned costs in the completed testing.

   Tests: If this situation applies to you, use the testing strategy in the policy tab.

D. Period of Performance/Availability

1. Awards with a performance period beginning during the audit period *(Pre-UG & UG)*

Test transactions for costs recorded before or at the beginning date of the period of performance and verify that the costs were not incurred prior to the start of the period of performance unless authorized by the grantor in writing.

Not applicable. The award performance period for both projects selected began prior to the audit period.

2. Awards with performance period ending dates during the audit period: *(Pre-UG & UG)*

Test transactions charged to the grant during <u>the latter part and after the period of performance</u> to verify that the costs had been incurred/obligated within the period of performance and paid within the allowable liquidation period.

Not applicable. The award performance period ending date for both projects selected is scheduled to occur after the audit period.

3. Adjustments and transfers: *(Pre-UG & UG)*

If there are adjustments (e.g., year-end journal entries) that add expenses to the federal award, test adjustments and verify that these adjustments only added transactions that occurred during the period of performance.

We inquired with Lisa Ronnberg regarding any adjustments that would add expenses to the federal award. She stated that no adjustments are made to the grant projects. We did not notice any adjustments in our review of expenditures/reimbursements.

Evaluation of Results:
Did you identify any noncompliance? **No.**

<u>E.2.PRG - Highway Planning and Construction Grant</u>

Procedure Step: C. Cash Management

Prepared By: MDR, 8/13/2018

Reviewed By: DHO, 8/21/2018

Purpose/Conclusion:

<u>Purpose:</u>
To determine if internal controls provide reasonable assurance that 1) cash management and 2) applicable reporting requirements are met and to test compliance with those requirements.

Conclusion:
We determined that internal controls provide reasonable assurance that 1) cash management and 2) applicable reporting requirements are met, and tested compliance with those requirements with no issues noted.

Testing Strategy:

This testing strategy combines Pre-Uniform Guidance and Uniform Guidance (UG) requirements. Each compliance test in Step 8 will identify the guidance it relates to.

Perform the following steps:
1. Read and gather information.
2. Assess inherent risk (IR).
3. Gain an understanding of internal controls.
4. Assess preliminary control risk (CR).
5. Test internal controls.
6. Assess final control risk (CR).
7. Assess the risk of material noncompliance (combined IR and CR).
8. Test for compliance with the requirement.

Step 1: Read and Gather Information

A. CASH ADVANCE – Some programs allow the grantee to draw down funding before program expenses are incurred or paid. The requests the auditee submits to their grantor should identify it as an advance request. The entity must:

(1) Create and maintain written policies that address how it will comply with the cash advance requirements (UG only). The auditor does not need to determine whether the written procedures are sufficient. Sufficiency is up to the interpretation of the grantee unless the awarding agency has provided guidance.

(2) Disburses the grant funding as soon as possible after it is received;

(3) Limits its cash advance requests to its immediate needs; and

(4) Tracks interest earned from cash advances. They must remit interest earned over $100 for Pre-UG and over $500 for UG.

B. COST REIMBURSEMENT – This occurs when the grantee incurs costs before the federal funds are received. Either situation could occur (even for the same program, transaction by transaction):

1. Costs are incurred but **not** paid before federal funds are received (like a cash advance): The entity is supposed to be using the reimbursement method but one or all of the costs in a request constitute an advance. For example, a grantee orders supplies but does

not pay the vendor until after it submits a reimbursement request and receives the federal funds. The grantee is essentially receiving a cash advance. Thus, the grantee could potentially be maintaining an excess cash balance and earning interest.

The same could be applied if the entity collects an improper payment or later receives a rebate, discount, refund on returned items, etc. that they keep – as an advance – rather than returning the funds to the grantor if the cost had already been reimbursed.

Use your auditor judgement and grantor requirements (if any) to determine if the delay in disbursement is reasonable. OSPI allows a delay of 3 business days after the funds are received.

2. Costs are incurred **and** paid before federal funds are received: This is a true cost reimbursement. The auditor should focus on the entity's controls that ensure they only request transactions that they have already paid and whether they are in compliance.

Step 2: Assess Inherent Risk (IR)
See steps to assess inherent risk in the Single Audit Planning Guide.

Step 3: Gain an Understanding of Internal Controls
Key controls are those effective in preventing and detecting noncompliance. Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

Cash Advances
(1) The grantee established written procedures to minimize the time between receipt and disbursement of funds and ensures those procedures are up-to-date with federal requirements in subsequent years. *(UG)*

(1) Funds are disbursed as soon as possible after it is received *(Pre-UG & UG)*

(2) Limiting its cash advance requests to its immediate needs *(Pre-UG & UG)*

(3) Tracking interest earned from cash advances and remitting any interest over the applicable threshold to the grantor. *(Pre-UG & UG)*

Cost Reimbursement (incurred but *not* paid before reimbursed)
(1) Funds are disbursed as soon as possible after it is received *(Pre-UG & UG)*

(2) Limiting its cash advance requests to its immediate needs *(Pre-UG & UG)*

(3) Tracking interest earned from cash advances and remitting any interest over the applicable threshold to the grantor. *(Pre-UG & UG)*

Cost Reimbursement (incurred *and* paid before reimbursed – true reimbursement)
(1) the grantee ensures it only requests costs that have been paid.
Example control: the person responsible for creating the reimbursement request includes only costs paid based upon their tracking spreadsheet, because they generate a report for only costs that have been paid, or generate detailed transaction reports and include items based on the date paid.

***Note**: If the auditee usually maintains a true cost reimbursement but has some transactions (occasionally or as special situations) that are incurred but not paid before reimbursement, document and test controls in both sections.

Step 4: Assess Preliminary Control Risk (CR)
Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as **"low"** when:
(1) there is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or

(2) the auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Deficiencies Identified: Use the decision matrix in the "Major Federal Program" spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).

Step 5: Test Internal Controls
If preliminary control risk is:
LOW: test the key internal controls to determine whether they are effective in preventing and detecting noncompliance with the requirement.

HIGH: do not test the controls. Complete a level of reporting (LOR) form to report a "significant deficiency" or "material weakness."
Examples: Refer to the Single Audit Planning Guide for suggestions and examples of control testing.
Dual Purpose Testing: Consider whether the control can be tested in conjunction with a test of compliance to increase audit efficiency. If dual-purpose testing is performed, you must clearly document separately the results of control tests and compliance tests. See the policy tab for an example.

Automated Controls: If a key control is automated, control testing must include testing of both the automated control and related general controls. *See additional information in the planning guide.*

Deficiencies Identified: Use the decision matrix in the "Major Federal Program" spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).

Step 6: Assess Final Control Risk (CR)

LOW: No significant deficiencies or material weaknesses identified. *If your compliance testing in Step 8 finds non-compliance, you must reassess the final control risk here to determine if non-compliance is the result of a control failure.*

HIGH: Complete a level of reporting (LOR) form to report a "significant deficiency" or "material weakness."

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Step 7: Assess the Risk of Material Non-Compliance (IR and CR)
The risk is based on auditor judgment in consideration of the inherent risk and control risk. Use the planning guide to assess risk.

LOW

MODERATE

HIGH: Does not result in a finding. But the auditor should consider the risk when designing the nature and extent of compliance testing.

Step 8: Test Compliance

A. Cash Advance Method

1. Advance Requests: *(Pre-UG & UG)*
Select cash draws occurring during the audit period and verify that the auditee:

(1) minimized the time elapsing between the drawdown and disbursement of funds in accordance with program guidelines

(2) limited the amount of its cash request to its immediate needs, and

(3) accounted for and expended program income, rebates, refunds, and other receipts before requesting additional cash draws. Advances could also take the form of payments to the entity that exceed the grant-related costs incurred.

2. Interest: *(Pre-UG & UG)*
Determine whether the entity tracked or calculated interest on their advances. Amounts over the threshold ($100 Pre-UG and $500 UG) should be

remitted to the grantor.

If the entity did not identify or track interest, use auditor judgement to evaluate if it could have likely exceeded the threshold (average interest rate, length of time funds were held, amount of funds, etc.). This also indicates a control deficiency.

B. Cost Reimbursement Method

NOTE: When appropriate and applicable, take credit here for any applicable testing done to substantiate the SEFA during single audit planning.

1. Reimbursement: *(Pre-UG & UG)*

If awards are funded on a true reimbursement basis **(costs are incurred and paid before federal funds are received)** select an appropriate number of reimbursement requests (use Policy 3240 in the policy tab) and trace expenditures to supporting documentation. Determine if the transactions of the request were paid by the auditee before the date they were submitted for reimbursement.

2. Pseudo-Advances: *(Pre-UG & UG)*

a. If during your testing in #1 or control understanding you find the *reimbursement* program received advances of Federal funds **(costs are incurred but not paid before federal reimbursement),** select these advances and verify that the entity minimized the time elapsing between drawdown and disbursement. For schools, the delay is limited to three days.

b. Determine if interest was earned on Federal cash draws. The entity should track or calculate it. (Control deficiency if they do nothing.) If interest earned was over $500 (or $100 for pre-UG awards), determine if the excess was returned to the appropriate agency.

Evaluate the results.

Policy/Standards:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

SMALL POPULATION – SELECTION SIZE

Policy 3240 contains the following table for determining sample sizes for small populations:

a. For populations of 365 or less, auditors may use the following table:

Population Size	Assurance Needed and/or Expected Deviations		
	Low	Moderate	High
Formula (rounded up) where N = population size	N * 1 / SQRT(N) * 0.68	N * 1 / SQRT(N)	N * 1 / SQRT(N) / 0.68
4 (quarterly)	2	2	do not sample
12 (monthly)	3	4	5
24 (semi-monthly)	4	5	8
52 (weekly)	5	8	11
260 (business days)	11	17	24
365 (daily)	13	20	28

Use of this table is considered non-statistical sampling. This table should only be used for small populations and not for small strata of larger populations.

Record of Work Done:

Inherent Risk of Noncompliance
In accordance with AU-C sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Understanding of Internal Controls
In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring). See the Permanent File folder for additional documentation of our overall COSO evaluation.

Key Personnel:
Lisa Ronnberg, Accounting/Business Manager
Amber Phinney, Assistant Business Manager
Andrew Wood, County Engineer

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We met with Lisa Ronneberg, Accounting/Business Manager regarding the control processes over cash management. Based on our discussion we have documented the following controls and procedures:

The County receives invoices for projects, which are approved by the appropriate county staff, and then forwarded for processing. The Assistant Business Manager enters the invoices in CAMS (accounting) system for payment and includes the project number the invoice relates to.

All project vouchers are approved by the Accounting/Business Manager, and then the County Engineer or Assistant County Engineer. The BoCC does a final approval. Once BoCC approval has taken place, the Auditor's Office processes payment to the vendor and stamps the voucher with a number and a date. The original is sent back to PW for short-term retainment and the voucher number and date are entered into CAMS by Lisa Ronnberg. PW sends the original vouchers back after approximately 4 months, and the Auditor's Office retains them long-term.

At the end of each month, the Accounting/Business Manager runs a project report from CAMS for all items paid for each project and enters the information in her project spreadsheets. At the end of each quarter, the Accounting/Business Manager runs another project report to ensure that all invoices for that project have been included in the project spreadsheets. The Accounting/Business Manager then uses the project spreadsheets to create the requests for reimbursement on the projects that are billed each quarter.

When Lisa runs her Expenditure/Invoice Report, she runs it by warrant number and project, so she knows it has been paid.

The Accounting/Business Manager creates the reimbursement request quarterly based on her spreadsheet (which is an accumulation of CAMS reports of paid invoices/payroll). The spreadsheet indicates the expenditures already paid, and she ensures she requests reimbursement for costs already paid. The Accounting/Business Manager keeps a copy of the reimbursement requests, the project spreadsheets, and a print out from CAMS in the individual project binders for documentation.

Key Control:
The Accounting/Business Manager creates the reimbursement request quarterly based on her spreadsheet (which is an accumulation of CAMS reports of paid invoices/payroll). The spreadsheet indicates the expenditures already paid, and she ensures she requests reimbursement for costs already paid. How often does she perform this review? What about paid payroll? We only include invoices.

Evaluation of Results:
Did you identify any control deficiencies? **No.**

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Preliminary Control Risk Assessment
Based on our understanding of key internal controls, we assess preliminary control risk at LOW.

Internal Control Testing
The Accounting/Business Manager creates the reimbursement request quarterly based on her spreadsheet (which is an accumulation of CAMS reports of paid invoices/payroll). The spreadsheet indicates the expenditures already paid, and she ensures she requests reimbursement for costs already paid.

During our SEFA Vouch, we reviewed all FY17 reimbursement requests for the Tucannon Road Phase 3 and Bridge Inspections projects. We noted the County Engineer/PW Director's signature and date on the request for reimbursement. Attached was a spreadsheet kept by the Accounting/Business Manager that listed expenditures by month, listing invoice amounts, month totals, and year to date totals. The Accounting/Business Manager also includes the warrant numbers (sometimes numerals, sometimes text) used to pay the expenses to indicate that the expenditures that are being requested for reimbursement have been paid by prior to the request. There is also a detail report by project from the Public Works accounting system (CAMS) attached that the Accounting/Business Manager uses to populate the spreadsheet. We noted that the individual invoice amounts on the detail report by project are highlighted and match what is listed in the spreadsheet.

See our testing at Grant Reimbursement Testing under control atributes A and B.
Based on our review, the control is in place and functioning as intended.

Evaluation of Results:
Did you identify any control deficiencies? **No.**

Final Control Risk Assessment
We assess final control risk at LOW.

Risk of Material Noncompliance
We assess the risk of material noncompliance at LOW.

Compliance Testing
A. Cash Advance Method
1. Advance Requests: *(Pre-UG & UG)*
Select cash draws occurring during the audit period and verify that the auditee:

(1) minimized the time elapsing between the drawdown and disbursement of funds in accordance with program guidelines

(2) limited the amount of its cash request to its immediate needs, and

(3) accounted for and expended program income, rebates, refunds, and other receipts before requesting additional cash draws. Advances could also take the form of payments to the entity that exceed the grant-related costs incurred.

Not applicable. The County uses the True Reimbursement method.

2. Interest: *(Pre-UG & UG)*
Determine whether the entity tracked or calculated interest on their advances. Amounts over the threshold ($100 Pre-UG and $500 UG) should be remitted to the grantor.

If the entity did not identify or track interest, use auditor judgement to evaluate if it could have likely exceeded the threshold (average interest rate, length of time funds were held, amount of funds, etc.). This also indicates a control deficiency.

Not applicable. The County uses the True Reimbursement method.

B. Cost Reimbursement Method

NOTE: When appropriate and applicable, take credit here for any applicable testing done to substantiate the SEFA during single audit planning.

1. Reimbursement: *(Pre-UG & UG)*
If awards are funded on a true reimbursement basis (costs are incurred and paid before federal funds are received) select an appropriate number of reimbursement requests (use Policy 3240 in the policy tab) and trace expenditures to supporting documentation. Determine if the transactions of the request were paid by the auditee before the date they were submitted for reimbursement.

During our SEFA vouch, we selected and traced expenditures from all FY17 reimbursement requests to the Expenditure Reports via CAMS (for both of our selected grant projects). The invoices are entered into CAMS, sent for approval by the BoCC, and paid immediately by the Auditor's Office. The payroll expenditures are sent to the Auditor's Office and processed immediately. The reimbursement forms are filled out the month following the expenditures, ensuring that all expenditures reported via CAMS have already been paid. Further, when Lisa runs her Expenditure/Invoice Report, she runs it by warrant number and project, so she knows it has been paid.

The transactions of the reimbursement request were paid by the County before the date they were submitted for reimbursement. No issues noted.

See our testing at Grant Reimbursement Testingunder compliance testing atribute A.

2. <u>Pseudo-Advances</u>: *(Pre-UG & UG)*
a. If during your testing in #1 or control understanding you find the *reimbursement* program received advances of Federal funds (costs are incurred but <u>not paid</u> before federal reimbursement), select these advances and verify that the entity minimized the time elapsing between drawdown and disbursement. For schools, the delay is limited to three days.

Not applicable. The County did not receive advances of Federal funds (costs incurred but not paid before reimbursement).

b. Determine if interest was earned on Federal cash draws. The entity should track or calculate it. (Control deficiency if they do nothing.) If interest earned was over $500 (or $100 for pre-UG awards), determine if the excess was returned to the appropriate agency.

Not applicable. See above.

Evaluation of Results:
Did you identify any noncompliance? **No.**

<u>E.2.PRG - Highway Planning and Construction Grant</u>

Procedure Step: G. Matching
Prepared By: MDR, 7/31/2018
Reviewed By: DHO, 8/8/2018

Purpose/Conclusion:

<u>Purpose:</u>
To determine if the entity has adequate internal controls over and is in compliance with the matching, level of effort and/or earmarking

requirements.

Conclusion:
We determined that the entity has adequate internal controls over and is in compliance with the matching requirements. Level of effort and earmarking requirements are not applicable (via the Compliance Supplement).

Testing Strategy:

This testing strategy combines Pre-Uniform Guidance and Uniform Guidance (UG) requirements. Each compliance test in Step 8 will identify the guidance it relates to.

Perform the following steps:
1. Read and gather information.
2. Assess inherent risk (IR).
3. Gain an understanding of internal controls.
4. Assess preliminary control risk (CR).
5. Test internal controls.
6. Assess final control risk (CR).
7. Assess the risk of material noncompliance (combined IR and CR).
8. Test for compliance with the requirement.

Step 1: Read and Gather Information
Identify Requirements: Review Part 4 of the Compliance Supplement, the grant agreement and any available program manuals/guides to determine the specific requirements over matching, level of effort, or earmarking.

Matching: Matching, a.k.a. cost sharing, includes requirements to provide contributions (usually non-federal) of a specified amount or percentage to match Federal awards. The match may be cash or non-cash such as:

1. Most Common Method: For each allowable program expenditure incurred, the entity only requests the federal portion to be reimbursed (for example 80%), and the remaining portion of the expenditure not reimbursed (for example 20%) is considered the entity's match.
2. In-Kind Contributions: When provided by the entity, these are usually non-cash contributions whose value is agreed upon with the grantor, such as infrastructure and other capital assets.
3. Third-Party In-Kind Contributions: Contributions from the public or other governments may be cash or non-cash and can include the value of volunteer services or employees of other agencies, donated supplies, and loaned equipment.
4. Program Income: Program income can be used as matching funds only with prior written approval from the grantor.

Matching vs. the Compliance Supplement: The Compliance Supplement may indicate that matching is not applicable to the program, however, the awarding documents may specify a match. Awarding agencies can impose additional program requirements on top of the basic program described in the Compliance Supplement.

Level of effort includes requirements for:

a) Maintaining a specified level of service from period to period.

b) Maintaining a specified level of expenditures from period to period, with emphasis on the funding source used and the activities they relate to.

c) Using federal funds to supplement, not supplant, services provided through non-federal (state/local) funding. If the requirement relates to supplanting, refer to the policy tab for examples.

Earmarking: Earmarking, a.k.a. set-asides, includes requirements that specify the minimum and/or maximum amount or percentage of the program's funding that must/may be used for specified activities, including funds provided to subrecipients. Earmarking may also be specified in relation to the types of participants covered.

Step 2: Assess Inherent Risk (IR)
See steps to assess inherent risk in the Single Audit Planning Guide.

Step 3: Gain an Understanding of Internal Controls
Key controls are those effective in preventing and detecting noncompliance. Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

a) Matching: the minimum amount of local contributions/matching funds was provided from an allowable source.

b) Level of Effort: the specified service level or expenditure levels were maintained.

c) Level of Effort-Supplanting: state/local funding (funded services) were not replaced by federal funds.

d) Earmarking: the minimum or maximum limits for specified purposes or types of participants were met.

Step 4: Assess Preliminary Control Risk (CR)
Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as **"low"** when:

(1) there is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or

(2) the auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Deficiencies Identified: Use the decision matrix in the "Major Federal Program" spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).

Step 5: Test Internal Controls
If preliminary control risk is:

LOW: test the key internal controls to determine whether they are effective in preventing and detecting noncompliance with the requirement.

HIGH: do not test the controls. Complete a level of reporting (LOR) form to report a "significant deficiency" or "material weakness."

Examples: Refer to the Single Audit Planning Guide for suggestions and examples of control testing.
Dual Purpose Testing: Consider whether the control can be tested in conjunction with a test of compliance to increase audit efficiency. If dual-purpose testing is performed, you must clearly document separately the results of control tests and compliance tests. See the policy tab for an example.

Automated Controls: If a key control is automated, control testing must include testing of both the automated control and related general controls. *See additional information in the planning guide.*

Deficiencies Identified: Use the decision matrix in the "Major Federal Program" spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).

Step 6: Assess Final Control Risk (CR)

LOW: No significant deficiencies or material weaknesses identified. *If your compliance testing in Step 8 finds non-compliance, you must reassess the final control risk here to determine if non-compliance is the result of a control failure.*

HIGH: Complete a level of reporting (LOR) form to report a "significant deficiency" or "material weakness."

Step 7: Assess the Risk of Material Non-Compliance (IR and CR)
The risk is based on auditor judgment in consideration of the inherent risk and control risk. Use the planning guide to assess risk.

LOW

MODERATE

HIGH: Does not result in a finding. But the auditor should consider the risk when designing the nature and extent of compliance testing.

Step 8: Test Compliance
MATCHING
1. Amount/Percentage Met: *(Pre-UG & UG)*
Review reimbursement requests and any other necessary records to determine whether the required amount or percentage of match was met. (Note: some programs require the percentage to be met throughout the program, at each reimbursement request, while others require it to be met by at least the end of the project).

2. Source of Match: *(Pre-UG & UG)*
Determine whether the type of match provided (e.g., local cash expenditure, grantee-donated property, volunteer time, etc.) is allowable according to the awarding documents.

3. In-Kind Values: *(Pre-UG & UG)*
If in-kind contributions were used, determine whether the values placed on in-kind contributions are in accordance with the terms of the awards, grantor correspondence, cost principles and match requirements (UG:2 CFR sections 200.306, 200.434 and 200.414 **OR** Pre-UG: OMB A-102 Common Rule).

4. Match Costs Meet Same Standards as Federal Costs: *(Pre-UG & UG)*
Test the match transactions for compliance with allowable cost and cost principles requirements, such as adequate supporting documentation (*especially* time and effort), allocable, necessary and reasonable, etc. This test may be performed with the allowable cost/cost principle testing of the federal expenditures.

LEVEL OF EFFORT - MAINTENANCE OF EFFORT
1. Level Met: *(Pre-UG & UG)*
Identify the required level of effort (service or expenditure level) and perform tests to determine the level required was met. This will include a

comparison of prior year(s) to audit year activity. Limit your review to the specified funding source and/or activity required – see the next question.

2. Calculation: *(Pre-UG & UG)*
a. Determine if the entity's level of effort calculation only includes allowable funding sources, types of expenditures or other effort measurements (e.g. hours of service, number of people served). The categories should be consistent from year to year to make them comparable. For example, in some programs, capital expenditures may not be included in the computation.

b. Determine whether monetary amounts used in the level of effort calculation are supported by the entity's financial or other records.

c. Determine whether non-monetary effort measurements were supported by official records.

LEVEL OF EFFORT - SUPPLANTING
Examples: Refer to the policy tab for examples of Supplanting.

1. General Supplanting Tests: *(Pre-UG & UG)*
Identify the services and positions funded by the program during the audit period (e.g. counseling, training, etc.). Follow the questions in order for each selected expenditure transaction to determine if the service was:

Service/Position*	Yes	No
A. Required by federal, state or local law? (inquire with the entity or AIC)	Supplanting may have occurred. Check your program for any possible exceptions.	Continue to the next question.
B. New service or position (*not employee*) during the audit period?	The entity is in compliance with supplanting requirements.	Continue to the next question.
C. A continuing service or position that was state/locally funded last year?	Supplanting may have occurred. Check your program for any possible exceptions.	Continue to the next question.
D. A continuing service or position that was federally funded last year?	The entity is in compliance with supplanting requirements.	Error. Go back to question C.

*Note: For payroll, the supplanting requirement will be attached to the position rather than the person holding it. So, although the position may have turnover, supplanting will apply to the funding history of that position.

2. Specific Supplanting Tests: *(Pre-UG & UG)*
Check the grant agreement, Compliance Supplement and/or grantor manuals to identify and test any other additional supplanting requirements.

EARMARKING
1. Identify Earmarks: *(Pre-UG & UG)*
Identify the percentage or dollar amount of earmarks. Determine which are direct and material, following the same guidance in the "Compliance Requirements" testing strategy.

2. Set Aside: *(Pre-UG & UG)*
Determine if the entity set aside an amount that met minimum and/or maximum requirements and any other special considerations. This may have been in the program budget.

3. Spent the Earmark - Minimums: *(Pre-UG & UG)*
Not all earmarks require the entity spend the amount set aside. For those that do, if they must *at least* spend a certain amount:

a. Support: Determine if the amount spent for the program is supported by financial records.

b. Classification: Select expenditures applied to the earmark. Test to determine if those expenditures were properly classified, to address the risk that unrelated costs were included.

*Testing may be done as a dual purpose with A/B Allowable Cost/Cost Principle testing.

4. Spent the Earmark - Maximums: *(Pre-UG & UG)*
Not all earmarks require the entity spend the amount set aside. For those that do, if they *cannot* spend *more than* a certain amount:

a. Support: Determine whether financial records show costs applied to the program did not exceed the maximum.

b. Classification: Select expenditures applied to the federal program that the entity *did not* apply to the earmark. Test to determine if those expenditures were properly classified, to address the risk federal funds were spent on the earmark but recorded as other types of costs to avoid the maximum's limitation.

Example: Only 10% of the federal program may be used for administrative costs, so review program expenditures other than administrative costs to identify administrative costs which were improperly classified elsewhere.

*Testing may be done as a dual purpose with A/B Allowable Cost/Cost Principle testing.

5. Participant Earmarks - Minimums: *(Pre-UG & UG)*
When there is an earmark limit regarding a minimum number/percentage of participants that can be served, select participants that are counted

toward meeting the minimum requirement and perform tests to verify that they were properly classified.

6. Participant Earmarks - Maximums: *(Pre-UG & UG)*
When there is an earmark limit regarding a maximum number/percentage of specified types of participants that can be served, select other participants and perform tests to verify that they were not of the specified type.

Evaluate the results.

Policy/Standards:

INTERNAL CONTROL UNDERSTANDING
Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

SOURCE OF GOVERNING REQUIREMENTS
The requirements for matching, level of effort, and earmarking are contained in program legislation, Federal awarding agency regulations, and the terms and conditions of the award, as well as 2 CFR section 200.306 for awards under UG **OR** A-102 Common Rule (§__.204) for pre-UG awards.

WHAT IS SUPPLANTING?
The federal government wants the grantee to use its federal funds to supplement (enhance) the existing resources for the program, instead of supplanting (replacing) its local funds with the federal grant. Basically, federal funds should supplement the existing local resources and build upon the current program. The federal funds should not supplant (replace) the existing local/state funds. Below are some examples:

COPS grant (CFDA 16.710)
COPS grant funds must be used to hire (on or after the award start date) one or more additional, new career law enforcement officer positions, beyond the number of officer positions that would be hired or employed by the grantee with local funds in the absence of the grant.

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HUD Emergency Shelter Grants(CFDA 14.231)
The Emergency Shelter Grants (ESG) Program is designed to help improve the quality of existing emergency shelters for the homeless, make available additional emergency shelters, and meet the costs of operating emergency shelters and of providing essential social services to homeless individuals so that these persons have access not only to safe and sanitary shelters for the homeless but also to the supportive services and other kinds of assistance they need to improve their situations.

Grant amounts may be used to provide essential services to the homeless only if the service is a new service, or is a quantifiable increase in the level of service above that which the unit of general local government provided with local funds during the 12 calendar months immediately before it received initial grant amounts.

HUD Supportive Housing Program (CFDA 14.235)
The Supportive Housing Program is designed to promote the development of supportive housing and supportive services, including innovative approaches to assist homeless persons in the transition from homelessness, and to promote the provision of supportive housing to homeless persons so they can live as independently as possible. No assistance provided under this program, or any State or local government funds used to supplement this assistance, may be used to replace State or local funds previously used, or designated for use, to assist homeless persons.

Record of Work Done:

Inherent Risk of Noncompliance
In accordance with AU-C sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Understanding of Internal Controls
In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring). See the Permanent File folder for additional documentation of our overall COSO evaluation.

Key Personnel:
Lisa Ronnberg, Accounting/Business Manager
Andrew Woods, County Engineer

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Project costs are reviewed by the Project Manager and approved by the County Engineer. They are paid through the County's CAMS system.

The Accounting/Business Manager receives project cost information from the County Engineer, and inputs the data into a federal expenditure spreadsheet she maintains for each project. The spreadsheets list all of the expenditures coded to the federal program. The spreadsheet also includes all sources of payments for the projects, and is coded to split the amounts for reimbursements between County, State, and Federal funding.

The Business Manager utilizes the spreadsheets when she prepares the reimbursement claim form, which the County submits to the Washington State Department of Transportation (WSDOT) for reimbursement. Once the reimbursement claim form is complete, the Accounting/Business Manager submits it to the County Engineer for review and approval.

The County Engineer reviews the reimbursement claim for accuracy and completeness, and to ensure it is supported by underlying expenditure records. The County Engineer is also aware of expenses related to projects because he has detailed knowledge of all projects and he approves all expenditures.
Once the County Engineer has signed off on the reimbursement request, the Accounting/Business Manager submits the requests electronically to WSDOT.

Key Control:
The Business Manager receives project cost information from the County Engineer and inputs the data into a federal expenditure spreadsheet she maintains for each project. The spreadsheets list all of the expenditures coded to the federal program. The spreadsheet also includes all sources of payments for the projects and is coded to split the amounts for reimbursements between County, State, and Federal funding. The Business Manager uses the spreadsheet to ensure all matching requriements are met when preparing the request for reimbursement.

Evaluation of Results:
Did you identify any control deficiencies? **No.**

Preliminary Control Risk Assessment
Based on our understanding of key internal controls, we assess preliminary control risk at:
Matching LOW

Internal Control Testing
The Business Manager receives project cost information from the County Engineer and inputs the data into a federal expenditure

spreadsheet she maintains for each project. The spreadsheets list all of the expenditures coded to the federal program. The spreadsheet also includes all sources of payments for the projects and is coded to split the amounts for reimbursements between County, State, and Federal funding. The Business Manager uses the spreadsheet to ensure all matching requriements are met when preparing the request for reimbursement.

During our SEFA Vouch, we reviewed all FY17 reimbursement requests for the Tucannon Road Phase 3 and Bridge Inspections projects. We noted in the Local Agency Agreement for the Tucannon Road Phase 3 project that federal aid participation was 90% for HSIP and 86.5% for Construction. We noted in the Local Agency Agreement for the Bridge Inspections project that federal aid participation was 86.5% for Preliminary Engineering. Attached to the requests were the spreadsheets used by the Business Manager to track expenditures on the project and calculate the amounts of reimbursements from the various agencies. We re-performed the calculation for the reimbursement requests to ensure that the amount claimed was the applicable percent of the total amount incurred.

See our testing at Grant Reimbursement Testingunder Control attributes E and F.

Based on our review, it appears this control is in place and working as intended.

Evaluation of Results:
Did you identify any control deficiencies? **No.**

Final Control Risk Assessment
We assess final control risk at:
Matching LOW

Risk of Material Noncompliance
We assess the risk of material noncompliance at:
Matching LOW

Compliance Testing
MATCHING
1. Amount/Percentage Met: *(Pre-UG & UG)*
Review reimbursement requests and any other necessary records to determine whether the required amount or percentage of match was met. (Note: some programs require the percentage to be met throughout the program, at each reimbursement

request, while others require it to be met by at least the end of the project).

During our SEFA Vouch, we reviewed all FY17 reimbursement requests with their supporting documentation. We recalculated the applicable percentages (listed above in Control Testing) to ensure the required percetnage of match was met. No issues noted.

See testing at Grant Reimbursement Testing unders compliance attribute E.

2. Source of Match: *(Pre-UG & UG)*
Determine whether the type of match provided (e.g., local cash expenditure, grantee-donated property, volunteer time, etc.) is allowable according to the awarding documents.

Per the project agreements, the County's share of the costs was to be a local cash expenditure. Based on our review, the County only requested reimbursement of the federal share from FHWA via WSDOT and paid the rest of the funds from County Road funds. This appears to be an allowable match according to the grant agreement.

3. In-Kind Values: *(Pre-UG & UG)*
If in-kind contributions were used, determine whether the values placed on in-kind contributions are in accordance with the terms of the awards, grantor correspondence, cost principles and match requirements (UG:2 CFR sections 200.306, 200.434 and 200.414 OR Pre-UG: OMB A-102 Common Rule).

We spoke with Lisa Ronnberg in PW to determine if there were any in-kind contributions within the grant. She stated that the County did not and has not received any in-kind contributions. They receive cash reimbursement only.

4. Match Costs Meet Same Standards as Federal Costs: *(Pre-UG & UG)*
Test the match transactions for compliance with allowable cost and cost principles requirements, such as adequate supporting documentation (*especially* time and effort), allocable, necessary and reasonable, etc. This test may be performed with the allowable cost/cost principle testing of the federal expenditures.

During our testing of Allowable Cost/Cost Principles, we selected our sample from overall expenditures for the Tucannon Road Phase 3 and Bridge Inspections projects, from which the applicable Federal percentage is requested for reimbursement. The remaining funds (County match) are expenditures against the County Road Fund.

See our testing at A-B Expenditure Testing - Tucannon Road Project and A-B Expenditure Testing - Bridge Inspections.

Evaluation of Results:
Did you identify any noncompliance? **No.**

E.2.PRG - Highway Planning and Construction Grant

Procedure Step: I. Procurement/Suspension and Debarment

Prepared By: MDR, 8/29/2018

Reviewed By: DHO, 9/7/2018

Purpose/Conclusion:

Purpose:
To determine if internal controls provide reasonable assurance that procurement and suspension and debarment requirements are met, and to test compliance with those requirements.

Conclusion:
We determined that internal controls provide reasonable assurance that procurement and suspension & debarment requirements are met, and tested compliance with those requirements with the following issues noted:

Public Works does not have procurement or standards of conduct policies in place, as required under uniform guidance. However, the County has until 1/1/18 to update their policies, which is outside of our audit scope. Further, Public Works follows the LAG Manual from FHWA for procurement procedures. Please note that the County is in the process of editing and adopting the Garfield County procurement policy, which will be adopted in 2018. This policy includes general procurement guidelines as well as standards of conduct. We used the SA decision matrix below to evaluate our results. We concluded that the likelihood of noncompliance is remote and the magnitude of potential noncompliance to be less than material. Therefore, we will assess control risk at LOW. We will issue a recommendation. E - Federal Procurement PoliciesLOR Summary

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Likelihood of Noncompliance	Magnitude of Potential Noncompliance	
	Less than Material	**Material**
Remote	Control deficiency **(Control risk is LOW)**	Control deficiency **(Control risk is LOW)**
More than Remote **(at least reasonably possible)**	**If the deficiency does not meet the criteria below for a significant deficiency:** Control deficiency **(Control risk is LOW)**	**Assess control risk as HIGH and report a finding for a Material Weakness if** the control deficiency(ies) did, or could, lead to noncompliance of 10% or more of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below)* -
	Assess control risk as HIGH and report a finding for a Significant Deficiency if: (1) the control deficiency(ies) did, or could, lead to noncompliance between 5%-10% of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below), and* (2) the grantor, inspector general, and/or the public views the issue as being important and would expect corrective action to be taken. *(Refer to Note 2 below.)*	-

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Public Works did not check for Suspension and Debarment status before spending $53,878.89 with Nicholls Kovich for the Bridge Inspections project. The contract agreement between Public Works and the firm included a clause referencing attachment G-2: Suspension and Debarment Certificate, but the certificate was not included as an attachment with the agreement. Upon further discussion, PW was not aware of the need to include the specific attachment. Due to one of two vendors not having proper S&D documentation, we selected the only other vendor for which Suspension and Debarment process was required, and found that the County did obtain the proper documentation. We reveiwed the signed contract for the Vernon Smith Bridge and noted that included with the signed contract was a signed Suspension and Debarment certificate. There was not, however, a printout from the WA State Dept of L&I regarding suspension and debarment status, as expected based on our understanding of internal controls. Because the federal requirement for suspension and debarment was met via a signed certificate, we do not have a compliance issue. However, we do recommend that PW put processes in place to ensure consistent review of suspension and debarment status of applicable vendors. Overall, the control failure rate was 33%. We used the SA decision matrix below to evaluate our results. We concluded that the likelihood of noncompliance is more than remote and the magnitude of potential noncompliance to be material (over 10%). Therefore, we will assess control risk at HIGH. We will issue a recommendation. Finding - Federal PW A&E Procurement Method FinalLOR Summary

Likelihood of Noncompliance	**Magnitude of Potential Noncompliance**	
	Less than Material	**Material**
Remote	Control deficiency **(Control risk is LOW)**	Control deficiency **(Control risk is LOW)**
More than Remote **(at least reasonably possible)**	**If the deficiency does not meet the criteria below for a significant deficiency:** Control deficiency **(Control risk is LOW)**	**Assess control risk as HIGH and report a finding for a Material Weakness if** the control deficiency(ies) did, or could, lead to noncompliance of 10% or more of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below)* -

	Assess control risk as HIGH and <u>report a finding</u> for a <u>Significant Deficiency</u> if: (1) the control deficiency(ies) did, or could, lead to noncompliance between 5%-10% of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below), and* (2) the grantor, inspector general, and/or the public views the issue as being important and would expect corrective action to be taken. *(Refer to Note 2 below.)*	-

Testing Strategy:

This testing strategy combines Pre-Uniform Guidance and Uniform Guidance (UG) requirements. Each compliance test in Step 8 will identify the guidance it relates to.

Perform the following steps:
1. Read and gather information.
2. Assess inherent risk (IR).
3. Gain an understanding of internal controls.
4. Assess preliminary control risk (CR).
5. Test internal controls.
6. Assess final control risk (CR).
7. Assess the risk of material noncompliance (combined IR and CR).
8. Test for compliance with the requirement.

Step 1: Read and Gather Information
PROCUREMENT

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Resources: Review the Bidding and Procurement Planning Guide on the HUB.

Written Standards of Conduct: (UG Only) The entity must have written standards of conduct that cover conflicts of interest and govern the performance of its employees engaged in the selection, award, and administration of contracts/purchases. Auditors must identify and test internal controls that ensure written procedures are in place and used. (Refer to the policy tab for additional information.)

Written Procurement Policies and Procedures: (UG Only) The entity's procurement policy must specifically address what procurement procedures are followed when using federal funding. Auditors must identify and test internal controls that ensure written procedures are in place and used.

> Note: Entities cannot have a policy that only has a statement along the lines of, "We will follow OSPI's procurement guidance." They can adopt another entity's procedures as their own but must have all the procedures written in their formal policy.

Materiality: Auditors do not need to select procurement transactions that have an aggregate value (not per unit) less than $3,500.

Cost or Price Analysis: (UG Only) Entities must perform a cost or price analysis in connection with every procurement action in excess of $150,000, including contract modifications. An independent estimate must be done before receiving bids or proposals. Tip: Check for grantor non-regulatory manuals for guidance on what they determine to be a reasonable analysis, such as the transportation LAG Manual. Generally, for major projects, this is the engineers estimate.

Most Restrictive Procurement Standard: The most restrictive of state, local or federal rules must be followed. When determining which threshold should be used, remember the aggregate cost of like-kind goods, not the per-unit cost, should be used.

Use this table to evaluate the rules:

		Thresholds		
Method	Used for	Federal	RCW	Local
(UG only) Micro Purchase Procedures (not competitive, distribute equitably)	Purchases Services	Under $3,500	*Auditor to determine from Bidding and Procurement Planning Guide	auditor to determine
Small Purchase Procedures (price or rate quotations)	Purchases Purchased Services (for routine functions) Personal Services (e.g. consultant)	Under $100,000 Pre-UG Under $150,000 UG	*Auditor to determine from Bidding and Procurement Planning Guide *Competitive procurement not required for Purchased	auditor to determine

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	Public Works		Services	
Sealed/Formal Bids	Purchases Purchased Services (for routine functions) Personal Services (e.g. consultant) Public Works	$100,000 or more Pre-UG $150,000 or more UG	*Auditor to determine from Bidding and Procurement Planning Guide *Competitive procurement not required for Purchased Services	auditor to determine
Competitive Proposals	Services Purchases	$100,000 or more Pre-UG $150,000 or more UG	*Competitive procurement not required for Personal Services	auditor to determine
Competitive Proposals	Architecture/Engineering	No threshold for A&E *Note: Federal has more requirements than the RCW process with the same name.	No threshold for A&E	auditor to determine
Non-competitive Proposals	Any	No threshold. Only for sole source, emergency, grantor-authorized, or if competition not adequate.	No threshold. Applies as per the Bidding and Procurement Planning Guide	auditor to determine

Case-by-case Information: see the policy tab for additional information about the following topics:

A. Micro Purchase procedures – overview of rules

B. Architecture and Engineering proposals – special federal rules (different form state rules)

C. Small Works Roster – highest cause of findings - see policy standards tab

D. Sole Source and other Non-Competition – differences between state and federal rules

E. Interlocal Agreements - transactions between governments are exempt from procurement

F. Purchasing from a State Agency Contract (through DES) – when the State has performed the procurement process

G. Piggybacking from Other Governments (except for DES) – special considerations and internal controls

H. Professional Development – procurement expectations of offsite vs. onsite training

SUSPENSION AND DEBARMENT (S&D)

Applies To: The entity must complete the requirement for:

All *new* subrecipient contracts

All *new* vendor contracts or purchases of $25,000 or more. They must complete it at least before the first payment.

Requirement: The entity must complete at least one of the following to verify the other party is not prohibited from receiving federal funds during the procurement process or at the time the contract is made:

1. Check their status on the online search engine SAM.gov (and print support)
2. Put a clause in the contract, whereby the signer attests they are not suspended or debarred.
3. Obtain a signed certificate, whereby the signer attests they are not suspended or debarred.

Case-by-case Information: There is additional information for the auditor when the following situations occur. Find this information in the policy tab as needed:

I. DES Procurement S&D – S&D requirements when using DES piggy-backing procurement

J. OSPI using POs for S&D – ability to use a signed purchase order as S&D certification

Step 2: Assess Inherent Risk (IR)

See steps to assess inherent risk in the Single Audit Planning Guide.

Step 3: Gain an Understanding of Internal Controls

Key controls are those effective in preventing and detecting noncompliance. Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

(1) Standards of Conduct Policies: *(UG Only)* the entity has established and/or maintained written conflict of interest policies that address the federal requirements.

(2) Procurement Policies: *(UG Only)* the entity has established and/or maintained written procurement policies that address federal procurement requirements.

*For (1) and (2), we expect the auditee to establish the written policies during the first year they obtained an award under 2 CFR 200 (Uniform Guidance).

In later years, the auditee should review the policies to make sure they reflect current federal requirements and have a control process to ensure they actually use the policies.

GRACE PERIOD: auditee's have a grace period for getting policies updated for three full fiscal years after the effective date of UG (12/26/14). See policy tab for further details.

(3) Procurement: the most restrictive procurement requirements are followed when procuring goods and services, and cost or price analyses have been performed.

(4) Suspension & Debarment: contracts (or purchases) of $25,000 or more and all subrecipients (including other governments) are not suspended or debarred from participating in federal programs.

*If they use a certificate or contract clause, the key control should focus on a person putting them in the contract or bid documents, reviewing they are included in the contract, or who makes sure they use the boilerplate documents that include them. *Avoid* a control that just states compliance, such as, "the clause is included in the contract."

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as **"low"** when:

(1) there is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or

(2) the auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Deficiencies Identified: Use the decision matrix in the "Major Federal Program" spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).

Step 5: Test Internal Controls

If preliminary control risk is:

LOW: test the key internal controls to determine whether they are effective in preventing and detecting noncompliance with the requirement.

HIGH: do not test the controls. Complete a level of reporting (LOR) form to report a "significant deficiency" or "material weakness."

Examples: Refer to the Single Audit Planning Guide for suggestions and examples of control testing.
Automated Controls: If a key control is automated, control testing must include testing of both the automated control and related general controls. *See additional information in the planning guide.*

Deficiencies Identified: Use the decision matrix in the "Major Federal Program" spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).

Step 6: Assess Final Control Risk (CR)

LOW: No significant deficiencies or material weaknesses identified. *If your compliance testing in Step 8 finds non-compliance, you must reassess the final control risk here to determine if non-compliance is the result of a control failure.*

HIGH: Complete a level of reporting (LOR) form to report a "significant deficiency" or "material weakness."

Step 7: Assess the Risk of Material Non-Compliance (IR and CR)

The risk is based on auditor judgment in consideration of the inherent risk and control risk. Use the planning guide to assess risk.

LOW

MODERATE

HIGH: Does not result in a finding. But the auditor should consider the risk when designing the nature and extent of compliance testing.

Step 8: Test Compliance

PROCUREMENT

1. Procurement Policy: *(UG Only)*

a. Obtain the entity's procurement policies and verify that the policies comply with the Uniform Guidance requirements. At a minimum, the auditor should check to see that the policies outline when 2 CFR 200 procurement methods should be used versus state or local laws.

*A grantee could choose to use one set of rules all the time (state, federal or local) if those rules are always more restrictive than the others.

see policy tab for information about the policy grace period

b. Determine if the policy allows the use of statutorily or administratively imposed in-State or local geographical preferences in the evaluation of bids or proposals. If so, verify this was not applied to federally funded procurement except where expressly allowed by the federal regulations. This can be done as part of testing of #3 for selected transactions by determining if geographical preference was used during the procurement process.

2. Conduct Policy: *(UG Only)*
Verify that the entity has written standards of conduct/policy covering conflicts of interest for employees, agents, etc. engaged in the selection, award and administration of contracts. The standards must have these elements:

1. The officers, employees, and agents may not participate in the selection, award, or administration of a contract supported by a Federal award if they have a real *or apparent* conflict of interest.

2. The officers, employees, and agents may neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or parties to subcontracts.

3. Must include or disciplinary actions for violations of such standards.
see policy tab for information about the policy grace period

3. Procurement: *(Pre-UG & UG)*
Select procurement transactions and test to determine if the entity complied with the most restrictive *competitive* procurement method of state, local and federal requirements based upon applicable thresholds. If competition is limited or there is no competition, determine if the rationale was allowable per federal rules.

4. Cost Analysis: *(UG Only)*
If the cost in #3 exceeded the simplified acquisition threshold ($150,000), determine if a cost or price analysis was performed and supported the procurement. Modifications for these contracts must also have an analysis. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, the auditee must make independent estimates before receiving bids or proposals

SUSPENSION AND DEBARMENT
1. S&D Status: *(Pre-UG & UG)*
Select new contracts (including purchases/purchase orders) that exceed $25,000 and subrecipient agreements (no dollar minimum) and verify the entity performed one of the following during the procurement process or when the contract was made:

1. Checked their status on the online search engine SAM.gov (and have support)

2. Put a clause in the contract, whereby the signer attests they are not suspended or debarred.

3. Obtained a signed certificate, whereby the signer attests they are not suspended or debarred.

*Note: If the entity did not check S&D during the procurement process or when the contract was made, there is non-compliance. The level of non-compliance depends on whether the entity checked S&D before or after the first payment to the vendor. Include this information with the Level of Reporting request.

2. Subcontractors: *(Pre-UG & UG)*
The grantee must inform the general contractor that they are responsible for checking the S&D status of subcontractors. (Or the subrecipient must check their own subrecipients.) Determine if there was a clause in the contract assigning this responsibility when there are subcontractors or subrecipients.

Evaluate the results.

Policy/Standards:

INTERNAL CONTROL UNDERSTANDING
Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

STANDARDS OF CONDUCT AND WRITTEN PROCEDURES
The standards of conduct apply to employees engaged in the selection, award and administration of contractor (formerly referred to as "vendor") and subrecipient contracts, per §200.318. These standards are:

1. The officers, employees, and agents may not participate in the selection, award, or administration of a contract supported by a Federal award if they have a real *or apparent* conflict of interest.
2. The officers, employees, and agents may neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or parties to subcontracts.
3. But, grantees *may* set standards for situations in which *the financial interest is not substantial or the gift is an unsolicited item of nominal value*.
4. Must include or disciplinary actions for violations of such standards.

*Auditors will be expected to determine if there are controls to ensure written procedures are in place and to test compliance.

GRACE PERIOD
COFAR FAQ .110-6 Effective Dates and Grace Period for Procurement **
Will the Federal government provide a grace period after the effective date for non-Federal entities to comply with the procurement standards in the Uniform Guidance?
Yes, in accordance with the Federal Notice published May 17, 2017 (82 FR 22609), a grace period is allowed for **three full fiscal years after the effective date of the Uniform Guidance**.

In general non-Federal entities must comply with the terms and conditions of their Federal award, which will specify whether the Uniform Guidance applies. However, in light of the new procurement standards, for procurement policies and procedures, for the non-Federal entity's first full fiscal year that begins on or after December 26, 2014, the non-Federal entity must document whether it is in compliance with the old or new standard, and must meet the documented standard. For example, the third full fiscal year for a non-Federal entity with a June 30th year end would be the year ending June 30, 2018. The Single Audit Compliance Supplement will instruct auditors to review procurement policies and procedures based on the documented standard. For future fiscal years, all non-Federal entities will be required to comply fully with the uniform guidance.

AGGREGATE VS. PER-UNIT COST TO DETERMINE THRESHOLD
Note that the cost thresholds are not limited to each individual item purchased. The cost threshold will also apply to many like-kind items. For instance, an entity may purchase 500 tablets over 70 transactions during the year. Each tablet or transaction may be less than $3,500 or the lowest competitive threshold, but the aggregate purchase of tablets should be the dollar value used to determine which threshold applies. If the 500 tablets cost $200,000, the grantee should complete formal bidding procedures.

A. MICRO PURCHASE PROCEDURES
The micro-purchase threshold under the Federal Acquisition Regulations is aggregate cost of $3,500 (not cost per unit), or $2,000 for construction contracts subject to the Davis-Bacon Act. Micro purchases under this threshold do not require competition. This is not to be confused with the simplified acquisition threshold of $150,000 (2 CFR section 200.88), which requires competition for all purchases that equal to or exceed the micro purchases threshold but are under $150,000. Although competition is not required, the awardee must equitably distribute these purchases among qualified supplies to the extent practical.

B. ARCHITECTURE AND ENGINEERING PROPOSALS
Notice also that for architecture and engineering (A&E), although both the state rules and the federal rules have no threshold and both processes include competitive proposals, the federal requirements for A&E are more detailed that RCW rules. The federal process must be followed if federal funding is used to pay all or a portion of A&E. The federal rule is (this is not new):

(1) Requests for proposals must be publicized and identify all evaluation factors and their relative importance. Any response to publicized requests for proposals must be considered to the maximum extent practical;

(2) Proposals must be solicited from an adequate number of qualified sources;

(3) The non-Federal entity must have a written method for conducting technical evaluations of the proposals received and for selecting recipients;

(4) Contracts must be awarded to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered; and

(5) The non-Federal entity may use competitive proposal procedures for qualifications-based procurement of architectural/engineering (A/E) professional services whereby competitors' qualifications are evaluated and the most qualified competitor is selected, subject to negotiation of fair and reasonable compensation. The method, where price is not used as a selection factor, can only be used in procurement of A/E professional services. It cannot be used to purchase other types of services though A/E firms are a potential source to perform the proposed effort.

C. SMALL WORKS ROSTER

In general, most RCW thresholds are lower than the federal threshold. If an auditee uses the state's small works roster process for public works, they do not perform formal bidding until a project equals or exceeds $300,000. **However**, if federal funds are used to pay for all or a portion of the cost, the auditee must perform formal bidding at the federal threshold of $150,000.

Federal guidance does not provide for the small works roster, therefore it cannot be used when federal money is involved.

D. SOLE SOURCE AND OTHER NON-COMPETITION

A grantee can declare that competition is not feasible or cannot be obtained and designate a vendor as the sole source of supply or the only service provider. The grantee must keep documentation of how it arrived at this decision before the contract was made. Also, there are less procurement exemptions under the federal rules than under state. For instance, school districts are not required to competitively procure book purchases if using state or local funds, but they must be competitively procured if using federal funds.

These situations should be very rare. Refer to the Procurement Planning Guide for specific steps required.

E. INTERLOCAL AGREEMENTS: Transactions between governments are exempt

When one government uses federal grant funds to pay for professional services provided by another government, it is not expected to obtain quotes or seek competition. If the grantee purchases equipment or other goods directly from another local government, these transactions are exempt from competitive procurement (does not apply to piggy-backing purchases). This is because federal procurement standards (2 CFR section 200.318(e)) encourages governmental entities to enter into interlocal agreements to maximize economy and efficiency. It assumes the economic benefit and efficiency has or will be achieved. RCW 39.34.030 sets forth the standards for interlocal agreements – the form of the agreement or contract may vary so long as it contains the necessary information. This exemption does not include purchases made from a third party vendor, such as a purchasing co-op, or piggy-backing off another government's bid for equipment, materials or services.

F. PURCHASING FROM A STATE AGENCY CONTRACT

Some local governments make purchases from contracts that are procured by the WA Dept. of Enterprise Services (DES). In this situation, the DES performs all the bidding requirements and the participating local governments can rely on the bid process and make purchases from the contract. The DES retains all the bid documentation. For controls, the auditor should document how the auditee uses the DES contracts. They should ensure they are paying the same rates as in the DES contract.

> Note the entity cannot rely on DES for suspension or debarment compliance. The entity must verify the party is not suspended or debarred before it purchases from the vendor (regardless if there is a sus/deb clause in the contract between DES and the vendor).

G. PIGGYBACKING FROM OTHER GOVERNMENTS (except for DES)

If the auditee is piggybacking on procurement performed by another government, even those outside of Washington State, there should be monitoring controls at the local level. The auditee must ensure that the procurement method performed by the principal party meets the most restrictive procurement practices applicable to the auditee. We would expect the auditee to obtain copies of the procurement documents (affidavits of publication, all bids, bid opening, quotes, evaluations for consultants/A&E) to confirm. The auditee must also have a contract/interlocal agreement with the other government in order to piggyback off their contract or procurement process. Note that, in general, piggybacking cannot be used for public works. See additional details in the procurement planning guide.

H. PROFESSIONAL DEVELOPMENT

Districts are not expected to use competition when sending an employee to an offsite training class, workshop, or when obtaining college credit.

However, if the district hires a third party contractor to come into the district and provide training to district staff, this is a professional service that is subject to procurement.

I. DES PROCUREMENT S&D

When an entity completes piggybacking procurement by using the Washington Department of Enterprise Services (DES) contracts, they must complete one of the three suspension and debarment checks. Even if the DES contract with the vendor contains a suspension and debarment clause, the entity must perform their own procedure because the requirement is to *verify* before they enter into a covered transaction.

J. OSPI USING POs FOR S&D

A vendor's acceptance of a purchase order with suspension and debarment certification language is sufficient for suspension and debarment requirements (at this time). This has only been confirmed for programs awarded through OSPI. Awards directly from federal grantors or other pass-through agencies could allow this requirement but we would need confirm with them.

Record of Work Done:

Inherent Risk of Noncompliance

In accordance with AU-C sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Understanding of Internal Controls

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring). See the Permanent File folder for additional documentation of our overall COSO evaluation.

Key Personnel:

Andrew Woods, County Engineer
Seth Walker, Engineering Tech (Lead Designer)
Robert Yates, Engineering Tech (Project Manager)
The County Engineer determines the estimated work and costs that will be involved in the project. Once the Plans, Specifications and Estimate (PS&E) packet is completed, the County submits the PS&E packet to WSDOT for project approval. If WSDOT required any changes to the PS&E packet, the County is notified. WSDOT grants approval to bid the project and authorizes funding once all requested changes have been made.
A project manager is assigned to oversee the project requirements. This individual is responsible for developing the bidder's packet and project specifications. The project manager prepares the bidders packet and ensures all required documents and requirements, such as DBE goals, WSDOT authorization, and environmental approval is in place for the project.
The Dayton Chronicle or The Waitsburg Times (Commissioners inform PW which paper is the paper of record) is used as the County's publication

of record and all projects are advertised for three weeks.
Contractors submit sealed bids, which are opened and read during an open public meeting with the Commissioners on the specified day per the bidder's packets and specifications.
It is the Project Manager's responsibility to prepare the bid tabulation sheet. While completing this process, he ensures all specifications in the bidder's packet are met by each bidder. He determines the lowest cost bidders meeting specifications, and makes his recommendation of lowest cost responsible bidder to the County Engineer. The Project Manager or Lead Designer accesses the EPLS website and runs a query to determine if the recommended low bidder has been suspended or debarred. The bid tabulation and print outs from L&I, EPLS, Department of Revenue, Insurance Company, and the Engineering Tech's recommendation are sent to the County Engineer by memo.
The County Engineer refers to the WSDOT Standard Specifications Book and reviews the bid tabulation spreadsheet, supporting documentation, and contract documents to ensure that all required documents are included. He prepares a recommendation for the County Commissioners. The County Engineer then signs and submits the recommendation to the Commissioners. The Commissioners review the recommendation and approve the final selection.
The lowest responsible Contractor is notified through a notice of award. Non-winning bidders are sent copies of the bid tabulation and a notice that another bidder was awarded the contract and their cashiers' check or bid bond are returned.
The Project Manager obtains all other required documents from the winning bidder prior to signing the contract, these include obtaining a performance bond, ensuring a provision for retainage is included, a certification from the contractor that they will not use suspended or debarred sub-contractors, project insurance, and a certification that the contractor will pay laborers applicable federal wage in accordance with Davis Bacon Laws. Please see the Wage Rate Requirements (Davis Bacon Act) section for further review. The County does not check the suspension and debarment status of subcontractors, there is a clause in the contract which requires the Prime contractor to perform the review.

Public Works follows the FHWA (Federal Highway Administration) requirements for procurement, as summarized in the LAG (Local Agency Guidelines) Manual (see at https://www.wsdot.wa.gov/publications/manuals/fulltext/M36-63/LAG.pdf).

Please note that the County is in the process of editing and adopting the Garfield County procurement policy (Procurement Policy Draft - 070318), which will be adopted in 2018. This policy includes general procurement guidelines as well as standards of conduct.

Key Controls:
The Project Manager or Lead Designer accesses the WA State Dept of L&I website and runs a query to determine if the recommended low bidder has been suspended or debarred. (Suspension & Debarment)

The County Engineer is the key control for ensuring cost estimates are prepared for projects over $150K. He creates the work and costs estimates that are submitted to WSDOT for approval. The County Engineer is the key control for ensuring that procurement requirements for public works and professional services are met. The County Engineer refers to the WSDOT Standard Specifications Book for guidance on procurement requirements and reviews the bid tabulation spreadsheet, supporting documentation, and contract documents to ensure that all required documents are included to demonstrate

compliance with procurement requirements. (Procurement)

Evaluation of Results:
Did you identify any control deficiencies? **Yes.**
If so, **you must**:
1. Use the decision matrix to determine and document the likelihood of noncompliance and the magnitude of potential noncompliance on the program as a whole.
2. Document the rationale for a LOW or HIGH risk assessment.

Public Works does not have procurement or standards of conduct policies in place, as required under uniform guidance. However, the County has until 1/1/18 to update their policies, which is outside of our audit scope. Further, Public Works follows the LAG Manual from FHWA for procurement procedures. Please note that the County is in the process of editing and adopting the Garfield County procurement policy, which will be adopted in 2018. This policy includes general procurement guidelines as well as standards of conduct. We used the SA decision matrix below to evaluate our results. We concluded that the likelihood of noncompliance is remote and the magnitude of potential noncompliance to be less than material. Therefore, we will assess control risk at LOW. We will issue a recommendation. <u>E - Federal Procurement PoliciesLOR Summary</u>

Likelihood of Noncompliance	**Magnitude of Potential Noncompliance**	
	Less than Material	**Material**
Remote	Control deficiency **(Control risk is LOW)**	Control deficiency **(Control risk is LOW)**
More than Remote **(at least reasonably possible)**	**If the deficiency does not meet the criteria below for a significant deficiency:** Control deficiency **(Control risk is LOW)**	**Assess control risk as HIGH and <u>report a finding</u> for a <u>Material Weakness</u> if** the control deficiency(ies) did, or could, lead to noncompliance of 10% or more of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below)*

		-
	Assess control risk as HIGH and <u>report a finding</u> for a <u>Significant Deficiency</u> if: (1) the control deficiency(ies) did, or could, lead to noncompliance between 5%-10% of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below), and* (2) the grantor, inspector general, and/or the public views the issue as being important and would expect corrective action to be taken. *(Refer to Note 2 below.)*	-

<u>Preliminary Control Risk Assessment</u>

Based on our understanding of key internal controls, we assess preliminary control risk at:
Procurement LOW
Suspension and Debarment LOW

<u>Internal Control Testing</u>
The Project Manager or Lead Designer accesses the WA State Dept of L&I website and runs a query to determine if the recommended low bidder has been suspended or debarred. (Suspension & Debarment)
We obtained the project files and reviewed all of the supporting documentation. We noted a print-out from Washington State Department of Labor & Industries stating that Barker Inc (lowest bidder for Tucannon Road Phase 3) was not excluded or debarred. We noted that the printout was dated 5/23/17, which was before the bidder was notified of being awarded the bid (6/5/17).

The Bridge Inspections project was not subject to the same procurement requirements as Tucannnon Road, but we will test for S&D controls regardless. We reviewed the digital service agreement (for approximately $100,000) with Nicholls Kovich for the Bridge Inspections project and noted that it referenced a Suspension Certificate as an attachment to the agreement (appendix G-2). Upon further discussion, we learned that the attachment was not included at the end of the agreement. There was also no printout from the WA State Dept of L&I regarding their suspension and debarment status, as expected based on our understanding of internal controls. PW did not check for S&D before spending $25,000 or more with Nicholls Kovich (total spent $53,878.89).

Due to one of two vendors not having proper S&D documentation, we obtained a list of vendors for which $25,000 or more was paid with Federal funds. We found only one more vendor: Anderson Perry. We reveiwed the signed contract for the Vernon Smith Bridge and noted that included with the signed contract was a signed Suspension and Debarment certificate. There was not, however, a printout from the WA State Dept of L&I regarding suspension and debarment status, as expected based on our understanding of internal controls. Because the federal requirement for suspension and debarment was met via a signed certificate, we do not have a compliance issue. However, we do recommend that PW put processes in place to ensure consistent review of suspension and debarment status of applicable vendors, which we will communicate verbally.

Of the three vendors subject to Suspension and Debarment processes, only two had the proper documentation (66%). This resulted in a 33% control failure.

Based on our review, this control appears to be in place but not working as intended.

Public Works did not check for Suspension and Debarment status before spending $53,878.89 with Nicholls Kovich for the Bridge Inspections project. The contract agreement between Public Works and the firm included a clause referencing attachment G-2: Suspension and Debarment Certificate, but the certificate was not included as an attachment with the agreement. Upon further discussion, PW was not aware of the need to include the specific attachment. Due to one of two vendors not having proper S&D documentation, we selected the only other vendor for which Suspension and Debarment process was required, and found that the County did obtain the proper documentation. We reveiwed the signed contract for the Vernon Smith Bridge and noted that included with the signed contract was a signed Suspension and Debarment certificate. There was not, however, a printout from the WA State Dept of L&I regarding suspension and debarment status, as expected based on our understanding of internal controls. Because the federal requirement for suspension and debarment was met via a signed certificate, we do not have a compliance issue. However, we do recommend that PW put processes in place to ensure consistent review of suspension and debarment status of applicable vendors. Overall, the control failure rate was 33%. We used the SA decision matrix below to evaluate our results. We concluded that the likelihood of noncompliance is more than remote and the magnitude of potential noncompliance to be material (over 10%). Therefore, we will assess control risk at HIGH. We will issue a recommendation. Finding - Federal PW A&E Procurement Method FinalLOR Summary

Likelihood of Noncompliance	Magnitude of Potential Noncompliance	
	Less than Material	Material

Columbia County

Remote	Control deficiency **(Control risk is LOW)**	Control deficiency **(Control risk is LOW)**
More than Remote **(at least reasonably possible)**	**If the deficiency does not meet the criteria below for a significant deficiency:** Control deficiency **(Control risk is LOW)**	**Assess control risk as HIGH and <u>report a finding</u> for a <u>Material Weakness</u> if** the control deficiency(ies) did, or could, lead to noncompliance of 10% or more of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below)* -
	Assess control risk as HIGH and <u>report a finding</u> for a <u>Significant Deficiency</u> if: (1) the control deficiency(ies) did, or could, lead to noncompliance between 5%-10% of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below), and* (2) the grantor, inspector general, and/or the public views the issue as being important and would expect corrective action to be taken. *(Refer to Note 2 below.)*	-

The County Engineer is the key control for ensuring cost estimates are prepared for projects over $150K. He creates the work and costs estimates that are submitted to WSDOT for approval. The County Engineer is the key control for ensuring that

procurement requirements for public works and professional services are met. The County Engineer refers to the WSDOT Standard Specifications Book for guidance on procurement requirements and reviews the bid tabulation spreadsheet, supporting documentation, and contract documents to ensure that all required documents are included to demonstrate compliance with procurement requirements. (Procurement)
We met with the Engineering Tech, Robert Yates, and discussed the review of the recommended bidder (because the County Engineer is no longer at the County, and Robert does this process now). He explained that by completing the cost estimates for projects, he is able to determine if the project needs to be procured and what procurement method should be used. He has a table showing the procurement types and corresponding thresholds. Once the procurement method is determined, he works with Lisa Ronnberg, Accounting/Business Manager to advertise the project and request for bids. He refers to the WSDOT standards specifications book and internal policies to ensure all the required documentation and language is included in the bid specifications. He also explained that he refers to the WSDOT Standard Specifications book when he reviews the bids to ensure all required documentation has been received.

We obtained and reviewed the contractor file for the Tucannon Road Phase 3 Project, which included the bid tabulation sheet, bids, required documents such as the Department of Revenue license print, Dept. of L&I Employer Liability Certificate, and recommendation letter from the County Engineer to the County Commissioners. We noted that the bid file included the following bid documents:

- Suspension & Debarment printout for WA State Dept of L&I
- Tabulation of all bids received and opened publicly*
- Certification for Federal-Aid Contracts*
- Non-Collusion Declaration*
- Local Agency Proposal - Bond amd Signature Page*
- Bid Proposal*
- Copy of Bid Bond*
- Bid Recommendation Packet for BoCC
- Bid Award Letter
- Engineer's Estimate (dated 2/5/2016)
- Certificate of Liability Insurance
- Signed Contract (6/7/2017)
- Letter to Proceed sent to Barker Inc (7/6/2017)
- Barker Inc Subcontractor List

Columbia County

*Included in BoCC Recommendation Packet

For the Bridge Inspections project, see N2. Administration of Engineering and Design-Related Service Contracts as the project required procurement of Engineering/Design-Related services. Those types of contracts are subject to special requirements by the FHWA and will be reviewed separately.

Based on our review, this control appears to be in place and working as intended.

Evaluation of Results:
Did you identify any control deficiencies? **Yes.**

Public Works did not check for Suspension and Debarment status before spending $53,878.89 with Nicholls Kovich for the Bridge Inspections project. The contract agreement between Public Works and the firm included a clause referencing attachment G-2: Suspension and Debarment Certificate, but the certificate was not included as an attachment with the agreement. Upon further discussion, PW was not aware of the need to include the specific attachment. Due to one of two vendors not having proper S&D documentation, we selected the only other vendor for which Suspension and Debarment process was required, and found that the County did obtain the proper documentation. We reveiwed the signed contract for the Vernon Smith Bridge and noted that included with the signed contract was a signed Suspension and Debarment certificate. There was not, however, a printout from the WA State Dept of L&I regarding suspension and debarment status, as expected based on our understanding of internal controls. Because the federal requirement for suspension and debarment was met via a signed certificate, we do not have a compliance issue. However, we do recommend that PW put processes in place to ensure consistent review of suspension and debarment status of applicable vendors. Overall, the control failure rate was 33%. We used the SA decision matrix below to evaluate our results. We concluded that the likelihood of noncompliance is more than remote and the magnitude of potential noncompliance to be material (over 10%). Therefore, we will assess control risk at HIGH. We will issue a recommendation. Finding - Federal PW A&E Procurement Method FinalLOR Summary

Likelihood of Noncompliance	**Magnitude of Potential Noncompliance**	
	Less than Material	**Material**
Remote	Control deficiency **(Control risk is LOW)**	Control deficiency **(Control risk is LOW)**

Columbia County

More than Remote **(at least reasonably possible)**	**If the deficiency does not meet the criteria below for a significant deficiency:** Control deficiency **(Control risk is LOW)**	**Assess control risk as HIGH and <u>report a finding</u> for a <u>Material Weakness</u> if** the control deficiency(ies) did, or could, lead to noncompliance of 10% or more of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below)* -
	Assess control risk as HIGH and <u>report a finding</u> for a <u>Significant Deficiency</u> if: (1) the control deficiency(ies) did, or could, lead to noncompliance between 5%-10% of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below), and* (2) the grantor, inspector general, and/or the public views the issue as being important and would expect corrective action to be taken. *(Refer to Note 2 below.)*	-

<u>Final Control Risk Assessment</u>
We assess final control risk at:
Procurement LOW
Suspension and Debarment HIGH

<u>Risk of Material Noncompliance</u>
We assess the risk of material noncompliance at:

Procurement LOW
Suspension and Debarment HIGH

Compliance Testing

PROCUREMENT

1. Procurement Policy: *(UG Only)*

a. Obtain the entity's procurement policies and verify that the policies comply with the Uniform Guidance requirements. At a minimum, the auditor should check to see that the policies outline when 2 CFR 200 procurement methods should be used versus state or local laws.

***A grantee could choose to use one set of rules all the time (state, federal or local) if those rules are always more restrictive than the others.**

see policy tab for information about the policy grace period

b. Determine if the policy allows the use of statutorily or administratively imposed in-State or local geographical preferences in the evaluation of bids or proposals. If so, verify this was not applied to federally funded procurement except where expressly allowed by the federal regulations. This can be done as part of testing of #3 for selected transactions by determining if geographical preference was used during the procurement process.

Public Works does not have procurement or standards of conduct policies in place, as required under uniform guidance. However, the County has until 1/1/18 to update their policies, which is outside of our audit scope. Further, Public Works follows the LAG Manual from FHWA for procurement procedures. Please note that the County is in the process of editing and adopting the Garfield County procurement policy, which will be adopted in 2018. This policy includes general procurement guidelines as well as standards of conduct. We used the SA decision matrix below to evaluate our results. We concluded that the likelihood of noncompliance is remote and the magnitude of potential noncompliance to be less than material. Therefore, we will assess control risk at LOW. We will issue a recommendation. E - Federal Procurement PoliciesLOR Summary

Likelihood of Noncompliance	**Magnitude of Potential Noncompliance**	
	Less than Material	**Material**
Remote	Control deficiency **(Control risk is LOW)**	Control deficiency **(Control risk is LOW)**

More than Remote **(at least reasonably possible)**	**If the deficiency does not meet the criteria below for a significant deficiency:** Control deficiency **(Control risk is LOW)**	**Assess control risk as HIGH and <u>report a finding</u> for a <u>Material Weakness</u> if** the control deficiency(ies) did, or could, lead to noncompliance of 10% or more of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below)* -
	Assess control risk as HIGH and <u>report a finding</u> for a <u>Significant Deficiency</u> if: (1) the control deficiency(ies) did, or could, lead to noncompliance between 5%-10% of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below), and* (2) the grantor, inspector general, and/or the public views the issue as being important and would expect corrective action to be taken. *(Refer to Note 2 below.)*	-

2. Conduct Policy: *(UG Only)*

Verify that the entity has written standards of conduct/policy covering conflicts of interest for employees, agents, etc. engaged in the selection, award and administration of contracts. The standards must have these elements:

1. The officers, employees, and agents may not participate in the selection, award, or administration of a contract supported by a Federal award if they have a real *or apparent* conflict of interest.

2. The officers, employees, and agents may neither solicit nor accept gratuities, favors, or anything of monetary value

from contractors or parties to subcontracts.

3. Must include or disciplinary actions for violations of such standards.
see policy tab for information about the policy grace period

Public Works does not have procurement or standards of conduct policies in place, as required under uniform guidance. However, the County has until 1/1/18 to update their policies, which is outside of our audit scope. Further, Public Works follows the LAG Manual from FHWA for procurement procedures. Please note that the County is in the process of editing and adopting the Garfield County procurement policy, which will be adopted in 2018. This policy includes general procurement guidelines as well as standards of conduct. We used the SA decision matrix below to evaluate our results. We concluded that the likelihood of noncompliance is remote and the magnitude of potential noncompliance to be less than material. Therefore, we will assess control risk at LOW. We will issue a recommendation. E - Federal Procurement PoliciesLOR Summary

Likelihood of Noncompliance	**Magnitude of Potential Noncompliance**	
	Less than Material	**Material**
Remote	Control deficiency **(Control risk is LOW)**	Control deficiency **(Control risk is LOW)**
More than Remote **(at least reasonably possible)**	**If the deficiency does not meet the criteria below for a significant deficiency:** Control deficiency **(Control risk is LOW)**	**Assess control risk as HIGH and report a finding for a Material Weakness if** the control deficiency(ies) did, or could, lead to noncompliance of 10% or more of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below)* -

	Assess control risk as HIGH and report a finding for a Significant Deficiency if: (1) the control deficiency(ies) did, or could, lead to noncompliance between 5%-10% of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below), and* (2) the grantor, inspector general, and/or the public views the issue as being important and would expect corrective action to be taken. *(Refer to Note 2 below.)*	-

3. Procurement: *(Pre-UG & UG)*
Select procurement transactions and test to determine if the entity complied with the most restrictive *competitive* procurement method of state, local and federal requirements based upon applicable thresholds. If competition is limited or there is no competition, determine if the rationale was allowable per federal rules.

We selected the Tucannon Road Phase 3 and Bridge Inspections projects to review for procurement method compliance. We reviewed the table in the Testing Strategy that summarizes Federal, State, and Local requirements based on applicable thresholds. We determined that the Tucannon Bridge Project met compliance requirements for Formal/Sealed Bids as the Engineer's Estimate for the project was $1,667,654. Due to its high dollar amount, this project would have met Federal, State, or Local requirements regardless of which was the most restrictive.

We obtained and reviewed the contractor file for the Tucannon Road Phase 3 Project, which included the bid tabulation sheet, bids, required documents such as the Department of Revenue license print, Dept. of L&I Employer Liability Certificate, and recommendation letter from the County Engineer to the County Commissioners. We noted that the bid file included the following bid documents:

- Suspension & Debarment printout for WA State Dept of L&I
- Tabulation of all bids received and opened publicly* (Barker Inc - $2,062,163.73; ML Albright & Sons - $2,103,341.61; each bidder had estimates for all line items)

- Certification for Federal-Aid Contracts*
- Non-Collusion Declaration*
- Local Agency Proposal - Bond amd Signature Page*
- Bid Proposal*
- Copy of Bid Bond*
- Bid Recommendation Packet for BoCC
- Bid Award Letter
- Engineer's Estimate (dated 2/5/2016)
- Certificate of Liability Insurance
- Signed Contract (6/7/2017)
- Letter to Proceed sent to Barker Inc (7/6/2017)
- Barker Inc Subcontractor List
- Copies of the advertisements made in the Dayton Chronicle on May 4, 11, and 18 of 2017

*Included in BoCC Recommendation Packet

For Bridge Inspections procurement/compliance testing, see N2. Administration of Engineering and Design-Related Service Contractsas the project required procurement of Engineering/Design-Related services. Those types of contracts are subject to special requirements by the FHWA and will be reviewed separately.

4. Cost Analysis: *(UG Only)*
If the cost in #3 exceeded the simplified acquisition threshold ($150,000), determine if a cost or price analysis was performed and supported the procurement. Modifications for these contracts must also have an analysis. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, the auditee must make independent estimates before receiving bids or proposals.

We obtained and reviewed the Engineer's Estimate for the Tucannon Road Phase 3 project, as it exceeded the SAT of $150,000. The Engineer's Estimate for the project was $1,667,654. We noted that the estimate was dated 2/5/2016 and supported the procurement of formal/sealed bids due to the high dollar amount. This estimate was created before receiving bids or proposals, which didn't take place until 2017.

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SUSPENSION AND DEBARMENT

1. S&D Status: *(Pre-UG & UG)*

Select new contracts (including purchases/purchase orders) that exceed $25,000 and subrecipient agreements (no dollar minimum) and verify the entity performed one of the following during the procurement process or when the contract was made:

1. Checked their status on the online search engine SAM.gov (and have support)
2. Put a clause in the contract, whereby the signer attests they are not suspended or debarred.
3. Obtained a signed certificate, whereby the signer attests they are not suspended or debarred.

*Note: If the entity did not check S&D during the procurement process or when the contract was made, there is non-compliance. The level of non-compliance depends on whether the entity checked S&D before or after the first payment to the vendor. Include this information with the Level of Reporting request.

We reviewed the Suspension & Debarment printout from the WA State Dept of L&I for Barker Inc (lowest bidder for Tucannon Road Phase 3). We noted that the printout was dated 5/23/17, which was before the contract was awarded on 6/5/2017.

The Bridge Inspections project was not subject to the same procurement requirements as Tucannnon Road, but we will test for S&D controls regardless. We reviewed the digital service agreement (for approximately $100,000) with Nicholls Kovich for the Bridge Inspections project and noted that it referenced a Suspension Certificate as an attachment to the agreement (appendix G-2). Upon further discussion, we learned that the attachment was not included at the end of the agreement. PW did not check for S&D before spending $25,000 or more with Nicholls Kovich (total spent $53,878.89).

Due to one of two vendors not having proper S&D documentation, we obtained a list of vendors for which $25,000 or more was paid with Federal funds. We found only one more vendor: Anderson Perry. We reveiwed the signed contract for the Vernon Smith Bridge and noted that included with the signed contract was a signed Suspension and Debarment certificate.

Of the three vendors subject to Suspension and Debarment processes, only two had the proper documentation (66%). This resulted in a 33% control failure.

Public Works did not check for Suspension and Debarment status before spending $53,878.89 with Nicholls Kovich for the Bridge Inspections project. The contract agreement between Public Works and the firm included a clause referencing attachment G-2: Suspension and Debarment Certificate, but the certificate was not included as an attachment with the agreement. Upon further discussion, PW was not aware of the need to include the specific attachment. Due to one of two vendors not having proper S&D documentation, we selected the only other vendor for which Suspension and Debarment process was required, and found that the County did obtain the proper documentation. We

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reveiwed the signed contract for the Vernon Smith Bridge and noted that included with the signed contract was a signed Suspension and Debarment certificate. There was not, however, a printout from the WA State Dept of L&I regarding suspension and debarment status, as expected based on our understanding of internal controls. Because the federal requirement for suspension and debarment was met via a signed certificate, we do not have a compliance issue. However, we do recommend that PW put processes in place to ensure consistent review of suspension and debarment status of applicable vendors. Overall, the control failure rate was 33%. We used the SA decision matrix below to evaluate our results. We concluded that the likelihood of noncompliance is more than remote and the magnitude of potential noncompliance to be material (over 10%). Therefore, we will assess control risk at HIGH. We will issue a recommendation. Finding - Federal PW A&E Procurement Method FinalLOR Summary

Likelihood of Noncompliance	**Magnitude of Potential Noncompliance**	
	Less than Material	**Material**
Remote	Control deficiency **(Control risk is LOW)**	Control deficiency **(Control risk is LOW)**
More than Remote **(at least reasonably possible)**	**If the deficiency does not meet the criteria below for a significant deficiency:** Control deficiency **(Control risk is LOW)**	**Assess control risk as HIGH and report a finding for a Material Weakness if** the control deficiency(ies) did, or could, lead to noncompliance of 10% or more of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below)*

	Assess control risk as HIGH and <u>report a finding</u> for a <u>Significant Deficiency</u> if: (1) the control deficiency(ies) did, or could, lead to noncompliance between 5%-10% of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below), and* (2) the grantor, inspector general, and/or the public views the issue as being important and would expect corrective action to be taken. *(Refer to Note 2 below.)*	-

2. Subcontractors: *(Pre-UG & UG)*
The grantee must inform the general contractor that they are responsible for checking the S&D status of subcontractors. (Or the subrecipient must check their own subrecipients.) Determine if there was a clause in the contract assigning this responsibility when there are subcontractors or subrecipients.

We reviewed the Standards Specification booklet (part of the contract) and noted that it explained that General Contractors (Barker Inc) are responsible for checking the S&D status of their subcontractors. No issues noted.

Evaluation of Results:
Did you identify any noncompliance? **Yes.**

Public Works does not have procurement or standards of conduct policies in place, as required under uniform guidance. However, the County has until 1/1/18 to update their policies, which is outside of our audit scope. Further, Public Works follows the LAG Manual from FHWA for procurement procedures. Please note that the County is in the process of editing and adopting the Garfield County procurement policy, which will be adopted in 2018. This policy includes general procurement guidelines as well as standards of conduct. We used the SA decision matrix below to evaluate our results. We concluded that the likelihood of noncompliance is remote and the magnitude of potential noncompliance to be less than material. Therefore, we will assess control risk at LOW. We will issue a recommendation. E - Federal Procurement PoliciesLOR Summary

Likelihood of Noncompliance	**Magnitude of Potential Noncompliance**	
	Less than Material	**Material**
Remote	Control deficiency **(Control risk is LOW)**	Control deficiency **(Control risk is LOW)**
More than Remote **(at least reasonably possible)**	**If the deficiency does not meet the criteria below for a significant deficiency:** Control deficiency **(Control risk is LOW)**	**Assess control risk as HIGH and report a finding for a Material Weakness if** the control deficiency(ies) did, or could, lead to noncompliance of 10% or more of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below)*

	Assess control risk as HIGH and <u>report a finding</u> for a <u>Significant Deficiency</u> if: (1) the control deficiency(ies) did, or could, lead to noncompliance between 5%-10% of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below), and* (2) the grantor, inspector general, and/or the public views the issue as being important and would expect corrective action to be taken. *(Refer to Note 2 below.)*	-

Public Works did not check for Suspension and Debarment status before spending $53,878.89 with Nicholls Kovich for the Bridge Inspections project. The contract agreement between Public Works and the firm included a clause referencing attachment G-2: Suspension and Debarment Certificate, but the certificate was not included as an attachment with the agreement. Upon further discussion, PW was not aware of the need to include the specific attachment. Due to one of two vendors not having proper S&D documentation, we selected the only other vendor for which Suspension and Debarment process was required, and found that the County did obtain the proper documentation. We reveiwed the signed contract for the Vernon Smith Bridge and noted that included with the signed contract was a signed Suspension and Debarment certificate. There was not, however, a printout from the WA State Dept of L&I regarding suspension and debarment status, as expected based on our understanding of internal controls. Because the federal requirement for suspension and debarment was met via a signed certificate, we do not have a compliance issue. However, we do recommend that PW put processes in place to ensure consistent review of suspension and debarment status of applicable vendors. Overall, the control failure rate was 33%. We used the SA decision matrix below to evaluate our results. We concluded that the likelihood of noncompliance is more than remote and the magnitude of potential noncompliance to be material (over 10%). Therefore, we will assess control risk at HIGH. We will issue a recommendation. <u>Finding - Federal PW A&E Procurement Method FinalLOR Summary</u>

Likelihood of Noncompliance	**Magnitude of Potential Noncompliance**	
	Less than Material	**Material**

Remote	Control deficiency **(Control risk is LOW)**	Control deficiency **(Control risk is LOW)**
More than Remote **(at least reasonably possible)**	**If the deficiency does not meet the criteria below for a significant deficiency:** Control deficiency **(Control risk is LOW)**	**Assess control risk as HIGH and <u>report a finding</u> for a <u>Material Weakness</u> if** the control deficiency(ies) did, or could, lead to noncompliance of 10% or more of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below)* -
	Assess control risk as HIGH and <u>report a finding</u> for a <u>Significant Deficiency</u> if: (1) the control deficiency(ies) did, or could, lead to noncompliance between 5%-10% of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below), and* (2) the grantor, inspector general, and/or the public views the issue as being important and would expect corrective action to be taken. *(Refer to Note 2 below.)*	-

E.2.PRG - Highway Planning and Construction Grant

Procedure Step: L. Reporting
Prepared By: MDR, 7/31/2018
Reviewed By: DHO, 8/8/2018

Purpose/Conclusion:

Purpose:
To determine if internal controls provide reasonable assurance that applicable reporting requirements are met and to test compliance with those requirements.

Conclusion:
We determined that internal controls provide reasonable assurance that applicable reporting requirements are met, and tested compliance with those requirements with no issues noted.

Testing Strategy:

This testing strategy combines Pre-Uniform Guidance and Uniform Guidance (UG) requirements. Each compliance test in Step 8 will identify the guidance it relates to.

Perform the following steps:

1. Read and gather information.
2. Assess inherent risk (IR).
3. Gain an understanding of internal controls.
4. Assess preliminary control risk (CR).
5. Test internal controls.
6. Assess final control risk (CR).
7. Assess the risk of material noncompliance (combined IR and CR).
8. Test for compliance with the requirement.

Step 1: Read and Gather Information
Identify Requirements: Review the following to identify the reports that apply to the award (financial, performance or special):

1. The Compliance Supplement, Part 4, for the audited program

2. Awarding documents
3. Any available program guides or handbooks

Material Reports: Once all applicable reports for the program have been identified, determine which are material and should be audited. These types of reports are material:

1. Mentioned in the Compliance Supplement, Part 4
2. Reimbursement Requests
3. Requests for Advances
4. Other financial reports that determine the amount of funding to be paid (for material amounts or amounts over $25,000)
5. Affect a large part of the program (significant dollar amounts)
6. Failure to report or errors would cause the awarding agency to seek repayment for part of the award or reduce future awards (as stipulated in the contract)

Exclude reports that do not meet these criteria from your review.

FFATA Alert: The Federal Funding Accountability and Transparency Act (FFATA) report is used to capture and report subaward and executive compensation data for first-tier subawards. Entities are expected to comply with FFATA reporting as applicable, but we are not expected to audit this requirement at this time.

Step 2: Assess Inherent Risk (IR)
See steps to assess inherent risk in the Single Audit Planning Guide.

Step 3: Gain an Understanding of Internal Controls
Key controls are those effective in preventing and detecting noncompliance. Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

(a) Financial Reporting - Financial reports include all activity of the reporting period, are supported by appropriate records, and fairly presented;

(b) Performance & Special Reporting- Reports are completed, timely, and include all required element and those elements are accurate or supported.

Step 4: Assess Preliminary Control Risk (CR)
Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as **"low"** when:

(1) there is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or

(2) the auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Deficiencies Identified: Use the decision matrix in the "Major Federal Program" spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).

Step 5: Test Internal Controls
If preliminary control risk is:

LOW: test the key internal controls to determine whether they are effective in preventing and detecting noncompliance with the requirement.

HIGH: do not test the controls. Complete a level of reporting (LOR) form to report a "significant deficiency" or "material weakness."
Examples: Refer to the Single Audit Planning Guide for suggestions and examples of control testing.
Dual Purpose Testing: Consider whether the control can be tested in conjunction with a test of compliance to increase audit efficiency. If dual-purpose testing is performed, you must clearly document separately the results of control tests and compliance tests. See the policy tab for an example.

Automated Controls: If a key control is automated, control testing must include testing of both the automated control and related general controls. *See additional information in the planning guide.*

Deficiencies Identified: Use the decision matrix in the "Major Federal Program" spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).

Step 6: Assess Final Control Risk (CR)

LOW: No significant deficiencies or material weaknesses identified. *If your compliance testing in Step 8 finds non-compliance, you must* *reassess the final control risk here to determine if non-compliance is the result of a control failure.*

HIGH: Complete a level of reporting (LOR) form to report a "significant deficiency" or "material weakness."

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Step 7: Assess the Risk of Material Non-Compliance (IR and CR)
The risk is based on auditor judgment in consideration of the inherent risk and control risk. Use the planning guide to assess risk.

LOW

MODERATE

HIGH: Does not result in a finding. But the auditor should consider the risk when designing the nature and extent of compliance testing.

Step 8: Test Compliance
FINANCIAL REPORTS
Selection: If there are multiple financial reports of the same type, such as reimbursement requests, select some using the small population selection table in the policy tab. If reports are less than quarterly, such as project end reports, select all of them.

1. Support: *(Pre-UG & UG)*
Trace the amounts reported to the auditee's accounting records or other appropriate supporting documentation.

2. Accuracy: *(Pre-UG & UG)*
Test mathematical accuracy of reports and supporting worksheets.

3. Completeness: *(Pre-UG & UG)*
Test the selected reports for completeness. Review accounting records and ascertain if all applicable accounts, activity, netting items were included in the selected reports (e.g., program income, applicable credits, loans, interest earned on Federal funds, and reserve funds).

PERFORMANCE & SPECIAL REPORTS
Selection: If there are multiple financial reports of the same type, select some using the small population selection table in the policy tab. If reports are less than quarterly, such as project end reports, select all of them.

1. Support: *(Pre-UG & UG)*
Trace the data reported to the grantee's records and supporting documentation.

2. Accuracy: *(Pre-UG & UG)*

Test mathematical accuracy of reports and supporting worksheets.

3. Prescribed Format: *(Pre-UG & UG)*
Verify that the data was accumulated and summarized in accordance with the granting agency's criteria or using their required templates.

4. Completeness: *(Pre-UG & UG)*
Test the selected reports for completeness. Review supporting records and ascertain if all applicable data elements were included in the tested reports.

Evaluate the results.

Policy/Standards:

INTERNAL CONTROL UNDERSTANDING
Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

SMALL POPULATION – SELECTION SIZE
Policy 3240 contains the following table for determining sample sizes for small populations:

a. For populations of 365 or less, auditors may use the following table:

Population Size	Assurance Needed and/or Expected Deviations		
	Low	Moderate	High
Formula (rounded up) where N = population size	N * 1 / SQRT(N) * 0.68	N * 1 / SQRT(N)	N * 1 / SQRT(N) / 0.68
4 (quarterly)	2	2	do not sample
12 (monthly)	3	4	5
24 (semi-monthly)	4	5	8

52 (weekly)	5	8	11
260 (business days)	11	17	24
365 (daily)	13	20	28

Use of this table is considered non-statistical sampling. This table should only be used for small populations and not for small strata of larger populations.

Record of Work Done:

Inherent Risk of Noncompliance
In accordance with AU-C sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Understanding of Internal Controls
In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring). See the Permanent File folder for additional documentation of our overall COSO evaluation.

Key Personnel:
Andrew Woods, County Engineer
Lisa Ronnberg, Accounting/Business Manager

Project costs are reviewed by the Project Manager and approved by the County Engineer (see a more detailed explanation in allowable costs). The Accounting/Business Manager receives project cost information from the County Engineer, and inputs the data into a federal expenditure spreadsheet she maintains for each project. The spreadsheets list all of the expenditures coded to the federal program. The Accounting/Business Manager utilizes this spreadsheet when she prepares the reimbursement claim form, which the County submits to the Washington State Department of Transportation (WSDOT) for reimbursement.
Once the reimbursement claim form is complete, the Accounting Manager submits it to the County Engineer for review and approval.
The County Engineer reviews the reimbursement claim for accuracy and completeness, and to ensure it is supported by underlying expenditure records. The County Engineer is also aware of expenses related to projects because he has detailed knowledge of all

projects and he approves all expenditures.
Once the County Engineer has signed off on the reimbursement request, the Accounting Manager submits the requests electronically to WSDOT.

Key Control:
The County Engineer reviews the reimbursement claim for accuracy and completeness and to ensure it is supported by underlying records. He verifies the amounts on the reimbursement are supported by the expenditure detail worksheet and amounts reported on the claim form to ensure they match.

Evaluation of Results:
Did you identify any control deficiencies? **No.**

Preliminary Control Risk Assessment
Based on our understanding of key internal controls, we assess preliminary control risk at LOW.

Internal Control Testing
The County Engineer reviews the reimbursement claim for accuracy and completeness, and to ensure it is supported by underlying records. He verifies the amounts on the reimbursement are supported by the expenditure detail worksheet and amounts reported on the claim form to ensure they match.

The County Engineer verifies the amounts on the reimbursement claim form using the supporting documentation and the expenditure detail worksheet. He compares the amounts reported on the claim form to the supporting documentation and Lisa's expenditure spreadsheet to ensure that they match. The spreadsheet includes all expenditures to date and groups expenditures by request to identify which expenditures are included with each reimbursement request.

We noted the claim was supported by the expenditure spreadsheet and all expenditure/invoice reports. During our SEFA Vouch, we reviewed all FY17 reimbursement requests for the Tucannon Road Phase 3 and Bridge Inspections projects. We verified that the expenditure/invoice report tied to the reimbursement form (at the correct percentage per the Local Agency Agreement). We also verified that the expenditure spreadsheet tied to the reimbursement report. No issues noted.

See testing at Grant Reimbursement Testingunder control testing attributes G and H.
Based on our testing, this control appears to be in place and working as intended.

Evaluation of Results:

Did you identify any control deficiencies? **No.**

Final Control Risk Assessment
We assess final control risk at LOW.

Risk of Material Noncompliance
We assess the risk of material noncompliance at LOW.

Compliance Testing
FINANCIAL REPORTS
Selection: If there are multiple financial reports of the same type, such as reimbursement requests, select some using the small population selection table in the policy tab. If reports are less than quarterly, such as project end reports, select all of them.

1. Support: *(Pre-UG & UG)*
Trace the amounts reported to the auditee's accounting records or other appropriate supporting documentation.

During our SEFA Vouch, we reviewed all FY17 reimbursement requests for the Tucannon Road Phase 3 and Bridge Inspections projects. We verified that the expenditure/invoice report tied to the reimbursement form (at the correct percentage per the Local Agency Agreement). We also verified that the expenditure spreadsheet tied to the reimbursement report. No issues noted.

See testing at Grant Reimbursement Testingunder Compliance attributes C and D.

2. Accuracy: *(Pre-UG & UG)*
Test mathematical accuracy of reports and supporting worksheets.

During our SEFA Vouch, we reviewed all FY17 reimbursement requests for the Tucannon Road Phase 3 and Bridge Inspections projects. We verified that the expenditure/invoice report tied to the reimbursement form (at the correct percentage per the Local Agency Agreement). We also verified that the expenditure spreadsheet tied to the reimbursement report. No issues noted.

See testing at Grant Reimbursement Testing under Compliance attributes C, D, and E.

3. Completeness: *(Pre-UG & UG)*
Test the selected reports for completeness. Review accounting records and ascertain if all applicable accounts, activity, netting items were included in the selected reports (e.g., program income, applicable credits, loans, interest earned on Federal funds,

and reserve funds).

We obtained and reviewed the reimbursement requests and expenditure/invoice reports, as noted above. It appears that all applicable accounts/activity were included in the reports.

See testing at Grant Reimbursement Testing under Compliance attribute D.

Evaluation of Results:
Did you identify any noncompliance? **No.**

E.2.PRG - Highway Planning and Construction Grant

Procedure Step: N1. Wage Rate Requirements (Davis-Bacon Act)
Prepared By: MDR, 8/29/2018
Reviewed By: DHO, 9/7/2018

Purpose/Conclusion:

Purpose:
To determine if internal controls provide reasonable assurance that Wage Rate Requirements (also known as Davis-Bacon Act) are completed, and to test compliance with those requirements.

Conclusion:

We determined that internal controls provide reasonable assurance that Wage Rate Requirements (Davis-Bacon Act) are completed, and tested compliance with those requirements with no issues noted.

Testing Strategy:

This testing strategy combines Pre-Uniform Guidance and Uniform Guidance (UG) requirements. Each compliance test in Step 8 will identify the guidance it relates to.

Perform the following steps:

1. Read and gather information.
2. Assess inherent risk (IR).
3. Gain an understanding of internal controls.
4. Assess preliminary control risk (CR).
5. Test internal controls.
6. Assess final control risk (CR).
7. Assess the risk of material noncompliance (combined IR and CR).
8. Test for compliance with the requirement.

Step 1: Read and Gather Information

Requirement: When entities use federal money to pay for construction, they must ensure laborers are paid prevailing wages. They do this by:

1. Including the Wage Rate Requirements in the construction contract.
2. Obtaining/reviewing weekly certified payroll reports to determine laborers are paid the appropriate wage rate for the entire project period.

Program Applicability: Wage Rate Requirements apply to construction projects that exceed $2,000. Look to the awarding documents and/or the Compliance Supplement, Part 4 (page 4-20.001-1), to determine the applicability to the program being audited.

Service Applicability: Most, but not all, construction related services require federal prevailing wages. Some services generally *exempt* include:

Architects	Railroad employees
Engineers	Employees of PUDs
Timekeepers	Inspectors
Supervisors	Most public agency day labor
Foremen	Surveyors (when measuring height, distance and bearing)
Exploratory drilling services	

Contract Clause: The entity must include the **entire language** of 29 CFR, "Contract Provisions", as part of the general contractor's contract. They *cannot* be in brief or generic, such as "the contractor must comply with the Davis Bacon Act." The clause includes the requirement that contractors and subcontractors submit the certified payroll reports.

Weekly Certified Payroll Reports: For each contractor and subcontractor, the entity must obtain a payroll report for each week they worked, usually form WH-347. The form must be certified by the vendor that the information is true and accurate. The form shows:

1. Employee and their position/trade
2. The days they worked that week
3. Hourly wage rate they were paid

Payroll Report Timing: The entity, or their designee, must review the payroll reports *at least* before the entity pays the contractor for the time period covered in those reports. They are not required to review them on a weekly basis. If they do not receive reports timely, the entity should documented their due diligence to collect them or withhold payment until the reports are received.

Most Restrictive: There are also Washington State prevailing wage requirements. To comply with both the state and federal rates, the laborers must be paid the higher of the two rates, which varies based on their trade and position.

Intents & Affidavits: Intents and affidavits to "Pay Prevailing Wages" are used to comply with state prevailing wage requirements. While these documents on the WA Labor and Industries site cannot be used to comply with the federal requirements, we can use them to identify:

a. subcontractors working on the federal project and their trades
b. contractor and subcontractor start and end work dates
c. contactor and subcontractor contract values

Using a Contracted Project Manager/Engineer as the Control:When the auditee hires a project manager/engineer to oversee the project and *relies* on them for compliance, we should first document controls performed by the project manager/engineer. This would include speaking with that vendor and possibly reviewing documents at their office. We would still expect the entity to have monitoring controls because they are ultimately responsible for compliance.

Control Deficiencies When Relying on a Project Manager/Engineer: If we identify control deficiencies at the project manager/engineer's level, the auditee's monitoring controls may be able to compensate. This depends on the strength of their monitoring and whether it can prevent or detect non-compliance.

Similarly, if we identify controls deficiencies with the entity's monitoring controls, the project manager/engineer's controls over Davis Bacon compliance may be able to compensate. This depends on the strength of their processes and whether they can prevent or detect non-compliance.

Step 2: Assess Inherent Risk (IR)

See steps to assess inherent risk in the Single Audit Planning Guide.

Step 3: Gain an Understanding of Internal Controls
Key controls are those effective in preventing and detecting noncompliance. Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

(a) Contract Requirement: prevailing wage requirements are included in contracts or subcontracts.

NOTE: When identifying these internal controls, focus on the auditee's awareness of the requirement and the process it follows to ensure compliance. If the language is in the contract or bid document, then the control should focus on a person putting it in the documents or reviewing the documents to ensure appropriate wage rate clauses are included (and the entire language is included). *Avoid* a control that is along the lines of "the clause is included in the contract."

1. Entity is the Project Manager

(b) Certified Payrolls: the auditee can identify all subcontracts, collects weekly certified payroll reports from contractors and subcontractors and reviews them timely to ensure the appropriate wage was paid.

NOTE: Key controls should identify actions performed that ensure all weekly payroll reports are collected (all contractors and subcontractors and all time periods they worked).

2. Entity Relies on a Hired Project Manager/Engineer

(b) Certified Payrolls: the project manager/engineer can identify all subcontracts, collects weekly certified payroll reports from contractors and subcontractors and reviews them timely to ensure the appropriate wage was paid.

NOTE: Key controls should identify actions performed that ensure all weekly payroll reports are collected (all contractors and subcontractors and all time periods they worked).

(c) Monitoring Controls: the entity monitors the project manager/engineer to ensure they are able to comply with Davis Bacon requirements. This may include regular correspondence, assurance the consultant reviewed all payroll reports before the entity makes payments, double-checks the payroll reports, etc. A sufficient monitoring control should be able to prevent or detect non-compliance.

Step 4: Assess Preliminary Control Risk (CR)
Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as **"low"** when:

(1) there is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or

(2) the auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Deficiencies Identified: Use the decision matrix in the "Major Federal Program" spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).

Step 5: Test Internal Controls
If preliminary control risk is:

LOW: test the key internal controls to determine whether they are effective in preventing and detecting noncompliance with the requirement.

HIGH: do not test the controls. Complete a level of reporting (LOR) form to report a "significant deficiency" or "material weakness."

Examples: Refer to the Single Audit Planning Guide for suggestions and examples of control testing.
Dual Purpose Testing: Consider whether the control can be tested in conjunction with a test of compliance to increase audit efficiency. If dual-purpose testing is performed, you must clearly document separately the results of control tests and compliance tests. See the policy tab for an example.

Automated Controls: If a key control is automated, control testing must include testing of both the automated control and related general controls. *See additional information in the planning guide.*

Deficiencies Identified: Use the decision matrix in the "Major Federal Program" spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).

Step 6: Assess Final Control Risk (CR)

LOW: No significant deficiencies or material weaknesses identified. *If your compliance testing in Step 7 finds non-compliance, you must reassess the final control risk here to determine if non-compliance is the result of a control failure.*

HIGH: Complete a level of reporting (LOR) form to report a "significant deficiency" or "material weakness."

-

-
Step 7: Assess the Risk of Material Non-Compliance (IR and CR)
The risk is based on auditor judgment in consideration of the inherent risk and control risk. Use the planning guide to assess risk.

LOW

MODERATE

HIGH: Does not result in a finding. But the auditor should consider the risk when designing the nature and extent of compliance testing.

Step 8: Test Compliance
Selection: First, select some of the federally-funded construction projects during the audit period for the program, using auditor judgement. Identify the general contractor and their subcontractors for the selected project and identify their work start and end dates. Those dates can be found using filed WA Dept. of L&I intents and affidavits (use the orange download data button on that site for easier access) or site inspection reports, etc.

1. Contract Requirement: *(Pre-UG & UG)*
Verify that the required Federal prevailing wage rate clauses were included in the general contractor's contract. The required language is found at 29 CFR 5.5.

2. Aware of All Subs: *(Pre-UG & UG)*
Determine whether the entity was aware of *all* the subcontractors the audit identified. This may include confirmation with the project manager, checking whether there were any certified payroll documents on hand for the subcontractor and/or checking all subcontractors were included on tracking sheets (if any). Remember, not all types of contracts or services apply to the Davis Bacon Act.

3. Report Completeness: *(Pre-UG & UG)*
Always select the general contractor for further testing. Use auditor judgement to select subcontractors for further testing (*only* select subs who worked during the audit period and to whom Davis Bacon applies). For those selected, the auditor will test a block of time by determining whether the entity collected all weekly certified payroll reports for *all weeks* the vendor worked during the audit period.

> Note: While the entity is required to check that the appropriate wage was paid – and we test their controls over that – *we* do not test whether the appropriate wage was paid.

Evaluate the results.

Policy/Standards:

INTERNAL CONTROL UNDERSTANDING
Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

CONTRACT CLAUSE DETAILS

Non-federal entities shall include in their construction contracts subject to the Wage Rate Requirements (which may still be referred to as the Davis-Bacon Act) a provision that the contractor or subcontractor comply with the Wage Rate requirements and the DOL regulations (29 CFR part 5, Labor Standards Provisions Applicable to Contacts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6). Per the CFR:

> **5.5 Contract provisions and related matters.**
> (a) The Agency head shall cause or require the contracting officer to insert in full in any contract in excess of $2,000 …financed in whole or in part from Federal funds …and which is subject to the labor standards provisions of any of the acts listed in § 5.1, the following clauses (or any modifications thereof to meet the particular needs of the agency. *Provided*, that such modifications are first approved by the Department of Labor):"
>
> [Includes (1) Minimum Wages; (2) Withholding; (3) Payrolls and basic records; (4) Apprentices and trainees; (5) Compliance with Copeland Act Requirements; (6) subcontracts; (7) contract termination: debarment; (8) compliance with Davis-Bacon and Related Act requirements; (9) disputes concerning labor standards; and (10) certification of eligibility.]

WEEKLY CERTIFIED PAYROLL REPORT DETAILS

Each payroll submitted must be accompanied by a "Statement of Compliance." The contractor, subcontractor or the authorized officer or employee of the contractor or subcontractor who supervises the payment of wages must sign the weekly statement. Statements of Compliance are to be made on the "Payroll (For Contractors Optional Use)" or on any form with identical wording. This must be completed within seven days after the regular pay date for the pay period.

PAYROLL REPORT CONTROL ELEMENTS

Important elements in this process may include how the entity:

a identifies the general contractor and all its subcontractors (ensuring they obtain documents for all parties),

b. identifies when the contractors are working on the project (e.g. reports from the general contractor, site inspectors, performing their own inspections, or relies on self-reports from the contractors, etc.)

c. ensures all report time periods are collected. The client will need to know all of the dates of work. Sometimes contractors provide a "no work performed report" as confirmation that they did not work during a particular week, but this is not required. The client could use a tracking spreadsheet or other method to document that all applicable reports have been collected.

d. determines the frequency of collection of the weekly certified payrolls

DUAL PUPOSE TESTING EXAMPLE
For Davis Bacon, the entity must determine the appropriate wage rate is paid by reviewing all payroll reports. The key control the auditor selected is:

> "The Administrative Manager tracks the collection of certified payrolls, ensuring she has all vendors through confirmation with other parties. She signs and dates the payroll reports after she determines the appropriate wage rate was paid compared to the Prevailing Wage Rate list."

You will test the control by: 1) comparing the certified payroll reports on hand for selected contractors compared to the tracking sheet (or other documentation) for the completeness element, and 2) checking that they have signatures from the Administrative Manager's review of the rates. We do not reperform this portion of the control since we do not test that the correct rate was paid.

To complete compliance testing you are also checking that 1) the entity has complete payroll records for the entire period the selected vendor worked during the audit period and 2) that the entity determined the appropriate rate was paid.

In this case, for testing both controls and compliance you are completing the same process. However, you need to document that you tested both and clearly show the conclusion of each even though they are related. Control testing should conclude whether the control was effective in preventing or detecting noncompliance and compliance testing whether the entity was in compliance.

REFERENCES
CFR 29 CFR 5.1 - 5.32
When required, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of $2,000 financed by federal funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL).

All contracts in excess of $2,000 (including those with subcontractors) must contain language that requires compliance with the prevailing wages in accordance with the Wage Rate Requirements (Davis Bacon Act).

To determine prevailing wage rates applicable at the time of construction, consult the Register of General Wage Determinations published by DOL Wage and Hour Division. The grantee should have a copy of the wage register on file. There is also a link to the DOL website on the SAO Intranet under Reference Material/Federal.

NOTE: The federal wages per the Wage Rate Requirements are different than the state prevailing wages prescribed by WA Dept of Labor and Industries (L&I).For projects where both state and federal wages apply, the contractor must pay the higher of the two.

2 CFR Part 200.326 Contract provisions.
The non-Federal entity's contracts must contain the applicable provisions described in Appendix II to Part 200—Contract Provisions for non-

Federal Entity Contracts Under Federal Awards.

Appendix II to 2 CFR Part 200—Contract Provisions for Non-Federal Entity Contracts Under Federal Awards
(D) Davis-Bacon Act, as amended (40 U.S.C. 3141-3148). When required by Federal program legislation, all prime construction contracts in excess of $2,000 awarded by non-Federal entities must include a provision for compliance with the Davis-Bacon Act (40 U.S.C. 3141-3144, and 3146-3148) as supplemented by Department of Labor regulations (29 CFR Part 5, "Labor Standards Provisions Applicable to Contracts Covering Federally Financed and Assisted Construction"). In accordance with the statute, contractors must be required to pay wages to laborers and mechanics at a rate not less than the prevailing wages specified in a wage determination made by the Secretary of Labor. In addition, contractors must be required to pay wages not less than once a week. The non-Federal entity must place a copy of the current prevailing wage determination issued by the Department of Labor in each solicitation. The decision to award a contract or subcontract must be conditioned upon the acceptance of the wage determination.

The non-Federal entity must report all suspected or reported violations to the Federal awarding agency. The contracts must also include a provision for compliance with the Copeland "Anti-Kickback" Act (40 U.S.C. 3145), as supplemented by Department of Labor regulations (29 CFR Part 3, "Contractors and Subcontractors on Public Building or Public Work Financed in Whole or in Part by Loans or Grants from the United States"). The Act provides that each contractor or subrecipient must be prohibited from inducing, by any means, any person employed in the construction, completion, or repair of public work, to give up any part of the compensation to which he or she is otherwise entitled. The non-Federal entity must report all suspected or reported violations to the Federal awarding agency.

Record of Work Done:

Inherent Risk of Noncompliance
In accordance with AU-C sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Understanding of Internal Controls
In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring). See the Permanent File folder for additional documentation of our overall COSO evaluation.

Key Personnel:
Robert Yates, Engineering Tech (Contract Administrator/Project Manager)

The Engineering Tech creates the bidding packet, and ensures that the entire prevailing wage clause is included in the bid packets and the signed contract once the contractor is selected.

The Engineering Tech obtains an intent to pay prevailing wages for contractors and subcontractors. The Engineering Tech uses a wage rate folder provided by the Department of Labor and Industries to compare state and federal prevailing wages and determine the highest of the two.

The Engineering Tech maintains a Required Document List (County-created) throughout the project to ensure all documents are obtained, including certified payroll reports. Once the construction project has begun, the Engineering Tech receives signed certified payroll from the contractors and subcontractors at the end of every week.

The Engineering Tech reviews the certified payroll and compares it to the DOL federal and state prevailing wages to ensure the contractor and subcontractor pays the higher of the two rates. The Engineering Tech reviews daily inspector reports to verify all contractors performing work that week have submitted certified payrolls.

Contractors and subcontractors submit a no activity report to the Engineering Tech to report no activity for the week.

The Engineering Tech does not approve payment of retainage, or release of bond until all the certified payrolls are submitted.

Key Controls:
The Engineering Tech creates the bidding packet and ensures that the entire prevailing wage clause is included in the bid packets and the signed contract once the contractor is selected.
The Engineering Tech reviews daily inspector reports to verify all contractors performing work that week have submitted certified payrolls.

Evaluation of Results:
Did you identify any control deficiencies? **No.**

<u>Preliminary Control Risk Assessment</u>
Based on our understanding of key internal controls, we assess preliminary control risk at LOW**.**

<u>Internal Control Testing</u>
The Engineering Tech creates the bidding packet and ensures that the entire prevailing wage clause is included in the bid packets and the signed contract once the contractor is selected.
We reviewed the Contract Documents binder and the Amendments to the Standards Sepcification booklet (part of the contract) binder for the Tucannon Road Phase 3 project. We reviewed the Wage Requirements section in the Amendments binder, which referenced FHWA 1273 (not

only is the general contractor subject to FHWA 1273, but they are also responsible for including it in any subcontractor agreements they create on behalf of the project). We reviewed FHWA 1273 and confirmed that the entire Davis Bacon Clause was included starting on page four.
Based on our review, it appears this control is in place and working as intended**.**

The Engineering Tech reviews daily inspector reports to verify all contractors performing work that week have submitted certified payrolls.

We obtained the project binder from the Engineering Tech and noted certified payroll reports for the Tucannon Road Phase 3 project. We scanned through all of the certified payroll reports (100% or 86 documents total) and noted that both the main contractors and the all subcontractors submitted the certified weekly payrolls. See testing at Certified Payroll Testing.

We noted that in the prior year, the payrolls were date stamped or hand dated when received, had several check marks indicating review, and were signed by Robert Yates, Engineering Tech. Reviewing the documentation this year, we found that there were no dates or signatures, and very few (if any) check marks. Upon discussion with Robert and Jeff McCowen (Engineering Tech), we learned that Jeff took on the responsibility of reviewing certified payroll from Robert in 2017, but there was a miscommunication on needing to sign and date the documents to indicate review. Jeff explained he keeps an excel document that shows checkmarks for the payroll periods he has reviewed, but there are no date stamps for when the review took place. Although there is no indication of review, all Certified Payroll documents were received, printed out, and retained. We will pass on further review.

The Bridge Inspections project did not include any certified payroll as the work was done by Robert Yates, Engineering Tech and the vendor they hired under contract (Nicholls and Kovich Engineering).

Based on our review, this control appears to be in place but is not working as iintended.

Evaluation of Results:
Did you identify any control deficiencies? **No.**

Final Control Risk Assessment
We assess final control risk at LOW.

Risk of Material Noncompliance
We assess the risk of material noncompliance at LOW.

Compliance Testing
Selection: First, select some of the federally-funded construction projects during the audit period for the program, using auditor

judgement. Identify the general contractor and their subcontractors for the selected project and identify their work start and end dates. Those dates can be found using filed WA Dept. of L&I intents and affidavits (use the orange download data button on that site for easier access) or site inspection reports, etc.

We selected the Tucannon Road Phase 3 project for compliance review as it is the highest project by dollar amount and represents a majority of the Highway Planning and Construction Grant Cluster. We found the following General Contractor and Sub-Contractors, and their Start/End Dates, for the project via the WA Dept of L&I (PrevailingWageFormsData):

Barker Inc* - Start 7/10/2017; End N/A
West Coast Soil Solutions - Start 9/1/2017; End 9/18/2017
Construction Ahead Inc - Start 7/10/2017; End 12/18/2017
M&I Livestock Inc - Start 6/27/2017; End 12/1/2017
Stripe Rite Inc - Start 11/1/2017; End 11/7/2017
Central Washington Asphalt Inc - Start 10/20/2017; End 10/31/2017
Barnes Inc - Start 9/13/2017; End 9/19/2017
Strate Line Inc - Start 9/22/2017; End N/A
Apex Surb & Turf LLC - Start 10/2/2017; End N/A
Bryan Land Surveying - Start 6/21/2017; End N/A

*General Contractor

1. Contract Requirement: *(Pre-UG & UG)*
Verify that the required Federal prevailing wage rate clauses were included in the general contractor's contract. The required language is found at 29 CFR 5.5.

We obtained and reviewed the contract for the Tucannon Road Phase 3 project with Barker Inc. We noted that the Wage Rate/Davis-Bacon Requirements were referenced by the contract amendments and Standard Specifications book (part of the contract). Specifically, the contract stated that the General Contractor is subject to FHWA 1273 (Required Contract Provisions - Federal Aid Construction Projects), and also responsible to include FHWA 1273 in any subcontractor agreements. FHWA 1723 includes the Davis-Bacon clause, in full, along with other applicable information for Federal construction projects.

We determined that the prevailing wage rate clauses were in fact included in the General Contractor's contract. No issues noted.

2. Aware of All Subs: *(Pre-UG & UG)*
Determine whether the entity was aware of *all* the subcontractors the audit identified. This may include confirmation with the project manager, checking whether there were any certified payroll documents on hand for the subcontractor and/or checking all subcontractors were included on tracking sheets (if any). Remember, not all types of contracts or services apply to the Davis Bacon Act.

We obtained a list of subcontractors for the Tucannon Road Phase 3 project by reviewing the filed state intents and affidavits to pay prevailing wages for the project. We did so by searching within the 'Intents and Affidavits' database for Prevailing Wage Form Data on the WA State Dept of L&I website (https://www.lni.wa.gov/TradesLicensing/PrevWage/IntentAffidavits/View/default.asp). We noted an Intent filed by Rock Hill Concrete LLC and Konen Rock Products Inc for zero dollars, which did not include in our review. We found the following subcontractors and contract amounts:

West Coast Soil Solutions - $72,812.75
Construction Ahead Inc - $78,055.00
M&I Livestock Inc - $190,240.00
Stripe Rite Inc - $11,598.75
Central Washington Asphalt Inc - $516,684.00
Barnes Inc - $20,000.00
Strate Line Inc - $5,000.00
Apex Surb & Turf LLC - $10,949.20
Bryan Land Surveying - $32,000.00

We compared this list to the list of subcontractors provided by Barker Inc and found that all actual subcontractors via L&I were included in their list. Because of this, the entity was aware of all subcontractors that actually worked on the project. Further, we reviewed certified payroll documentation and found that there were reports for each of the subcontractor's listed above. No issues noted.

3. Report Completeness: *(Pre-UG & UG)*
Always select the general contractor for further testing. Use auditor judgement to select subcontractors for further testing (*only* select subs who worked during the audit period and to whom Davis Bacon applies). For those selected, the auditor will test a block of time by determining whether the entity collected all weekly certified payroll reports for *all weeks* the vendor worked during the audit period.

> **Note: While the entity is required to check that the appropriate wage was paid – and we test their controls over that – *we* do not test whether the appropriate wage was paid.**

We obtained and reviewed the Certified Payroll binder for the Tucannon Road project. There were a total of 86 certified payroll documents for the contractor and subcontractors. We chose to review the month of August to determine if certified payroll was sent on a weekly basis for Barker Inc (4 certified payroll documents) and M&I Livestock (4 certified payroll documents). We reveiwed a total of 8 out of 86 (9%) certified payroll documents to determine if they were turned in weekly. We reviewed emails showing the date the documentation was sent to PW. It appears the County collected *all* weekly certified payroll reports for the month of August on a weekly basis for Barker Inc, however, only *one* certified payroll report for the month of August was actually received in August (on 8/8/17) for M&I Livestock. We noted that the rest of the August certified payroll was received on December 7, 2017. From reviewing the emails, it appears that M&I did not realize they had missing certified payrolls and sent a batch in to the County in December to fill in any holes. Because all certified payroll was eventually received, we will pass on further review.

See testing at Certified Payroll Testing.

Evaluation of Results:
Did you identify any noncompliance? **No.**

E.2.PRG - Highway Planning and Construction Grant

Procedure Step:	N2. Administration of Engineering and Design-Related Service Contracts
Prepared By:	MDR, 8/29/2018
Reviewed By:	DHO, 9/7/2018

Purpose/Conclusion:

Purpose:
To determine if internal controls provide reasonable assurance of compliance with special provisions, and to test compliance with those requirements.

Conclusion:

We determined that internal controls provide reasonable assurance of compliance with Administration of Engineering and Design-Related Service

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Contracts requirements, and tested compliance with those requirements with the following issues:

Public Works did not retain written documentation of which vendor was selected for the Bridge Inspections project, including why that vendor was chosen over others. This is a requirement per the LAG Manual Chapter 31 for A&E projects. There were notes taken during interviews of each of the vendor that applied for the project, but no final determination of which vendor was chosen and why. We used the SA decision matrix below to evaluate our results. We concluded that the likelihood of noncompliance is remote and the magnitude of potential noncompliance to be less than material. Therefore, we will assess control risk at LOW. We will issue a recommendation. Finding - Federal PW A&E Procurement Method FinalLOR Summary

Likelihood of Noncompliance	**Magnitude of Potential Noncompliance**	
	Less than Material	**Material**
Remote	Control deficiency **(Control risk is LOW)**	Control deficiency **(Control risk is LOW)**
More than Remote **(at least reasonably possible)**	**If the deficiency does not meet the criteria below for a significant deficiency:** Control deficiency **(Control risk is LOW)**	**Assess control risk as HIGH and report a finding for a Material Weakness if** the control deficiency(ies) did, or could, lead to noncompliance of 10% or more of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below)* -

	Assess control risk as HIGH and report a finding for a Significant Deficiency if: (1) the control deficiency(ies) did, or could, lead to noncompliance between 5%-10% of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below), and* (2) the grantor, inspector general, and/or the public views the issue as being important and would expect corrective action to be taken. *(Refer to Note 2 below.)*	-

Public Works advertised their A&E project to qualified vendors on their consultant roster rather than advertising in the newspaper. Per Uniform Guidance, A&E projects must be publicly advertised. Because the County did not publicly advertise their A&E project for bids/proposals, our compliance exception is equal to the amount paid to the chosen A&E vendor ($53,879). The amount comprises 6% of our total program expenditures ($924,725). We used the SA decision matrix below to evaluate our results. We concluded that the likelihood of noncompliance is more than remote and the magnitude of potential noncompliance to be material. Therefore, we will assess control risk at HIGH. We will issue a recommendation. Finding - Federal PW A&E Procurement Method FinalLOR Summary

Likelihood of Noncompliance	**Magnitude of Potential Noncompliance**	
	Less than Material	**Material**
Remote	Control deficiency **(Control risk is LOW)**	Control deficiency **(Control risk is LOW)**
More than Remote	**If the deficiency does not meet the criteria below for a**	**Assess control risk as HIGH and**

(at least reasonably possible)	**significant deficiency:** Control deficiency **(Control risk is LOW)**	**<u>report a finding</u>** **for a <u>Material Weakness</u> if** the control deficiency(ies) did, or could, lead to noncompliance of 10% or more of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below)* -
	Assess control risk as HIGH and <u>report a finding</u> for a <u>Significant Deficiency</u> if: (1) the control deficiency(ies) did, or could, lead to noncompliance between 5%-10% of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below), and* (2) the grantor, inspector general, and/or the public views the issue as being important and would expect corrective action to be taken. *(Refer to Note 2 below.)*	-

Testing Strategy:

This testing strategy combines Pre-Uniform Guidance and Uniform Guidance (UG) requirements. Each compliance test in Step 8 will identify the guidance it relates to.

Perform the following steps:

1. Read and gather information.
2. Assess inherent risk (IR).
3. Gain an understanding of internal controls.

4. Assess preliminary control risk (CR).
5. Test internal controls.
6. Assess final control risk (CR).
7. Assess the risk of material noncompliance (combined IR and CR).
8. Test for compliance with the requirement.

Step 1: Read and Gather Information
Identify Requirements: Review the following to identify the special requirements that apply to the award:

1. The Compliance Supplement, Part 4, for the audited program
2. Awarding documents (agreement/contract)
3. Any available program guides or handbooks

Material Requirements: Once all applicable special requirements for the program have been identified, determine which are material and should be audited. These types of reports are material:

1. Mentioned in the Compliance Supplement, Part 4
2. Can result in material non-compliance (quantitatively or qualitatively)
3. Can result in known questioned costs exceeding $25,000
4. Affect a large part of the program (significant dollar amounts)
5. Non-compliance could cause the awarding agency to seek repayment for part of the award or reduce future awards (as stipulated in the contract)

Exclude special requirements that do not meet these criteria from your review.

Combine with Other Requirements: There may be special elements that apply to other compliance requirements, such as additional reporting, procurement, or subrecipient monitoring requirements. For efficiency, these special provisions can be addressed in those other compliance sections. The audit documentation should clearly identify where the special provisions are being addressed.

Step 2: Assess Inherent Risk (IR)
See steps to assess inherent risk in the Single Audit Planning Guide.

Step 3: Gain an Understanding of Internal Controls

Key controls are those effective in preventing and detecting noncompliance. Gain an understanding of the internal control process and identify the key internal controls that are effective in ensuring:

(a) Special Test: Design controls that address the key elements of the special requirement as outlined in the Compliance Supplement or other source. Key elements should at least address the objectives of the special activity.

Step 4: Assess Preliminary Control Risk (CR)

Based on your understanding of key internal controls, assess preliminary control risk. This assessment must be either low or high. Control Risk should be assessed as **"low"** when:

(1) there is only a remote likelihood that noncompliance that is material could occur and not be prevented or detected on a timely basis, or

(2) the auditee's internal controls are considered sufficient to limit noncompliance to amounts that are less than material and would not merit the attention of the grantor or those charged with governance.

Deficiencies Identified: Use the decision matrix in the "Major Federal Program" spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).

Step 5: Test Internal Controls

If preliminary control risk is:

LOW: test the key internal controls to determine whether they are effective in preventing and detecting noncompliance with the requirement.

HIGH: do not test the controls. Complete a level of reporting (LOR) form to report a "significant deficiency" or "material weakness."

Examples: Refer to the Single Audit Planning Guide for suggestions and examples of control testing.

Dual Purpose Testing: Consider whether the control can be tested in conjunction with a test of compliance to increase audit efficiency. If dual-purpose testing is performed, you must clearly document separately the results of control tests and compliance tests. See the policy tab for an example.

Automated Controls: If a key control is automated, control testing must include testing of both the automated control and related general controls. *See additional information in the planning guide.*

Deficiencies Identified: Use the decision matrix in the "Major Federal Program" spreadsheet to determine the likelihood and the magnitude of potential or actual noncompliance. Your assessment must be clearly documented – use the terms from the spreadsheet (e.g. more than remote, etc.).

Step 6: Assess Final Control Risk (CR)

LOW: No significant deficiencies or material weaknesses identified. *If your compliance testing in Step 7 finds non-compliance, you must reassess the final control risk here to determine if non-compliance is the result of a control failure.*

HIGH: Complete a level of reporting (LOR) form to report a "significant deficiency" or "material weakness."

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Step 7: Assess the Risk of Material Non-Compliance (IR and CR)

The risk is based on auditor judgment in consideration of the inherent risk and control risk. Use the planning guide to assess risk.

LOW

MODERATE

HIGH: Does not result in a finding. But the auditor should consider the risk when designing the nature and extent of compliance testing.

Step 8: Test Compliance

Consult Part 4 of the Compliance Supplement for suggested procedures. If no procedures are available for your program, design a test of compliance sufficient to verify that the auditee has materially complied with the special test or provision.

Evaluate the results.

Policy/Standards:

INTERNAL CONTROL UNDERSTANDING

Documentation should address the five components of internal control per AU-C Sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring).

Record of Work Done.

Inherent Risk of Noncompliance
In accordance with AU-C sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at LOW.

Understanding of Internal Controls
In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring). See the Permanent File folder for additional documentation of our overall COSO evaluation.

Key Personnel:
Andrew Woods, County Engineer

We spoke with Andrew Woods, County Engineer regarding internal controls over Administratrion of Engineering and Design-Related Service Contracts.

Whenever an engineering or design consultant needs to be hired, Public Works follows the requirements and process from the Washington State Department of Transportation (WSDOT) Local Agency Guideleines (LAG) manual chapter 31, which is approved by the FHWA. This chapter in the LAG Manual goes over the steps that need to take place to enter into a consulting agreement, as well as other special requirements for such contracts. It also requires review of Suspension and Debarment for any potential consultants.

Consultant contracts are negotiated by Public Works staff and approved by the BoCC, as described below.

When a project is created and authorized by resolution of the BoCC, it is determined if County forces can perform the design work or if all/some of the design work needs to be completed by a consultant. This determination is sent as a recommendation from the County Engineer to the BoCC. The most common reason a consultant is hired is the specialized nature of the work outside of the abilities and/or resources of County staff. Examples being structural design (requires a structural engineer license), geotechnical design (requires special drilling, subsurface investigation and lab analysis) or environmental documents (no biologist on staff). Sometimes, it is a lack of staff that necessitates the consultant.

The County currently does not have independent project/cost estimates performed for their A&E projects.

The County Engineer, or designated staff, handles the advertisement. The standard advertisement is for two consecutive weeks. Consultants are typically given a month to submit their Request for Proposal (RFP).

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The County is specifically excluded from considering cost when selecting a consultant (via the LAG Manual), however, the County must still obtain an independent agency project estimate (per the LAG Manual). Selection is required to be qualification based. After selection, if the agency and the consultant cannot agree on a reasonable contract dollar amount, the agency may then go to the next most qualified candidate. The estimate is used during this subsequent discussion of dollar amount.

At a minimum, the County Engineer and the Designer will review and rank the proposals. The review and ranking criteria are specified in the RFP. The top three, after the initial qualifications review, are then interviewed (typically by telephone) by the same County staff. After the interviews, the PW team begins the negotiation process with the top candidate.

Once the negotiations are complete, the County uses the standard consultant agreement from the WSDOT Local Agency Guidelines (LAG) manual. The contract is signed by the consultant and then presented to the BoCC for approval and signature from the Chairman.

Please note: Public Works does not charge Indirect Costs to Federal grants. Indirect Cost requirements are not applicable. Also, Public Works did not have any engineering and/or design-related consultants acting as management support, making the special requirements not applicable.

Key Control:
The County Engineer is responsible for ensuring A&E project vendors are procured via the most restrictive method, including the following: 1) advertising the need for services in the paper of record, 2) evaluating applicant qualifications, 3) selecting and negotiating with the most qualified firm, and 4) excuting the contract (including applicable supplements). He advertises the project for two consecutive weeks and allows a month for proposals to be submitted. He ensures a qualifications-based approach when evaluating Engineering and/or Design Consultant firms for services on Public Works' projects. He reviews the qualifications listed on the Request for Proposal (RFP) turned in by the firm, and compares them to the needs of the project. The most qualified candidate is selected for negotiations. He refers to the WSDOT Local Agency Guidelines (LAG) Manual for policies and procedures relating to such services. (Procurement / FHWA Requirements)

Evaluation of Results:
Did you identify any control deficiencies? **No.**

Preliminary Control Risk Assessment
Based on our understanding of key internal controls, we assess preliminary control risk at LOW.

Internal Control Testing
The County Engineer is responsible for ensuring A&E project vendors are procured via the most restrictive method, including the following: 1) advertising the need for services in the paper of record, 2) evaluating applicant qualifications, and 3) selecting and

negotiating with the most qualified firm. He advertises the project for two consecutive weeks and allows a month for proposals to be submitted. He ensures a qualifications-based approach when evaluating Engineering and/or Design Consultant firms for services on Public Works' projects. He reviews the qualifications listed on the Request for Proposal (RFP) turned in by the firm, and compares them to the needs of the project. The most qualified candidate is selected for negotiations. He refers to the WSDOT Local Agency Guidelines (LAG) Manual for policies and procedures relating to such services. (Procurement / FHWA Requirements)

We asked to see the advertisement in the paper of record, and were told by Robert Yates, Engineering Tech, that this project was only advertised to two vendors from the County's Consultant Roster rather than being publicly advertised in the paper of record. We obtained the two emails to the vendors from the roster (sent Nov 29, 2016). We noted that those were the only two vendors that submitted proposals. With further discussion we learned that the County used this method of advertising due to section 31.3 in the LAG Manual that discussess selection of consultants from a consultant roster. However, because Federal dollars were used to pay the vendor for this A&E project, according to Uniform Guidance the project must be publicly advertised to allow maximum open competition. We will issue a recommendation (see below).

We obtained and reviewed the Proposals for the two firms that sent in proposals for the Bridge Inspections project. We skimmed through their proposals and noted that they discussed their various qualifications relating to the project. We also obtained and reviewed the notes of Andrew Woods, County Engineer and Robert Yates, Engineering Tech that discussed the pros and cons of each choice in relation to the Bridge Inspections project. It appears that the firms applying for the project were assessed based on their qualifications.

Based on our review, it appears this control is in place and working as intended.

Evaluation of Results:
Did you identify any control deficiencies? **Yes.**

Public Works advertised their A&E project to qualified vendors on their consultant roster rather than advertising in the newspaper. Per Uniform Guidance, A&E projects must be publicly advertised. Because the County did not publicly advertise their A&E project for bids/proposals, our compliance exception is equal to the amount paid to the chosen A&E vendor ($53,879). The amount comprises 6% of our total program expenditures ($924,725). We used the SA decision matrix below to evaluate our results. We concluded that the likelihood of noncompliance is more than remote and the magnitude of potential noncompliance to be material. Therefore, we will assess control risk at HIGH. We will issue a recommendation. Finding - Federal PW A&E Procurement Method FinalLOR Summary

Likelihood of Noncompliance	Magnitude of Potential Noncompliance	
	Less than Material	Material

Remote	Control deficiency **(Control risk is LOW)**	Control deficiency **(Control risk is LOW)**
More than Remote **(at least reasonably possible)**	**If the deficiency does not meet the criteria below for a significant deficiency:** Control deficiency **(Control risk is LOW)**	**Assess control risk as HIGH and <u>report a finding</u> for a <u>Material Weakness</u> if** the control deficiency(ies) did, or could, lead to noncompliance of 10% or more of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below)* -
	Assess control risk as HIGH and <u>report a finding</u> for a <u>Significant Deficiency</u> if: (1) the control deficiency(ies) did, or could, lead to noncompliance between 5%-10% of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below), and* (2) the grantor, inspector general, and/or the public views the issue as being important and would expect corrective action to be taken. *(Refer to Note 2 below.)*	-

<u>Final Control Risk Assessment</u>
We assess final control risk at HIGH.

<u>Risk of Material Noncompliance</u>
We assess the risk of material noncompliance at MODERATE.

<u>Compliance Testing</u>
Procurement:
A. Select procurement transactions and test to determine if the entity complied with the most restrictive *competitive* procurement method of state, local and federal requirements based upon applicable thresholds. If competition is limited or there is no competition, determine if the rationale was allowable per federal rules.

- Note that if federal funds are used to pay for A&E services, the grantee must ensure the federal and state procurement requirements are met. For the most part, the requirements are the same, however, the federal requirements include additional responsibilities such as publicizing the evaluation factors and having a written method for conducting technical evaluations of the proposals received and for selecting recipients.

We reviewed the Bridge Inspections project to determine if the County complied with the most restrictive competitive procurement method based on applicable thresholds. We found that there is no Federal or State threshold for A&E. The County follows the LAG Manual for A&E Procurement processes. During our review, we noted the following:

- The County did not document the consultant selected and reasons why this consultant was chosen over others. There were notes indicating that interviews took place, but no final determination of the vendor chosen and why. We will issue a recommendation (see below).
- The County did not retain documentation showing that they verified the consultant status at WA State Dept of L&I for suspension and debarment purposes. See S&D review at <u>I. Procurement/Suspension and Debarment</u>.
- The County advertised the project to qualified vendors on their consultant roster rather than advertising in the newspaper (we reviewed the emails to the vendors, sent November 29, 2016). Per Uniform Guidance, A&E projects must be publicly advertised (except for instances of emergency). We will issue a recommendation (see below).

FHWA Requirements:
A. Engineering and Design Procurement Policies

Verify that the State DOT or recipient LPA has written policies and procedures for procurement of engineering and design serices and that those procedures have been approved by the FHWA. For subrecipient LPAs, verify that they are using written policies and procedures prescribed by the awarding State DOT or that the subreceipient's written policies and procedures have been approved by the State DOT.

We spoke with Andrew Woods-County Engineer, Robert Yates-Engineering Tech, and Lisa Ronnberg-Accounting/Business Manager regarding the written policies and procedures for procurement of engineering and design services. They explained that Public Works follows the requirements and process from the Washington State Department of Transportation (WSDOT) Local Agency Guideleines (LAG) manual chapter 31, which is approved by the FHWA. See our review of procurement policies in the "I. Procurement/Suspension and Debarment" section.

B. Indirect Cost Rate

1) Verify that contracting agencies are accepting the appropriate indirect cost rates.

Not applicable. The County does not charge indirect costs to their Federal grants.

2) Verify that consultants and sub-consultants have submitted to the contracting agency a "Certificate of Final Indirect Costs."

Not applicable. The County does not charge indirect costs to their Federal grants.

C. Consultants as Management Support

Verify that contracts for consultants acting in a management support role have been approved by FHWA or are covered by an FHWA-approved alternate procedure.

We spoke with Andrew Woods-County Engineer and Lisa Ronnberg-Accounting/Business Manager regarding contracts for consultants acting in a management support role. They explained that Public Works did not hire Engineering and/or Design Consultants as management support in 2017.

Evaluation of Results:
Did you identify any noncompliance? **Yes.**

Public Works did not retain written documentation of which vendor was selected for the Bridge Inspections project, including why that vendor was chosen over others. This is a requirement per the LAG Manual Chapter 31 for A&E projects. There were notes taken during interviews of each of the vendor that applied for the project, but no final determination of which vendor was chosen and why. We used the SA decision matrix below to evaluate our results. We concluded that the likelihood of noncompliance is remote and the magnitude of potential noncompliance to be less than material. Therefore, we will assess control risk at LOW. We will issue a recommendation. Finding - Federal PW A&E Procurement Method FinalLOR Summary

Likelihood of Noncompliance	Magnitude of Potential Noncompliance	
	Less than Material	Material

Columbia County

Remote	Control deficiency **(Control risk is LOW)**	Control deficiency **(Control risk is LOW)**
More than Remote **(at least reasonably possible)**	**If the deficiency does not meet the criteria below for a significant deficiency:** Control deficiency **(Control risk is LOW)**	**Assess control risk as HIGH and report a finding for a Material Weakness if** the control deficiency(ies) did, or could, lead to noncompliance of 10% or more of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below)* -
	Assess control risk as HIGH and report a finding for a Significant Deficiency if: (1) the control deficiency(ies) did, or could, lead to noncompliance between 5%-10% of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below), and* (2) the grantor, inspector general, and/or the public views the issue as being important and would expect corrective action to be taken. *(Refer to Note 2 below.)*	-

Public Works advertised their A&E project to qualified vendors on their consultant roster rather than advertising in the newspaper. Per Uniform Guidance, A&E projects must be publicly advertised. Because the County did not publicly advertise their A&E project for bids/proposals, our compliance exception is equal to the amount paid to the chosen A&E vendor ($53,879). The amount comprises 6% of our total program expenditures ($924,725). We used the SA decision matrix below to evaluate our results. We concluded that the likelihood of noncompliance is more than remote and the magnitude of potential noncompliance to be material. Therefore, we will assess control risk at HIGH. We will issue a recommendation. Finding - Federal PW A&E Procurement Method FinalLOR Summary

Likelihood of Noncompliance	**Magnitude of Potential Noncompliance**	
	Less than Material	**Material**
Remote	Control deficiency **(Control risk is LOW)**	Control deficiency **(Control risk is LOW)**
More than Remote **(at least reasonably possible)**	**If the deficiency does not meet the criteria below for a significant deficiency:** Control deficiency **(Control risk is LOW)**	**Assess control risk as HIGH and report a finding for a Material Weakness if** the control deficiency(ies) did, or could, lead to noncompliance of 10% or more of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below)* -

	Assess control risk as HIGH and report a finding for a Significant Deficiency if: (1) the control deficiency(ies) did, or could, lead to noncompliance between 5%-10% of total grant expenditures (quantitative) **OR** the activity (qualitative) *(refer to Note 1 below), and* (2) the grantor, inspector general, and/or the public views the issue as being important and would expect corrective action to be taken. *(Refer to Note 2 below.)*	-

E.2.PRG - Highway Planning and Construction Grant

Procedure Step: REQUIRED - Program Summary - UG

Prepared By: MDR, 7/11/2018

Reviewed By: DHO, 8/8/2018

Purpose/Conclusion:

Purpose/Conclusion:
To summarize the major program audit results.

Testing Strategy:

Audit Summary Always Follows Uniform Guidance: This section contains UG requirements. Despite whether the program subject to audit has pre-UG or UG awards, our planning, concluding and reporting should be performed under UG because the entity's fiscal year started after the UG effective date of 12/26/2014.

Summary: Complete the Major Federal Program spreadsheet, the same one from the Compliance Requirements step. While it summarizes the results, each compliance area with an exception should have a rationale for reporting level in the ROWD.

Questioned Costs: Known and likely questioned costs of $25,000 or greater must be reported as a finding. Known questioned costs must be listed separately from likely/projected/estimated questioned costs on the finding. See the Audit Report Standards Manual for an example.

Don't Net Questioned Costs: If you find the entity overbilled and underbilled the program, do not net them to determine total questioned costs.Overbilled amounts represent unallowable costs that are used to determine the level of non-compliance. Underbilled amounts just represent the availability of other costs that could be considered allowable and are not an error.

Associated Questioned Costs: When you question direct costs you should consider the impact errors would have for "directly associated costs." When an unallowable cost is incurred, directly associated costs are also unallowable. Directly associated costs are incurred solely as a result of incurring another cost and would not have been incurred if the other cost had not happened. For example:

1. Fringe benefits are directly associated with payroll costs,
2. Indirect rates multiplied against questioned direct costs results in directly associated indirect costs.

Questioned Costs – Clusters: When questioning costs in a cluster of programs, be sure to designate which costs are attributed to each CFDA number within the cluster.

Policy/Standards:

Record of Work Done:

We summarized the results of the major program audit: Major Federal Program - Local teams

F.1.PRG - BARS Cash Basis

Procedure Step:	Entity Operations - BARS Cash Basis
Prepared By:	MDR, 7/3/2018
Reviewed By:	DHO, 7/3/2018

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.

Conclusion:
Based on our understanding of the entity and its operations, we noted **no** potential risks.

Testing Strategy:

Auditors are **required** to document an understanding of the following items as necessary to supplement the general understanding of the government's operations and environment documented in the planning guide:

Joint Ventures and Related Parties (for disclosure purposes)

- List any component units, joint operations, joint ventures, or jointly governed organizations along with any related parties other than officials and executive staff (who would be considered related parties, but aren't necessary to list in the permanent file).

For definitions, see instructions for "Other Disclosures" in BARS Part 4, Chapter 5 and the Reporting Entity and Related Party Transactions steps. For purposes of the permanent file, auditors should list all organizations that would be considered component units, joint ventures, related parties, etc by their nature. Auditors will evaluate materiality of organizations and transactions in the Reporting Entity and Related

Party Transaction steps for purposes of evaluating financial statement presentation and disclosure.

- For each entity listed, briefly summarize a description of the entity, the nature of the relationship, how it is reported on the financial statements, any expected or routine transactions and any other relevant information (such as when it was last evaluated or if it has a separate audit by SAO or another CPA firm).

Key Operational Information

Describe key information related to the government's operations as necessary to supplement the general understanding documented in the planning guide, such as:

- Description of governing body structure or alternative (if alternatives are possible)
- Major programs and activities, especially any optional or unique programs other than basic activities required by statute. Auditors should include information about activities that may be important to know when planning the audit, such as:
  - Brief description of unusual or unique programs and activities
  - Brief description of the scope of functions that can vary widely (ex: parks or tourism departments at Cities or Counties, number of separate systems for water, sewer or storm water operations, etc)
  - Notes on any major function the government has contracted out or performs on contract for other governments (ex: courts, police, jail and juvenile detention at Cities and Counties)
  - Notes on any public-private partnerships where the government contracts out the right and obligation to perform a public service, such as operating a toll bridge or wastewater treatment plant.
    - Use of any service organizations (Policy 6230), along with a description of the nature and significance of services provided.

  Service organizations are separate entities that provide services to the government that include performance of a key control or general controls over a key control. Service organizations are identified in this step to provide a basis for risk assessment and planning. Service organization controls need only be understood and tested (or addressed with SOC reports obtained from the government) if they are identified as key controls for a selected material balance.

  - Notes on any activities that are reliant on key suppliers, service providers, customers, specialized equipment, or technology / infrastructure at risk of obsolescence
- If useful, list or describe receipting locations and the types of revenues receipted at each location

If there are many locations, the auditor may want to refer to an attached list or cycling matrix. If the entity doesn't maintain a useful list, a template is available in the TeamStore.

- If useful, list or description of expenditure systems.

The auditor may want to attach a cycling matrix or refer to an attached list of petty cash and imprest funds.

- If useful, list or description of facilities related to certain activities (ex: number and type of fee-use facilities for a Park & Recreation District, number of leasable properties for a Port, number of libraries for a Library District or fire stations for a fire district).
- Any applicable items listed in the "Key Operational Information" section of the planning guide

Special Compliance Requirements and Policies
Describe any unique compliance requirements or policies as necessary to supplement the general understanding documented in the planning guide. For example:

- Compliance requirements related to unique programs or activities
- Special compliance requirements related to material contracts or interlocal agreements
- Results of legal research on unique compliance questions or practices

Significant Accounting Policies and Practices
NOTE: if no financial audit is performed, this section can be skipped.
Describe any unique accounting or reporting issues as necessary to supplement the general understanding documented in the planning guide. This would include:

- The basis on which the government keeps their accounting records and reports and:
  - Whether the accounting system uses the BARS chart of accounts or not
  - Any major system that accounts for transactions on a basis other than BARS Cash
- Anysignificant accounting policies or practices (***not*** policy that re-iterate BARS manual guidance, ***only*** policies cover actual decisions or deviations). For example:
  - Any unusual use of internal service funds
  - Whether investments are reported at cost, amortized cost or fair value
  - Policy related to expenditure cut-off
  - Unusual accounting or reconciling items with the bank or county treasurer
  - Deviations from BARS.

Any significant accounting policies should be disclosed in Note 1 of the financial statements. Material changes in accounting practices *require evaluation and possible disclosure in our audit report (see Policy/Standards tab for details).*

- Results of any accounting research on unique accounting or reporting questions or practices.
- Unique considerations regarding measurement of financial condition or performance.
- List of significant accounting estimates, if any.

An accounting estimate is an approximation of a financial statement item, which may include certain items reported on the Schedule of Liabilities. Significant accounting estimates are those that are based on highly sensitive assumptions or are otherwise significantly affected by year-to-year judgments made by management. ***We would not typically expect a significant accounting estimate for a cash basis entity.***
NOTE: Specific procedures are required to evaluate any significant accounting estimates for bias as part of the Management Override of Controls step for financial audits.

Other Information
The auditor should also **consider** including additional sections or information as necessary.

Policy/Standards:

See the Reporting Entity Determination worksheet available in the TeamStore for definitions and criteria for component units, related organizations, joint ventures, jointly governed organizations, undivided interests and related parties.
AU-C 708.07-11 describes the auditor's evaluation of changes in accounting principles and the effects of an accounting change on the auditor's report.

Record of Work Done:

We gained an understanding of the government's operations based on inquiry of management, observation and inspection during the course of the current and prior audits, along with review of the planning guide and other procedures performed as part of the planning steps. We noted the following key elements regarding the government and its environment in addition to our general understanding documented in the planning guide.

JOINT VENTURES AND RELATED PARTIES
We have identified no component units, joint ventures, joint operations or jointly governed organizations which may need to be evaluated for note disclosure.

Columbia County

We have identified no related parties in addition to entities listed above and not including government officials, executive management and their immediate families.

KEY OPERATIONAL INFORMATION

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

The County serves many functions, which are as follows:

- The Assessor determines the value of all taxable real and personal property in the county for the purpose of distributing tax liabilities in an equitable manner. In addition, the Assessor is responsible for processing and maintaining records regarding tax exemptions, including senior citizens, historical properties, churches, and public properties as well as programs such as open space and forest land.
- The Board of County Commissioners is the executive and legislative authority for Columbia County and as such strives to assure that the business, services and functions of the county proceed with efficiency and integrity, using sound judgment and best practice.
- The superior court is the court of original jurisdiction for all felony criminal proceedings, cases involving contract disputes, landlord-tenant disputes, real estate matters, personal injury suits, domestic relations, probate, juvenile cases, and civil claims over $25,000. The superior court also has appellate jurisdiction in cases arising in courts of limited jurisdiction (municipal and district courts) and hears appeals involving decisions by an administrative law judge.
- The county treasurer is the custodian of all funds for the county and its governmental subdivisions, maintaining financial records reflecting the receipt and disbursement of funds in accordance with generally accepted accounting principles. Funds are disbursed on warrants issued by the county auditor and other district authority. The treasurer bills and collects all real and personal property taxes certified on the tax rolls of the county, including foreclosure proceedings against properties for the non-payment of tax. Funds held in the county treasury are invested for the benefit of the various funds in accordance with statutory guidelines. The treasurer accounts for and pays all bonded indebtedness for the county and its governmental subdivisions. In addition, the treasurer acts as agent for the Department of Revenue in the administration of real estate excise tax and administers all surplus property sales for the county.
- The auditor provides a principle support function in the auditing, recording, and control of financial transactions in the county as prescribed by state law. These functions include preparation of the county budget and the annual financial reports. The auditor serves as custodian of public records, including land records, and issues a variety of licenses. In particular, the auditor may operate as a vehicle/vessel licensing agent of the director of the State Department of Motor Vehicle Licensing and coordinates with vehicle/vessel licensing subagents. The auditor is the ex officio supervisor of all primary, general and special elections for all state, county and special purpose districts under the direction of the Secretary of State. The elections division has three areas of responsibility including administration of elections, voter registration and voter outreach.
- The public works department maintains the county roads and other structures and provides solid waste services to those that live within the County.

- The County operates its own fair grounds, a golf course and horse race track on the fair grounds.
- The County has a contract with Blue Mountain Counseling for mental health services. The County owns the building/property that Blue Mountain Counseling leases. In addition, we noted that the County owns the Senior Citizen Center.
- The County operates its own public health department. The public health department used to be a separate entity, but has joined under the county for additional accountability.
- The Sheriff's Office contracts with the City of Dayton to provide police services to the City. The home of the Columbia County Sheriff's Office lies within the Columbia County Courthouse; the oldest operating courthouse in the State of Washington. Built in 1887, its historic architectural heritage has been preserved through a determined restoration effort. On the ground floor are the Columbia County Communications Center and the Sherriff's Office. The jail facilities are the brig of a ship that was placed on the foundation and the courthouse was built around it. The restoration included as much of the original building as possible. The front and back steps are original and were cast at the Walla Walla Iron Works. The Second floor contains the offices of the Auditor, Treasurer, Assessor, and Superior Court. There are many authentic photographs on the walls. The third floor contains the County Commissioners' Office and one of the most extraordinary and beautiful courtrooms to be found. Court is usually held two or three times a week. Restoration of the courtroom included the return to the original configuration of the courtroom, complete with balconies, cove ceilings and Italian chandeliers. The balconies are open for public use. The clock, judge's bench, jury chairs and benches are all original. In 1915, two Confederate civil war mountain howitzers arrived from the United States War Department and were placed on display in the front courtyard on either side of the walkway. The Columbia County courthouse was placed on the National Register of Historic Places in 1975.
- We identified no significant accounting estimates.

Service Organizations:
We identified no service organizations.

SPECIAL COMPLIANCE REQUIREMENTS AND POLICIES
We noted no special compliance requirements or information in addition to our general understanding documented in the planning guide.

SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES
We noted the following key information about the government's accounting and reporting in addition to our general understanding documented in the planning guide:

- 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 BARS manual.

Significant Estimates:

We identified no significant accounting estimates.

F.1.PRG - BARS Cash Basis

Procedure Step: Entity-Wide COSO Evaluation
Prepared By: MDR, 8/27/2018
Reviewed By: DHO, 8/27/2018

Purpose/Conclusion:

Purpose:
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:
We noted no deficiencies in the control environment that might undermine other control elements.

In addition, based on our understanding of entity-wide components of internal controls, we noted no potential risks

Testing Strategy:

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.

In evaluating COSO elements, auditors should specifically **consider** the following:

Control Environment:

- What key employees set the control environment at the government-wide level.
- Management integrity demonstrated in past experience with questions and issues.

- Involvement and oversight by the governing body.
- Whether management's philosophy and operating style promote accountability and effective internal controls.
- Whether adequate training appears to be provided to key staff.
- Whether employees in key positions appear competent to perform their duties.
- Any exceptions, such as departments or major areas that are outside the influence of the government-wide control environment.

Risk Assessment:

- What key employees are responsible for risk assessment at the government-wide level.
- Is the government's risk assessment process ad hoc, informal or formal? If not ad hoc, reference or document our understanding of the process and the results for the current period.

Refer to the "Risk Assessment Inquiry" step for suggested questions to evaluate management's risk assessment. Our understanding of management's risk assessment process and results would normally be documented in this step (along with the "Other Engagements & FAWF" step for formal processes with internal audit work).

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.

- Whether the government generally appears to identify risks, reasonably assess such risks and take appropriate action. 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).
- Any exceptions, such as departments or major areas that are not subject to the government-wide risk assessment.

Information & Communications:

- Update the Key Software Applications spreadsheet and consider adequacy of accounting systems to meet information needs.

Columbia County

Key software applications include general ledger software and other software that processes significant (volume or type) transactions that roll up into the general ledger or financial statements. Consider using the Risk Matrix tab to analyze for common risks associated with software.

Upload the completed spreadsheet to the Key Software sharepoint page. ***Do not email*** *Key Software Applications spreadsheets. Note: Team LISA utilizes the Key Software tab only and does not require, nor reviews any of the risk matrix tabs. For assistance brainstorming risks for an entity or application, teams should request a meeting with IS Auditors through the IT Helpdesk.*

- Whether official policy appears to be adequately communicated.
- Adequacy of reports and information available to managers and supervisors.
- Adequacy of communications between management and the governing body.
- Adequacy of communications with external parties as needed (such as regulatory agencies or service organizations).
- Whether the organizational structure generally appears to facilitate accountability, communication and resolution of issues.
- Any exceptions, such as departments or major areas with inadequate information systems or lack of communication with key personnel.

Monitoring:

- What key employees are responsible for monitoring at the government-wide level.
- Whether there is an internal audit function. If so, auditors should consider:
  - Whether internal audit directly reports to the chief executive or governing body
  - Whether internal auditors follow professional standards, such as International Professional Practices Framework (IPPF or "Red Book") standards promulgated by the Institute of Internal Auditors (IIA), or Generally Accepted Government Auditing Standards (GAGAS or "Yellow Book") published by GAO.
  - The scope and focus of internal audit activities. If any relevant work was performed by internal audit, we should consider this work and results in the Other Engagements & FAWF step.
- Involvement and oversight by management and the governing board, as evidenced by inquiry, observation and minutes.
- Information used for monitoring activities and how management determines reliability of this information.
- Extent to which performance measures, budgets or other financial analysis is used for monitoring purposes.
- Any exceptions, such as departments or major areas not subject to - or resistant to - monitoring or internal audit.

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.

Policy/Standards:

Columbia County

SAO Audit Policy 6230 – Understanding Internal Control and Assessing Control Risk

Record of Work Done:

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

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 noted the following:

- Management has been responsive to prior audit issues. They have communicated well and appear to be communicating honestly during prior audits. Management has brought known or suspected weaknesses to the attention of our office without prompting during previous audits.
- Commissioners appear to be very involved in the financial activities of the County as noted in the minute review. Past auditors have noted that they regularly see Commissioners during the audit at the Courthouse.

Risk Assessment

We updated our understanding of management's identification, assessment and response to relevant risks and noted the following:

- Risk assessment is done ad hoc see at Risk Assessment Inquiry.
- Management generally appears to have identified risks, accurately assessed the significance and likelihood of risks, and taken appropriate actions to address them.
- While there is no formal process for identifying risks at the County. The organization is committed to safeguarding public resources and this attitude is prevalent from the Commissioners to the lower level staff at the County. The management of the County encourages all employees to be proactive in finding possible risks or problems and proposing solutions.

Information and Communications

We updated our understanding of communication processes and accounting systems and noted the following:

- We have summarized Key Software Applications at Key Software Applications - Local Govt. Payroll, accounts payable (vendor payments), and general cash receipting, are significant systems that are part of the financial statement numbers. These systems do not appear to be included in the spreadsheet. Do we need to add them? Are there any risks with these systems? Excel issue with spreadsheet. Now updated.
- Official policy appears to be adequately communicated.
- Reports and information available to managers and supervisors appears to be adequate.
- Communications between management and the governing body appear to be adequate.

- Communications with external parties as needed (such as regulatory agencies or service organizations) appear to be adequate.
- The organizational structure generally appears to facilitate accountability, communication, and resolution of issues.
- No exceptions, such as departments or major areas with inadequate information systems or lack of communication with key personnel, were noted.

Monitoring

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

- The Board and finance personnel conduct quarterly update meetings.
- The County actively encourages personnel to bring up issues with the control process.
- Any noted weaknesses are brought to the Auditor's attention and she will recommend a resolution to the Board.

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.

F.1.PRG - BARS Cash Basis

Procedure Step: FS Controls - BARS Cash Basis

Prepared By: MDR, 7/3/2018

Reviewed By: DHO, 8/6/2018

Purpose/Conclusion:

Purpose:

To gain an understanding of internal controls and assess control risk in order to help plan the nature, timing and extent of substantive testing.

Conclusion:

We have gained an understanding of internal controls over the significant accounting systems and determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level. Therefore, our final control risk assessment is MAXIMUM for all material balances.

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We noted no material weaknesses or significant deficiencies in internal controls.

Testing Strategy:

This template should only be used for BARS Cash basis local governments. The template assumes controls will not be tested and that all control documentation can be efficiently documented in a single step. Auditors may want to use the "TEMPLATE – Internal Controls" step to document one or more systems if (a) many additional risks are identified, (b) significant deficiencies are noted, (c) controls are tested, or (d) documentation is extensive.

The following procedures are **required** to gain an understanding of controls and assess control risk for all material systems:

1. Gain an understanding of internal controls over **financial statement preparation**, confirm key controls and note any control deficiencies.

   The period-end financial reporting process includes all steps associated with converting the general ledger or other source accounting records into the financial statements. ***See Appendix 2 of the Financial Statement Planning Guide for expected controls over financial reporting for BARS Cash Basis governments.*** *If any of these expected controls is not in place or not operating effectively without adequate compensating controls, you should consider whether a significant deficiency or material weakness in controls over financial reporting exists.*

2. Gain an understanding of internal controls related to **risks covered by the cash flow reconciliation test**, confirm key controls and note any control deficiencies.

   The following are expected key controls over cash and cash activity. If any of these expected controls is not in place or not operating effectively without adequate compensating controls, you should consider whether a significant deficiency or material weakness in controls over financial reporting likely exists.

   - *Total ending balance in all bank accounts is reconciled to the total cash and investments recorded in the GL.*

   We would expect that the reconciliation process encompasses all bank, investment and County Treasurer and fiscal agent accounts (including clearing or other zero balance accounts), with any petty cash, change or imprest funds included at its authorized amount.

   As a matter of convenience, entities will often reconcile their "main" account or accounts to the general ledger, and then separately reconcile investment, zero-balance and agency or special-use accounts. This is acceptable so long as separate reconciliations are either combined or otherwise results in a complete accounting of reconciling items between bank accounts and the general ledger.

   - *Total activity in all bank accounts is reconciled to the total revenue and expenditures recorded in the GL.*

If a reconciliation of revenues and expenditures is not being done, we would expect adequate compensating controls to be in place to ensure that revenues and expenditures are recorded accurately. Compensating controls might include independent review of all journal entries, reconciling selected revenue sources to source documents (such as OST or grant revenues), reconciling reported expenditures to board approvals per the minutes, and/or detailed financial analysis of revenues and expenditures at year end.

3. Gain an understanding of internal controls related to **additional risks** identified in planning, confirm key controls and note any control deficiencies.

For each additional risk identified in planning, the auditor needs to identify the significant accounting system related to that risk, gain an understanding of controls and confirm controls. The auditor may also decide to test controls in order to set control risk at LOW and reduce the amount of substantive testing necessary. If the auditor decides to test controls for one or more additional risks, the template will need to be modified to reflect this.

4. Evaluate the results and document a control risk assessment. Consider whether any internal control issues identified represent material weaknesses or significant deficiencies.

Unless the auditor is testing the operating effectiveness of controls for one or more material systems, control risk must be set at MAXIMUM.

Regardless of the control risk assessment, the auditor must identify and report any significant deficiencies or material weaknesses discovered in either the design or operation of controls. Effective key controls provide reasonable assurance that material misstatements in relevant assertions will be prevented or detected and corrected timely. If there is not a key control designed to address a relevant assertion, is not actually placed in operation, or is not consistently or effectively applied, a significant deficiency likely exists. Depending on the magnitude and likelihood of potential effects and any compensating controls, the deficiency may represent a material weakness. See the Policy/Standards tab for more guidance on evaluating whether an identified issue represents a material weakness or significant deficiency.

In gaining an understanding of controls, consider the overall understanding of COSO elements as documented in the "Entity-wide COSO Evaluation" step as they relate to this particular system.
If exceptions are noted, auditors should follow up to understand why the exception occurred and the potential consequences. Additional testing or changes to the audit plan may be needed, based on auditor evaluation and follow up of exceptions.

All potential material weaknesses and significant deficiencies should be discussed with the AIC or AAM, since they must be reported as findings.

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Policy/Standards.

SAO Audit Policy 2310 - Reporting Identified Audit Issues

SAO Audit Policy 6230 – Understanding Internal Control and Assessing Control Risk

Record of Work Done.

The following is our understanding of internal controls over financial reporting. In gaining our understanding, we considered the five components of internal control based on the COSO framework (control environment, risk assessment, control activities, information and communication, and monitoring).

1. Understand & Confirm Controls over Financial Statement Preparation

Key Personnel

Sharon Richter, County Auditor, With County since 1989
Cindy Haris, Cheif Deputy Auditor, Since 2005
Cathy Abel, Deputy Auditor/Payroll, Since 2011
Audrey McLean, County Treasurer, Since 2006 (With Treasurer's office since 2001)
Cathy Shochet, Deputy Treasurer, Since 2016
Lisa Ronnberg, Accounting Manager - County Road Department

Software

- The County uses the BARS Accounting System - developed externally by RC Technology and used by the Auditor's Office to account for all transactions and general ledger accounts.
- Payroll System - developed externally RC Technology and used by the Auditor's Office to account for all payroll transactions.
- Microsoft Excel - numbers are input from the systems into spreadsheets to produce all of the actual financial statements.
- The Treasurer's Office and the Assessor's Office that has implemented a Tax Collection program that allows the assessor's information to interact with the Treasurer's office. This program has not affected the BARS system yet.
- A stand alone accounting system maintained at County Road to capture all of the data related to that department's activities (CAMS). This system is for job costing purposes. All County Road expenditures are processed through the Auditor's office.

Journal Entries/ Transfers

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- The County Auditor, Sharon Richter and Deputy Auditor, Cindy Harris both have the ability to make journal entries and year-end adjusting journal entries. The majority of entries are made by Cindy.
- The majority of Journal Entries are routine payroll adjustments and payroll reports are retained to support the adjustment. When a correcting type entry is made, Sharon keeps the supporting documentation and attaches it to a printout of the adjustment made. The journal entry and support are kept in the Journal Entry binder. All department heads oversee their fund and department budgets, therefore payroll adjustments made would be reviewed by the deparments in their monthly review of the budget to actual activity reports.
- Transfer entries are made by Audrey McLean, County Treasurer or Sharon and must be approved by the Commissioners through a resolution authorizing the transfer, or through a resolution allowing recurring transfers. Most of the transfers are made as part of the approved annual budgets and go before the Commissioners at the time of the budget review. Sharon reviews all transfers initiated by Audrey to ensure they are allowable, amounts are supported and accurate.
- The Treasurer's office also performs monthly interfund transfers.
- The Auditor gives the Treasurer notices of monthly transfers per budget, and interfund transfers per Board resolution.
- The Treasurer posts these transfers and gives them to the Auditor for review. She includes a Summary and a system-generated Journal Listing showing all the transfers that were made. These transfers include transfers of utility taxes to the Current Expense fund, normal operating support of other funds by the Current Expense fund, and normal claims clearing postings.
- On a monthly basis, Sharon sends a hard copy of the Account Analysis Report from the GL to each department head for review of account coding. Audrey sends a hard copy of the County Treasurer's Month End Report to each department head for reivew with the Account Analysis Report. Any coding errors or journal entry corrections are communicated to Sharon by the department heads and an adjustment is made the following month.
- Most journal entry adjustments are initiated through a department request to correct coding or other reason. Sharon maintains these requests with her supporting documentation in the journal entry binder.
- There is no review of individual adjustments within the auditor's office. However, after making the adjustments and transfers, Sharon sends a report of the changes to the department that made the request so that they can see the changes that took place. Also, adjustment details roll up into the monthly financial statements and account analysis reports (produced directly from the accounting system) submitted to and reviewed by each department for errors.
- The Treasurer's office also prepares correcting type entries for miscoding made during the receipt of revenue. These are performed by the Treasurer and deputy Treasurer, supporting documentation of the correction is kept with the corresponding receipt.
- **The Auditor reviews the journal entries/transfers to ensure they are performed correctly, are complete, and are properly supported. The Auditor matches up the amounts from the support to journal entry. She checks the debits and credits and ensures the accounts are coded correctly based on the purpose of the entry. (KC1)**

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Financial Statement Preparation:

Sharon Richter, County Auditor, is responsible for preparing:

- Expenditures for C-4, C-5 and Schedule 05 and Schedule 04. This is a collaborative effort with the Treasurer. Statements are then reviewed by the Cheif Deputy Auditor, Cathy Haris who documents her review using a checklist.
- Schedule 10 - Schedule of Indebtedness
- Schedules 11 - Schedule of Cash Activity
- Schedules 13 and 14- Schedule of Short-Term Investments and Interest Bearing Debt
- Schedule 16 - Schedule of Expenditures of Federal Awards (based on input from departments)
- Schedule 19 - Schedule of Labor Relations Consultants Reporting
- Notes
- Sharon is knowledgeable of reporting requirements and follows the BARS manual to prepare financial statements and notes.

Audrey McLean, County Treasurer, is responsible for preparing:
Audrey was appointed County Treasurer in 2006. Audrey has worked for the Treasurer's office since 2001.

- Revenues for the C-4, C-5 and the Schedule 04
- Schedule 7 - Schedule of Warrants Payable
- Schedule 10 - Schedule of Indebtedness
- Schedule 11 - Schedule of Cash Activity

Lisa Ronnberg, Accounting Manager - County Road Department is responsible for the following schedules:

- Revenue and Expenditure information for C-4 and C-5 for departments managed at County Road (County Road, Solid Waste, Solid Waste Reserve, ER&R, Special Paths & Trails, Flood Hazard Management, etc.)
- Schedule 17 - Annual Report on Public Works Projects

- The Treasurer maintains all Treasurer Accounts in the Columbia County Financial Management (CCFM) System.

- All transactions are recorded in the manual Excel (spreadsheet) cashbook and in the accounting system.
- Monthly reports are printed from the system and forwarded to the Auditor's office.
- Excel reports are also generated for all cash and investment transactions and compared to the report totals generated by the accounting system.
- The Treasurer compares the deposit summaries from the County Road and ER&R funds and compares them to amounts on CCFM to ensure the amounts are correct.
- <u>The Auditor's Office also keeps track of the expenditures of each fund, except for the larger funds (e.g. County Road, ER&R). The expenditures of the larger funds are kept on a higher level (without detail) on the general ledger, with the goal of balancing expenditures in total, rather than in detail.</u>
- Reports of the departments are compared in total and then by fund and line items.
- Sharon agrees the line items to the information provided by County Road, as well as making sure they agree in total.
- Schedule 11 is prepared by both the Auditor and Treasurer to ensure that the balances are accurate. Sharon uses her Schedule 11 as the basis for the financial statements after reconciling with Audrey's.
- The Notes to the financial statements are prepared by both the Auditor and the Treasurer as they relate to each department. Both use the supporting documentation that they use to prepare their schedules and statements to prepare the corresponding note disclosures.
- Cindy Harris, Deputy Auditor, Responsible for reviewing all financial statements and notes after initial preparation. Cindy uses a checklist "Internal Review of Annual Financial Report" to ensure all shedules and reports are reveiwed for accuracy and completeness. She prints a hard copy of all schedules and reports and performs her review making notations as necessary. **Cindy Harris, Deputy Auditor, reviews the financial statements and the financial statement notes in detail after Sharon and Audrey have prepared them. She ensures Schedule 05 from the Public Works Department agrees to the general ledger and statements. She reviews the schedules and notes to ensure they are accurate, complete, and updated. (KC2)**
- Once reviewed by Cindy, Sharon files the schedules and notes online. Any Non-trivial yellow flags identified by online filing are researched by Sharon and are either explained or resolved.

<u>Confirm Controls:</u>
The Auditor reviews the journal entries/transfers to ensure they are performed correctly, are complete, and are properly supported. The Auditor matches up the amounts from the support to journal entry. She checks the debits and credits and ensures the accounts are coded correctly based on the purpose of the entry. (KC1)
We obtained the 2017 journal entry file from Sharon Richter, County Auditor. We noted journal entries were filed by type of entry and were divided by tabs such as payroll entires, ajusting entries, transfer entires, etc. We noted that journal entries were supported, and the support was

attached and filed with the journal entry. Transfer entries contained the Treasurer's summary and Journal Listings for each month of 2017. We noted each transfer appeared to be supported by memos, invoices, resolutions and other supporting documents.

Sharon also explained that each department is sent monthly financial reports from the system. The monthly reports includes revenue, expenditure and budget analysis reports that the departments review as an additional compensating control to ensure interfund and adjusting entries are accurate and as scheduled.

Based our review, it appears this control is in place.

Cindy Haris, Chief Deputy Auditor, reviews the financial statements and the financial statement notes in detail after Sharon and Audrey have prepared them. Cindy reviews the financial statements using the checklist provided by the State Auditor's Office. The checklist is detailed and helps her tie amounts to the statements. She ensures Schedule 05 from the Public Works Department agrees to the general ledger and statements. She reviews the schedules and notes to ensure they are accurate, complete, and updated. (KC2)

We obtained and reviewed the 2017 Annual Report Working File folder and noted the checklist that contained checkmarks and notes. Cindy explained that she follows the checklist to ensure statement amounts agree with various schedules and reports, and provides checks of beginning and ending balances. During our review of the file, we noted it contained the C-4 & C-5 statements and required schedules (including 09 and 16). We also noted check marks, notes and other indications of review on the required statements.

Please note: The notes were not included in the file because, due to a time crunch in the office, the notes were not ready for Cindy's review when she reviewed the statements and schedules. She did not get back to her review folder before we requested it, so the checklist is not signed or dated as she had not yet completed her review of the notes.

Cindy refers to the checklist throughout her review of the financial statements to determine if they appear accurate. Per our review of the Annual Financial Report checklist, it appears to have adequate information to provide guidance in reviewing the financial statements.

Based on our review, it appears this control is in place.

2. Understand & Confirm Controls over Cash Flow Reconciliation

- The County has a written Investment Policy. Per the Investment Policy and by authority of RCW 36.39.020, the County Treasurer is the authorized investment officer for the County and its taxing districts.

- Per the Investment Policy, the County has a Finance Committee consisting of the County Treasurer, County Auditor, and the Board of Commissioners. The committee meets quarterly per policy to discuss the County's investment portfolio and its performance. The Treasurer also provides monthly cash and investment reports to the Board of Commissioners and the Finance Committee.
- As the authorized investment officer of the County, the Treasurer is aware of any residual funds available for investing. To make sure that there are enough funds available to clear any outstanding warrants or expenditures that may come in, she communicates with the County Auditor first to determine if the amount she wants to invest would leave sufficient funds to cover those items, and not cause any account to overdraw.
- Before the Treasurer makes an investment she calls different financial institutions and obtains each institution's interest rate, and selects the one with the highest rate available to invest the funds. If the highest rate is with the County's bank that holds their main checking account, she will phone the bank and have the money transferred. If the highest rate is with another institution, then a check is written for the amount of the investment and taken or sent to the bank where the funds are to be invested.
- The Treasurer tracks and reconciles the cash received and expended on a daily basis by manually entering daily activity into an excel workbook called "Cash Book". A hard copy is printed and kept in a binder. Included in the Cash Book reconciliation are the investments, sales/purchases, and the investment balance. The Treasurer and Deputy Treasurer reconcile the cash book at the end of each day ensuring revenues and expenditures are recorded accurately. Daily cash activity is entered by either Cathy or Audrey and reviewed at the end of each day.
- Thoughtout the day, the Treasurer or Deputy Treasurer fills out the check register for the day's deposits and warrants.
- On a monthly basis the Deputy Treasurer reconciles warrants to the Cash Book and bank statements. Cathy obtains online back account information and enters the warrant information into an excel reconciling spreadsheet to ensure amounts that cleared the bank match the the bank statement and the warrant register. Cathy performs this for all warrant accounts/claims clearing accounts.
- On a monthly basis, the Treasurer reconciles the monthly bank statements to the Cash Book spreadsheet and the check registers. The bank statements are routed to the Deputy Auditor for review.
- **Audrey McLean, Treasurer reviews the bank statements, check registers, and cash book to ensure cash flow activity reconciles. Audrey reviews to ensure the ending balance in all bank accounts is reconciled to the total cash and investments recorded in the GL. (KC1)**
- Besides performing the daily Cash Book reconciliation, the Treasurer prepares a quarterly investment report that is given to the Commissioners and the Finance Committee.
- The Auditor receives the report and reviews it to see if the activity and interest rates appear reasonable based on Finance Committee discussions, and compares the amounts to the previous month to review for consistency.

<u>Confirm Controls:</u>

Audrey McLean, Treasurer reviews the bank statements, check registers, and cash book to ensure cash flow activity reconciles. Audrey reviews to ensure the ending balance in all bank accounts is reconciled to the total cash and investments recorded in the GL.

We obtained the County's bank binders for 2017 which contained the bank reconciliations for each account. We scanned through the binders and noted there was a bank reconciliation for each month of FY 2017. Next, we noted each reconciliation was initialed and dated as reviewed by Audrey and/or Cathy.

Additionally, Audrey showed us her month end Treasurer's report showing taxes, receipts, and disbursements for each fund. The report includes a "Totals All Funds" page that reports the total for each fund including a grand total, total investment, and residual amount left in funds after investments. She reviews this report against the Current Month Account Analysis report generated from the GL which is prepared by the Auditor. The Account Analysis report shows amounts by account and department for each fund for the current month, TYD totals, budgeted amount, and budget remaining. The reports are reconciled to ensure cash and investment amounts agree to the GL. The two reports are then provided to the Commissioners for review each month. We noted that all months were included from FY17, and that there was an Account Analysis report for each month as well. Both reports included checkmarks and notes from the reconciliation.

Based on this review, it appears the control is in place.

3. Understand & Confirm Controls over Additional Risks Identified

No additional risks identified.

4. Control Risk Assessment

We determined that substantive procedures alone will be effective to reduce detection risk to an acceptably low level. Therefore, our final control risk assessment is MAXIMUM for all material balances.
In gaining and confirming our understanding of controls, we noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses.

Issues

ISS.1 - E - SEFA Preparation

Prepared By: MDR, 9/6/2018 *Reviewed By:* DHO, 9/19/2018 *Type:* Single Audit *Category:* Grants (Federal) *Reporting Level(s):* Exit Item *Impact* *Cost Savings:* *Questioned Costs:* $0.00	*Issue* During our review of the County's Schedule of Expenditures of Federal Awards (SEFA), we determined: • The Prosecutor's Office was filling out the Departmental SEFA Form based on revenues rather than expenditures resulting in an overstatement of $10,493. • The Public Works department miscalculated three federal highiway construction projects resulting in an understatement of $6,890. • The Audito'rs Office recorded a federal grant by mistake resulting in an overstatement of $5,984. • The Public Health Department miscalculated a grant by using revenues rather than expenditures resulting in an overstatement of $20,790. We recommend the County ensure complete and accurate reporting on the Schedule of Expenditures of Federal Awards.

NOTES

ISS.2 - E - County Policies

Prepared By: MDR, 8/22/2018 *Reviewed By:* GLW, 8/27/2018 *Type:* Accountability *Category:* Other	*Issue* During our review of prior audit issues we found that there were several recommendations related to policies that have not yet been developed or approved. They include: Bonus Payments The County was not able to provide a policy for the application of Bonus Payments (in the form of more Holiday hours being awarded to employees).

Reporting Level(s): Exit Item *Impact* *Cost Savings:* *Questioned Costs:* $0.00	Gifting of Public Funds The County was not able to provide a policy for the waiving of rental fees at the youth center. Cash Receipting The County was not able to provide a policy for the cash receipting processes and procedures at the Fairgrounds. During our audit testing, we also found recommendations related to policies that have not yet been developed or approved. They include: Credit Cards The County was not able to provide a policy for credit cards in accordance with RCW 43.09.2855. We again recommend that the County develop and implement policies to address Bonus Payments, Gifting of Public Funds, Cash Receipting, and Credit Cards to safeguard County assets. We also recommend that the County develop and implement policies to address Credit Card expenditures to safeguard County assets.

NOTES

ISS.3 - E - Federal Procurement Policies

Prepared By: MDR, 7/19/2018 *Reviewed By:* DHO, 9/12/2018 *Type:* Accountability	***Issue*** The County has not established written conflict or interest or general procurement policies that address the federal requirements, as required under Uniform Guidance. The County had until January 1, 2018 to have these policies in place,

Category: Grants (Federal) *Reporting Level(s):* Exit Item *Impact* *Cost Savings:* *Questioned Costs:* $0.00	which if not done, may result in a higher level of recommendation the future audit periods. We recommend that the County puts procurement/conflict of interest policies in place to address federal requirements.

NOTES

ISS.4 - Finding - Sole Source Procurement Resolution Final

Prepared By: MDR, 9/13/2018 *Reviewed By:* DHO, 9/19/2018 *Type:* Accountability *Category:* Grants (Federal) *Reporting Level(s):* Finding *Impact* *Cost Savings:* *Questioned Costs:* $0.00	*Issue* **2017-001 The County did not have internal controls in place to ensure it met competitive bidding requirements.** ***Background*** In our three previous audits, we issued recommendations about following procurement requirements related to a contractor who provides mental health services to the community. The contractor is paid with federal funds.In 2014 and 2016 audits, these recommendations resulted in a management letter. Federal grant requirements require the County to formally bid for professional services by issuing a request

for proposal and selecting the most qualified contractor. Our current and previous audits noted that the County did not issue a request for proposal for these services, and instead considers the contractor a sole–source provider. State law provides exceptions to bid law in which the governing body may waive standard competitive requirements. A local government can use the “sole source” exception if it demonstrates that purchases are clearly and legitimately limited to a single source of supply. The County did not provide documentation supporting a sole-source designation for this contractor.

Description of Condition

The County paid the contractor $225,591 in 2015, $241,256 in 2016, and $172,453 in 2017.

In addition, the County extended the original contract, which expired in 2011, through June30, 2015. The County continued to make payments totaling $250,285 on this expired contract until it issued another contract extension in July 2017, extending it through June30,2018. Federal grant requirements do not allow for contract extensions and further require each additional contract to be formally bid.

Cause of Condition

The County continues to consider the contractor a sole-source provider and believes the contractor is the only vendor offering these services. Although the County understands the bidding requirements, it has not made it a priority to obtain the proper documentation.

Effect of Condition

Without formally bidding for professional services, the County cannot determine if the most qualified provider was selected and cannot demonstrate compliance with federal procurement requirements.

Recommendation

We recommend the County follow federal procurement requirements and issue a request for proposal for mental health services, or provide adequate support regarding its sole-source designation for this contractor.

County's Response

In response to the audit finding regarding competitive bidding requirements, the County will follow all applicable laws.

Auditor's Remarks

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

Applicable Laws and Regulations

§200.320 Methods of procurement to be followed

(f) Procurement by noncompetitive proposals. Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source and may be used only when one or more of the following circumstances apply: (1) The item is available only from a single source;

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NOTES	

ISS.5 - FS Reporting Misstatement

Prepared By: MDR, 9/5/2018 ***Reviewed By:*** DHO, 9/19/2018 ***Type:*** Financial Statements ***Category:*** Accounting/Financial Reporting ***Reporting Level(s):*** Exit Item ***Impact*** ***Cost Savings:*** ***Questioned Costs:*** $0.00	***Issue*** We found that the County misclassified approximately $30 million in agency collections as court remittances on the C-5. We recommend the County ensure complete and accurate reporting on the financial statements.
NOTES	

ISS.8 - E - Citations - Document Retention

Prepared By: MDR, 8/27/2018 ***Reviewed By:*** GLW, 8/27/2018 ***Type:*** Accountability ***Category:*** Records Retention	***Issue*** Per RCW 46.64.010(6), "Every record of traffic citations required in this section shall be audited monthly by the appropriate fiscal officer of the government agency to which the traffic enforcement agency is responsible." The County has switched to a new electronic system for generating citations.

Reporting Level(s): Exit Item *Impact* *Cost Savings:* *Questioned Costs:*	When we requested to review the monthly audit reports generated from the system, the documentation was not available, but could be generated for us. Audit Reports should be retained and available for review as they occur (monthly), versus all being generated as needed. We recommend the County puts controls in place to ensure that citation documentation is retained per RCW 46.64.010(6).

NOTES

ISS.11 - E - Property Room

Prepared By: MDR, 7/30/2018 *Reviewed By:* GLW, 8/27/2018 *Type:* Accountability *Category:* Records Retention *Reporting Level(s):* Exit Item *Impact* *Cost Savings:* *Questioned Costs:* $0.00	*Issue* During our review of property room dispositions we did not note any official approval of 2017 dispositions (there were approximately 40 items disposed) or the 2017 internal audit results of the property room. We recommend the County retain approval for disposition of property and documentation of internal audits performed.

NOTES

ISS.12 - E - Property Room Policies

Prepared By:	MDR, 9/12/2018	*Issue*
Reviewed By:	DHO, 9/12/2018	We noted the current property room policies do not require scheduled internal audits of the property room.
Type:	Accountability	We recommend the County update written policies and procedures to include an annual internal audit of property room evidence to ensure listings are accurate and complete.
Category:	Other	
Reporting Level(s):	Exit Item	
Impact		
Cost Savings:		
Questioned Costs:	$0.00	

NOTES

ISS.13 - ML - Unsupported Payroll

Prepared By:	MDR, 8/27/2018	*Issue*
Reviewed By:	DHO, 9/12/2018	**Unsupported payroll**
Type:	Accountability	The County Auditor's Office retains Board-approved payroll documentation to support the amounts paid to County employees. In 2017, the County had about $3.7 million in payroll expenditures.
Category:	Payroll/Personnel	During our audit of payroll, the County could not provide approved pay rate documentation for six of the 19 employees selected for testing. Total wages paid to these employees was $218,767. We found the County did not regularly use
Reporting Level(s):	Management Letter	

Impact *Cost Savings:* *Questioned Costs:* $0.00	personnel forms to record and approve pay rate changes. We recommend the County establish policies and procedures to ensure proper documentation regarding employee pay is completed and retained.

NOTES

ISS.14 - Finding - Federal PW A&E Procurement Method Final

Prepared By: MDR, 9/13/2018 *Reviewed By:* DHO, 9/19/2018 *Type:* Single Audit *Category:* Grants (Federal) *Reporting Level(s):* Finding *Impact* *Cost Savings:* *Questioned Costs:* $53,878.89	*Issue* **2017-001 The County did not have adequate internal controls in place to ensure compliance with federal procurement and suspension and debarment requirements of the Highway Planning and Construction grant.** **CFDA Number and Title:** 20.205 Highway Plann Grant **Federal Grantor Name:** Federal Highway Adm **Federal Award/Contract Number:** LA-8944 **Pass-through Entity Name:** Federal Highway Adm Of Transportation (via Transportation) **Pass-through Award/Contract Number:** LA-8944

	Questioned Cost Amount: $ 0 ***Background*** During fiscal year 2017, the County spent $924,725 in federal grant funds awarded by the Federal Highway Administration and passed through by the Washington State Department of Transportation. The County used Program funding on seven projects, managed by its Public Works Department. Federal grant regulations require grant recipients to follow the more restrictive of state or federal bid laws. Federal requirements for procuring architectural and engineering services are more restrictive than state law. Competitive proposal procedures must be used for qualification-based procurement of architectural and engineering services whereby competitors' qualifications are evaluated and the most qualified competitor is selected. Requests for proposals must be publicized and identify all evaluation factors and their relative importance. The County must have a written method for conducting its technical evaluations of the proposals it receives and for selecting recipients. Once it selects a firm, the County must negotiate a contract allowing for fair and reasonable compensation. Federal regulations prohibit grant recipients from contracting with or making subawards to parties suspended or debarred from doing business with the federal government. The County must verify that all contractors receiving $25,000 or more in federal funds have not been suspended or debarred or otherwise excluded. This verification may be accomplished by

obtaining a written certification from the contractor or inserting a clause into the contract where the contractor states it is not suspended or debarred. Alternatively, the County may review the federal Excluded Parties List System (EPLS) issued by the U.S. General Services Administration. This requirement must be met before entering into the contract.

The County is responsible for determining the suspension and debarment status for primary contractors. A primary contractor is required to check the status of any covered transactions it enters into with a subcontractor. The County must inform primary contractors of this responsibility.

Description of Condition

The County did not have adequate controls in place to ensure it complied with the most restrictive procurement requirements or to ensure consultants were not suspended or debarred before awarding a contract.

The County used its Consultant Roster to select a consultant firm to provide architectural and engineering (A&E) services rather than advertising publicly to allow open competition as required by federal regulations. The County did not have a written method for conducting technical evaluations of proposals received or retain documentation supporting its decision in selecting the consultant. In addition, the County could not demonstrate it verified the consultant it selected was not suspended or debarred.

We consider these control deficiencies to be a material weakness.

These issues were not reported as findings in the prior audit.

Cause of Condition

The County's Public Works Department staff were not aware of the federal requirements that apply when procuring A&E services.

While the County's Public Works Department was aware of the requirement to verify the suspension and debarment status of its contractors, staff were was not aware the documentation needed to be retained to show the verification of the contractor's eligibility had been performed.

Effect of Condition and Questioned Costs

Without sufficient internal controls to ensure compliance with federal procurement requirements, the County did not provide open competition for the A&E services it needed. Further, the County cannot demonstrate it selected the most qualified firm or negotiated reasonable compensation for the services.

In addition, the County paid $53,879 for A&E services to a consultant it could not show it verified as not having been suspended or debarred before making the payment. Any payments made to an ineligible party are unallowable and would be subject to recovery by the funding agency.

The services the A&E consultant provided were allowable under the federal program. In addition, the County subsequently verified the consultant was not suspended or debarred. Therefore, we are not questioning these costs.

Recommendations

We recommend that the Public Works Department establish internal controls to ensure federal procurement requirements are met by ensuring:

- Requests for proposals of A&E consultants are advertised and identify all evaluation factors and their relative importance;
- Methods for conducting technical evaluations of A&E proposals received and selecting recipients are written;
- Consultants paid more than $25,000 are not suspended or debarred before awarding of the contract; and
- Documentation is retained to support compliance with federal procurement and suspension and debarment requirements.

County's Response

In response to our recent Columbia County Public Works Audit we offer the following information addressing the inadequate internal controls in place to ensure compliance with federal procurement and suspension and debarment requirements of the Highway Planning and Construction grant.

Correction action by Public Works will be as follows:

- Public Works staff are now aware of the federal requirements for all consulting work to be published and identify all evaluation factors used in the award of contract. We will create a written method for conducting technical evaluation of the proposals we received.

- Public Works staff are now aware of the WADOT LAG manual debarment procedure requirement. Our department will only use the forms provided in the LAG manual as Certification regarding debarment, suspension and other responsibility matter – primary covered transactions, currently form number "Exhibit G-2." Consultant agreements will have WADOT local programs concurrence.

- Public Works staff will retain suspension and debarment information with each project.

Auditor's Remarks

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

Applicable Laws and Regulations

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, paragraph 11.

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform

	Guidance), section 303 Internal controls, establishes internal control requirements for management of Federal awards to non-Federal entities. Title 2 CFR Part 200, Uniform Guidance, section 516 Audit findings, establishes reporting requirements for audit findings. Title 2 CFR Part 180, OMB *Guidelines to Agencies on Governmentwide Debarment and Suspension (Nonprocurement)* establishes non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689. Title 2 CFR Part 200, Uniform Guidance, section 320 Methods of procurement to be followed, describes the competitive proposal procedures for qualifications-based procurement of architectural/engineering (A/E) professional services.

NOTES

ISS.15 - ML - Pension Liability Balance Final

Prepared By:	MDR, 9/13/2018	*Issue* **Schedule of Liabilities** The County is responsible for designing, implementing and maintaining an effective system of internal controls to ensure financial statements, related notes and supplementary schedules are accurately recorded and fairly presented, and to provide reasonable assurance regarding the reliability of those statements.
Reviewed By:	DHO, 9/19/2018	
Type:	Financial Statements	
Category:	Accounting/Financial Reporting	

Columbia County

<table>
<tr><td>Reporting Level(s): Management Letter

Impact
Cost Savings:
Questioned Costs: $0.00</td><td>The County reported about $5 million in liabilities on its Schedule of Liabilities. During our review of the Schedule of Liabilities, we identified that although the County had procedures to review the prepared financial statements and associated schedules, a control deficiency existed in that the review was not detailed enough to detect and correct the following misstatement:
• The County under-reported its beginning liabilities by about $3.4 million.

We recommend the County perform a detailed review the Schedule of Liabilities to ensure the beginning balances are carried forward correctly from the prior year ending balances.</td></tr>
<tr><td colspan="2">NOTES</td></tr>
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