

Schedule of Audit Findings and Responses

Benton-Franklin Health District Benton County January 1, 2011 through December 31, 2011

- 1. The District's internal controls are inadequate to ensure the Schedule of Expenditures of Federal Awards is accurate and complete, resulting in reporting errors.**

Background

It is the responsibility of District management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls over financial reporting that could affect the District's ability to produce reliable financial statements.

In addition to annual financial statements, all entities in Washington that receive federal money are required to prepare a Schedule of Expenditures of Federal Awards (SEFA) as part of their annual financial report. The SEFA should include all District expenditures of federal money in each fiscal year.

Description of Condition

We identified the following weaknesses in internal controls that, when taken together represent a significant deficiency:

- The District's staff did not have a clear understanding of the reporting requirements for the SEFA.
- Although staff reviewed the SEFA before submitting it for audit, the review was not detailed enough to ensure the expenditures reported were accurate and for the correct fiscal year.

Cause of Condition

The District had turnover in the Finance Manager and Health Officer/District Administrator positions, which were responsible for preparing and reviewing the SEFA. District staff was not familiar with SEFA reporting requirements and did not dedicate the necessary resources, including training, to ensure the SEFA was prepared accurately and completely.

Effect of Condition

Our audit identified the following errors on the SEFA:

- The District did not properly report federal expenditures. The original SEFA submitted for audit reported total expenditures of \$3,363,932. We could not

determine if this amount was correct. District staff was unable to provide documentation or explanations for how it arrived at this number.

- The final SEFA included \$83,770 more in federal expenditures than the original schedule. Amounts for 15 of 17 grants had to be corrected.
- Grant clusters did not identify individual programs within them.
- An HIV prevention grant was not reported on the original SEFA.
- Other minor errors and omissions.

The District has corrected all errors.

Inaccurate reporting of federal expenditures can affect the amount of audit coverage required and delay an audit beyond the required nine-month reporting deadline. Should omissions or other errors be made and not identified in a timely manner, the District could miss its federal reporting deadline, jeopardize future federal funding and report its financial information inaccurately to citizens and other governments.

Recommendation

We recommend the District:

- Ensure staff are knowledgeable of grant reporting requirements.
- Ensure the final review of the SEFA is detailed enough to be effective in ensuring the schedule is accurate and complete.

District's Response

In response to the State Auditor's Office recommendations, as of September 2012 the Benton-Franklin Health District has employed new financial staff experienced in financial statement preparation and attended SEFA specific-training.

In 2013 the District's senior finance staff will attend training sessions conducted jointly by the State Auditor's Office and Washington Financial Officers Association specific to grants management and financial statement preparation. The District plans to reevaluate duties within the Finance Department during 2013 to further strengthen the statement preparation and review processes.

Auditor's Remarks

We appreciate the steps the District is taking to resolve this issue. We will follow up on this recommendation during our next scheduled audit.

Applicable Laws and Regulations

Government Auditing Standards, January 2007 Revision – Section 5.11, states:

For all financial audits, auditors should report the following deficiencies in internal control:

a. Significant deficiency: a deficiency in internal control, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

b. Material weakness: A significant deficiency or combination of significant deficiencies, those results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Subpart B – Audits, Section 205, states in part:

Basis for determining Federal awards expended.

(a) Determining Federal awards expended. The determination of when an award is expended should be based on when the activity related to the award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with laws, regulations, and the provisions of contracts or grant agreements, such as expenditures/expense transactions associated with grants, appropriates; the disbursement of funds passed through to subrecipients; the use of loan proceeds under loan and loan guarantee programs