



FRANCIS & COMPANY PLLC

To the Board of Directors of  
Workforce Development Council of Snohomish County  
Everett, Washington

In planning and performing our audit of the financial statements of Workforce Development Council of Snohomish County (Council) for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Council's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Council personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information of the Board of Directors, management and others within the Council and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank the management and staff of the Council, for their support and assistance during our audit.

Certified Public Accountants  
February 12, 2010  
Enclosure

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**WORKFORCE DEVELOPMENT COUNCIL SNOHOMISH COUNTY  
RECOMMENDATIONS RESULTING FROM THE AUDIT OF  
THE JUNE 30, 2009 FINANCIAL STATEMENTS**

**Significant Deficiency in Internal Control over Financial Reporting**

During the audit of the financial statements, we proposed various adjustments to several general ledger accounts in order for the financial statements to be fairly stated in accordance with Generally Accepted Accounting Principles (GAAP).

In particular, we noted two instances where the Council over-stated revenue for the current year. We proposed adjustments to correct revenue, accounts receivable, and deferred revenue accordingly.

We recommend that the Council's financial team follow policies and procedures that are in place for the recording and reporting of financial transactions and, in particular, bill grantors correctly to prevent any amounts from being overdrawn.

**Significant Deficiency in Internal Control over Cost Allocation Plan – All Federal Awards**

During our review of the Council's cost allocation methodology, we noted that errors were made in allocation of costs that had been accumulated in the general cost pool. The Council uses its accounting software to allocate program and administrative expenses that accumulated in the general cost pool to programs based on pre-determined cost allocation percentages. Based on our testing, we noted that the program and administrative components of the general cost pool costs were subsequently combined and classified as purely administrative charges. These costs were billed to funding sources as indirect administrative costs though some of the costs were direct program costs. This resulted in inflated administrative costs.

We noted that the above cost allocation practice is not consistent with documented cost allocation methodology. The Council's internal control system did not prevent or detect the inaccurate allocation of program and administrative costs.

We recommend that the Council periodically review its application of cost allocation methodology to ensure accuracy.

**Significant Deficiency in Internal Control over Cash Management**

At year end, after reconciling current year expenses to revenue from federal sources, we determined that the Council received funds in excess of expenditures from federal sources amounting to \$207,831. These funds were recorded as deferred revenue which indicates an accumulation of overdrawn funds from federal awards. This is considered a significant deficiency in internal control, as the Council's federal awards are cost reimbursement grants, wherein funds should only be drawn from after expenditures have been incurred.

We recommend that the Council establish and follow draw down policies and procedures to ensure compliance with OMB A-133 requirements over cash management.

Details of the accounting system should be properly maintained to timely and accurately track all costs billable to each funding source. To prevent overbilling, expenses should be reconciled to billed revenue.

### **Internal Control over Payroll**

During our testing of control over payroll, we observed one instance where an employee was paid \$1,474 in excess of the contracted living allowance (stipend) per the AmeriCorps contract. According to the Council, the excess was actually due and payable to the employee. However, there was no documentation to support the amount paid to the employee. Additionally, there was no documentation to validate the allocation of employees' time worked between the WIA Youth-In-School (Dept Code 230) and WIA Youth-Out of School (Dept Code 240) programs.

We recommend that the Council obtain supporting documentation to ensure that amounts being paid are calculated and allocated between applicable programs.

### **Internal Control over Cash Disbursements**

During our test of internal control over cash disbursements, we noted two charges, \$40 and \$140, respectively, on one credit card statement for which there was no supporting documentation attached. This is a departure from the Council's accounting procedures described in its manual.

We recommend strict adherence to the accounting procedures manual for cash disbursements, which requires invoices, receipts, or other basis to support charges on the credit card be provided.

### **Internal Control over Bank Reconciliations**

During our testing of cash, we noted that the June 2009 bank reconciliations had a \$20,000 amount listed as a deposit in transit; however the related check was written and received by the Council subsequent to the June 30 fiscal year end. Because this amount was recorded as part of the cash balance prior to year end, cash was overstated in the Council's financial reports. In addition, our review indicated that the June 2009 bank reconciliation was prepared late, in August 2009.

We recommend that the Council use monthly bank reconciliations as a tool to monitor transactions and activities in the bank. The bank reconciliation also serves the purpose of ensuring completeness in recording cash transactions in the general ledger. Unusual and unsupported entries in the bank reconciliation should be investigated. Staff should be encouraged to perform bank reconciliations in a timely manner, within two (2) weeks of receiving the monthly bank statements, and a responsible official should review each reconciliation report.

### **Non-Compliance with "Assets for Independence" Program Requirements**

The Council operates an "Assets for Independence" program wherein participants deposit funds in a trust account maintained by the Council which are matched equally by a federal grant. These deposits are held in trust by the Council on behalf of participants and are required to be maintained in a separate bank account. During the current year, we noted that approximately \$80,000 out of a total of approximately \$150,000 was comingled with other Council funds, thereby creating an occurrence of non-compliance with program requirements.

In addition, we noted that the Council incurred approximately \$10,000 in expenditures to operate and maintain the account, a portion of which can be recovered from federal funding and non-federal matching. Currently, the Council does not have a procedure in place to ensure all possible funding is obtained to recover such operational costs.

We recommend first that the Council takes immediate steps to establish a separate bank account for the trust funds of this program and establish procedures to safeguard the Council from the occurrence of such non-compliance to program requirements in the future. We also recommend

the Council implement procedures to ensure that appropriate billing sources are identified and billed to recover operational costs incurred during the operation of the program.

### **Inadequate Allocation and Billings of Rent Expense to Grants**

Review of cash disbursements for rental expenditures revealed that rental charges were under-allocated to the AmeriCorps funding source. According to the Council personnel, allocation of rent expense to AmeriCorps was based on the ratio of square footage occupied by program personnel. This approximated \$375 per month (less than two percent of total rent expense). However, based on our observation, AmeriCorps program employees occupy more than two percent of the leased premises. As a result, the AmeriCorps program was under-billed and other grants were over billed.

During the year, the Council identified this error and posted adjustments to correctly bill AmeriCorps, but there does not appear to be adequate documentation to indicate correct adjustments to other grants that were impacted.

While we believe the impact of such over billings to other grants would not be significant in the current year, we recommend that the Council reviews its rent expense allocations to ensure accuracy in billing to funding sources.

## **RECOMMENDATIONS ARISING FROM PRIOR AUDITS**

While we were pleased to note that many of our recommendations arising from prior audits have been implemented, the following recommendation bears repeating.

### **Vendor Master File Maintenance**

During our testing of cash disbursements, we noted that the same employee whose job duties require payment of invoices also had access to add, delete, and make edits to the vendor master file within the accounting system. Segregation of duties is important to ensure the integrity of financial data and to limit opportunities for misappropriation of assets.

We recommend that an employee outside the accounts payable system reviews the master file change report on a monthly basis to view activity in the vendor file and inquire if anything appears unreasonable or unusual.