



Office of the Washington State Auditor Pat McCarthy

August 2, 2018

Board of Commissioners
Columbia County
341 E Main Street
Dayton, WA 99328

We are pleased to confirm the audits to be performed by the Office of the Washington State Auditor for Columbia County. This letter confirms the nature and limitations of the audits, as well as responsibilities of the parties and other engagement terms.

Office of the Washington State Auditor Responsibilities

Financial Statement Audit

The Office of the Washington State Auditor agrees to perform an audit of the financial statements of Columbia County as of and for the fiscal year ended December 31, 2017, prepared in accordance with the cash basis *Budgeting, Accounting and Reporting System Manual* (BARS). Our audit will be conducted with the objective of our expressing an opinion on these financial statements.

We will perform our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. Since we do not review every transaction, our audit cannot be relied upon to identify all misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we will express no such opinion.

Although our audit is not designed to provide an opinion on the effectiveness of internal control over financial reporting, we are required to report any identified significant deficiencies and material weaknesses in controls. We are also required to report instances of fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that could have a direct and material

effect on the accuracy of financial statements, or any instances of material abuse that come to our attention. Abuse is defined by *Government Auditing Standards* as involving behavior that is deficient or improper, or misuse of authority or position for personal financial interests. As the determination of abuse is subjective, *Government Auditing Standards* do not require auditors to detect instances of abuse.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk exists that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with the standards identified above.

Our responsibility is to express in a written report an opinion on the financial statements based on the results of our audit. We cannot provide assurance that an unmodified opinion will be expressed. We may modify or disclaim an opinion on your financial statements if we are unable to complete the audit or obtain sufficient and appropriate audit evidence supporting the financial statements. If our opinion is other than unmodified, we will fully discuss the reason with you prior to issuing our report. Further, in accordance with professional standards, we may add emphasis-of-matter or other-matter paragraphs to the report for matters that, in our judgment, are relevant to understanding the financial statements or our audit.

We will also issue a written report (that does not include an opinion) on issues identified during the audit related to the County's internal control over financial reporting and on compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*.

The County prepares supplementary information that accompanies the financial statements, which is required by the BARS Manual (*for Schedule of Liabilities*). We agree to perform auditing procedures on this information, with the objective of expressing an opinion as to whether it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The County also prepares other information to accompany the financial statements, which is required by accounting standards or is done at its discretion. We will perform limited procedures on this information for the purpose of identifying inconsistencies with the financial statements. However, we will not express an opinion on its fair presentation.

Federal Single Audit

We will also perform a federal single audit on compliance with, and report on internal control over compliance for, each major program for the fiscal year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and

performing such other procedures as we considered necessary in the circumstances. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk exists that some material noncompliance may not be detected, even though the audit is properly planned and performed in accordance with these standards and the Uniform Guidance.

In planning and performing the compliance audit, we will consider the County's internal control over compliance in order to determine the appropriate auditing procedures necessary for opining on compliance with each major program, and for testing and reporting on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we will express no such opinion. Although our audit is not designed to provide an opinion on the effectiveness of internal control over compliance, we are required to report any identified significant deficiencies and material weaknesses in controls.

We will express an opinion as to whether the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements taken as a whole for the fiscal year ended December 31, 2017.

We estimate the federal single audit will cover one federal grant program, which will be identified at the audit entrance conference. If additional grant programs are audited to satisfy the requirements of the Uniform Guidance, the audit budget discussed below will increase by approximately \$3,800 per additional major program.

Upon completion of our audit we will issue a written report containing our opinion on the County's compliance for each major program and a written report on internal control over compliance. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion, issue a disclaimer of opinion, or add an emphasis-of-matter or other-matter paragraph(s) to the report.

Accountability Audit

In accordance with RCW 43.09.260, we will perform an accountability audit for the fiscal year ended December 31, 2017, of the County's compliance with applicable state laws, regulations, policies and procedures, and safeguarding of public resources in areas representing the highest risk of fraud, loss, abuse, or noncompliance.

Areas will be selected for audit using a risk-based approach and will be identified in the audit entrance conference.

Upon completion of our audit we will issue a written report describing the overall results and conclusions for the areas we examined.

Other SAO Responsibilities

- Provide the Board of Commissioners with advanced notification if we identify issues that require further audit work and increase audit costs.
- Participate in weekly progress meetings to discuss audit plans for future weeks. At those meetings, we will provide information on the departments we will work in and the audit objectives we will be addressing.
- Safeguard County financial records and documentation from loss, damage, and inadvertent release to unauthorized persons.

- Provide input on accounting standards when requested by County staff as they apply to the County's financial statements and propose adjusting journal entries as necessary.
- Conduct a formal exit conference with the audit committee to discuss results of the financial audit.
- Interact with County staff professionally and respectfully and communicate needs and issues in a timely manner. We will notify the County the previous day, if we know that audit staff will not be onsite the subsequent day(s).
- Provide written correspondence during the course of the audit through email to the audit liaison, Sharon Richter, Auditor.
- Allow the County seven days to provide a written response to any findings.

Reporting Levels for Audit Issues

Issues identified through the auditing process will be communicated as follows. Failure to appropriately address audit issues may result in escalated reporting levels.

- **Findings** formally address issues in an audit report. Findings report significant deficiencies and material weaknesses in internal controls; misappropriation; and material abuse or non-compliance with laws, regulations, contracts or grant agreements. You will be given the opportunity to respond to a finding, and this response, or a synopsis of it, will be published in the audit report. Professional auditing standards define the issues we must report as findings with regard to non-compliance with a financial statement effect and internal controls over financial reporting. The Uniform Guidance defines the issues we must report as findings with regards to non-compliance and internal controls over compliance with federal grants.
- **Management letters** communicate control deficiencies, non-compliance or abuse with a less-than-material effect on the financial statements or other issues with significance to the audit objectives. Management letters are referenced, but not included, in the audit report.
- **Exit items** address control deficiencies or non-compliance with laws or regulations that have an insignificant or immaterial effect on the audit objectives, or errors with an immaterial effect on the financial statements. These issues are informally communicated to management, but do not warrant the attention of those charged with governance and are not referenced in the audit report.

Client's Responsibilities

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis *Budgeting, Accounting and Reporting System Manual* (BARS); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. Our audit does not relieve management or the governing body of their responsibilities.

Management is also responsible for:

- Selecting and applying appropriate administrative and accounting policies.
- Establishing and maintaining effective internal controls over financial reporting, compliance, and safeguarding of public resources.
- Designing and following effective controls to prevent and detect fraud, theft, and loss.
- Ensuring compliance with laws, regulations and provisions of contracts and grant agreements.
- Making all financial records and related information available to us.
- Correcting the financial statements based on the results of our audit.
- Identifying and providing copies of previous audits, attestation engagements, or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented.

- Promptly reporting to us knowledge of any fraud, allegations of fraud or suspected fraud involving management, employees or others, in accordance with RCW 43.09.185.
- Providing us with a management representation letter, on the County's own letterhead, that confirms certain representations, both express and implied, which we will request at the conclusion of our audit. This letter includes representations regarding legal matters. A separate letter may be needed from the County's legal counsel.
- Following up and taking corrective action on all audit findings, including, when applicable, preparing a summary schedule of prior audit findings and a corrective action plan on the County's own letterhead.
- Preparing the following supplementary information and providing us with certain written representation concerning the supplementary information:
 - Schedule of Expenditures of Federal Awards (including notes and noncash assistance received) that includes all expenditures from federal agencies and pass-through agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance in accordance with Uniform Guidance 2 CFR § 200.510 requirements
 - Schedule of Liabilities in accordance the BARS Manual
- Including the auditor's report on the supplementary information in any document that both contains the supplementary information and indicates that the auditor reported on the supplementary information.
- Either presenting the supplementary information with the audited financial statements or, if the supplementary information will not be presented, making the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information and auditor's report thereon are issued.
- Identifying all federal awards received and government programs.
- Understanding and complying with the provisions of laws, regulations, contracts, and grant agreements, including applicable program compliance requirements.
- Internal control over compliance, including establishing and maintaining effective controls that provide reasonable assurance that the County administers government programs in compliance with the compliance requirements.
- Evaluating and monitoring the County's compliance with the compliance requirements.
- Informing us of the County's relationships with significant vendors who are responsible for program compliance
- Submitting the reporting package and data collection form through the Federal Audit Clearinghouse.

Management will provide the Office of the Washington State Auditor with the information required for performing the audit and is responsible for the accuracy and completeness of that information. Management will notify the Office of the Washington State Auditor when any documents, records, files, or data contain information that is covered by confidentiality or privacy laws, such as HIPAA.

All misstatements identified by the audit will be discussed with management. Material misstatements corrected by management and all uncorrected misstatements will be communicated at the exit conference, as required by professional auditing standards.

Management's Written Representations

At the conclusion of our audit, we will also request certain written representations from you about the audit, including items discussed above.

Additionally, the County will:

- Obtain a clear understanding of accounting standards applied in your financial statements and fully understand any adjusting journal entries recommended by the Office of the Washington State Auditor before approving the entries.
- Revise financial statement and schedules only if agreed to in writing by our Office.
- Provide auditors adequate work space with access to secure Internet, phone, and electrical outlets.
- Provide a secure room with locking file cabinet and limited access to allow auditors to secure documents with sensitive information.
- Interact with auditors professionally and respectfully and promptly communicate issues and concerns.

Estimated Audit Costs and Timeline

We estimate the cost of the audit work to be \$26,980 plus travel costs and other expenses, if any, with work expected to commence by July 2018. Invoices for these services will be prepared and presented each month as our audit work progresses.

We anticipate our reports, which will be addressed to the County's governing body and published on our website www.sao.wa.gov to be available to you and the public as outlined below. These estimates are based on timely access to financial information and no significant audit reporting issues. The estimated cost and completion date may change if unforeseen issues arise or if significant audit issues are identified necessitating additional audit work. We will promptly notify you if this is the case.

Report	Date*
Independent Auditor's Report on Financial Statements	August 31, 2018
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	August 31, 2018
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance in Accordance with Uniform Guidance	August 31, 2018
Independent Auditor's Report on Accountability	August 31, 2018

**Report Issuance Dates Are Estimates Only*

The audit documentation for this engagement, which may contain confidential or sensitive information, is the property of SAO and constitutes a public record under Chapter 42.56 RCW. Subject to applicable laws and regulations, appropriate individuals, as well as audit documentation, will be made available upon request and in a timely manner to appropriate auditors and reviewers, County's management and governing body, and federal agencies, for purposes of a public records request, a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities.

The audit documentation for this engagement will be retained for a minimum of five years after the report release (publish) date in accordance with the public records retention schedule established by the Washington Secretary of State.

Expected Communications

During the course of the audit, we will communicate with the County's selected audit liaison, Sharon Richter, Auditor, on the audit status, any significant changes in our planned audit scope or schedule and preliminary results or recommendations as they are developed. The audit liaison is responsible for regularly updating the County's management and the governing body on these matters. We may also provide direct communication of these matters to management and the governing body as needed or at the County's request.

Please contact us if, during the audit, any events or concerns come to your attention of which we should be aware. We will expect the audit liaison to keep us informed of any such matters.

Audit Dispute Process

Please contact the Audit Manager or Assistant Director to discuss any unresolved disagreements or concerns you have during the performance of our audit. At the conclusion of the audit, we will summarize the results at the exit conference. We will also discuss any significant difficulties or disagreements encountered during the audit and their resolution.

By signing and returning this letter you acknowledge that the foregoing is in accordance with your understanding. Please contact us with any questions.

We appreciate the opportunity to be of service to you and look forward to working with you and your staff.

Sincerely,



Ginny Waltman, Audit Manager 8/6/18
Office of the Washington State Auditor

County Response:

This letter correctly sets forth our understanding.

Norm Passmore *Date*
Chairman, Board of Commissioners

Sharon Richter *Date*
Auditor