

Washington State Auditor's Office
Audit Report

Audit Services

Report No. 58680

WHATCOM COUNTY COUNCIL OF GOVERNMENTS

Whatcom County, Washington

January 1, 1995 Through December 31, 1996

Issue Date: December 19, 1997



Washington _____

State Auditor

Brian Sonntag



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Olympia, Washington 98504-0021

Washington State Auditor
Brian Sonntag

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December 12, 1997

I am pleased to report the results of our audit of the Whatcom County Council of Governments, Whatcom County, Washington, for the period January 1, 1995, through December 31, 1996. The audit was conducted under the State Auditor's authority in Chapter 43.09 RCW.

Our audit gives an independent, accurate assessment of the council's financial condition, internal controls, and compliance with laws and regulations during the period we reviewed. I hope it is used as a constructive management tool to help the council improve its operations.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag".

BRIAN SONNTAG, CGFM
STATE AUDITOR

Copies transmitted to:

James Miller, Executive Director
John Hobberlin, Chair of the Executive Board
David S. McEachran, County Prosecuting Attorney
Laurie Fortier, State Publication Distribution, Washington State Library
The Honorable Christine O. Gregoire, Attorney General, Office of the Attorney General
Mike Young, Division Accountant, Local Program, Department of Transportation
Wayne H. Donaldson, Audit Director, Department of Transportation
Mike Partridge, Transportation Planning Office, Department of Transportation
Richard Struna, Administrative Officer, Transportation Improvement Board
National Clearinghouse for Single Audit Reports, U.S. Bureau of Census



WHATCOM COUNTY COUNCIL OF GOVERNMENTS
Whatcom County, Washington
January 1, 1995 Through December 31, 1996

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Chairman of the Executive Board
Whatcom County Council of Governments
Bellingham, Washington

We have audited the financial statements, as listed in the table of contents, of the Whatcom County Council of Governments, Whatcom County, Washington, as of and for the fiscal years ended December 31, 1996 and 1995, and have issued our report thereon dated November 5, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *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 assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Whatcom County Council of Governments is the responsibility of the council's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the council's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington (RCW) 43.09.260*. This statute requires the State Auditor to inquire as to whether the council complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the council's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the council and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information of management and the council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not

limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read 'Brian Sonntag', written over a large, stylized, circular scribble.

BRIAN SONNTAG, CGFM
STATE AUDITOR

November 5, 1997

WHATCOM COUNTY COUNCIL OF GOVERNMENTS
Whatcom County, Washington
January 1, 1995 Through December 31, 1996

Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level

Chairman of the Executive Board
Whatcom County Council of Governments
Bellingham, Washington

We have audited the financial statements of the Whatcom County Council of Governments, Whatcom County, Washington, as of and for the fiscal years ended December 31, 1996 and 1995, and have issued our report thereon dated November 5, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *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 assurance about whether the financial statements are free of material misstatement.

The management of the council is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the council, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely

affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

This report is intended for the information of management and the council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read 'Brian Sonntag', written over a horizontal line.

BRIAN SONNTAG, CGFM
STATE AUDITOR

November 5, 1997

WHATCOM COUNTY COUNCIL OF GOVERNMENTS
Whatcom County, Washington
January 1, 1995 Through December 31, 1996

**Independent Auditor's Report On Financial Statements And Additional
Information**

Chairman of the Executive Board
Whatcom County Council of Governments
Bellingham, Washington

We have audited the Schedules of Cash Activity of the Whatcom County Council of Governments, Whatcom County, Washington, as of and for the fiscal years ended December 31, 1996 and 1995. These financial statements are the responsibility of the council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, Whatcom County prepares financial statements on behalf of the council on the cash basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, except for the effect, if any, of the matters discussed in the preceding paragraph, and except that omitted disclosures might influence a user's conclusions about the Whatcom County Council of Governments' transactions, the accompanying financial statements present fairly the cash transactions of the council for the fiscal years ended December 31, 1996 and 1995, on the prescribed basis of accounting.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Registered Warrants and Schedules of State Financial Assistance are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 5, 1997, on our consideration of the council's internal control structure and a report dated November 5, 1997, on its compliance with laws and regulations.

A handwritten signature in black ink, appearing to read 'Brian Sonntag', written in a cursive style.

BRIAN SONNTAG, CGFM
STATE AUDITOR

November 5, 1997

WHATCOM COUNTY COUNCIL OF GOVERNMENTS
Schedule Of Cash Activity
As Of December 31, 1996

BEGINNING BALANCE	Receipts	Investment Sales	Transfers Into Cash	Total Available	Investments Purchased	Transfers Out To Claims/Payroll	Other Transfers Out	Total Disbursements	Total Used	ENDING BALANCE
8,282	108,659	0	128,220	245,161	0	(238,457)	0	(1,750)	(240,207)	4,954

The Accompanying Notes Are An Integral Part Of This Statement.

WHATCOM COUNTY COUNCIL OF GOVERNMENTS
Schedule Of Cash Activity
As Of December 31, 1995

BEGINNING BALANCE	Receipts	Investment Sales	Transfers Into Cash	Total Available	Investments Purchased	Transfers Out To Claims/Payroll	Other Transfers Out	Disbursements	Total Used	ENDING BALANCE
27,864	43,165	0	272,108	343,138	0	(287,143)	(43,494)	(4,219)	(334,856)	8,282

WHATCOM COUNTY COUNCIL OF GOVERNMENTS
Notes To Financial Statements
January 1, 1995 Through December 31, 1996

The following notes are an integral part of the accompanying financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT POLICIES

The Whatcom County Council of Governments was incorporated on March 26, 1970 and operates under the laws of the state of Washington applicable to a regional planning commission. The following is a summary of the more significant policies, including identification of those policies which result in material departures from generally accepted accounting principles:

A. Reporting Entity

The council is a voluntary interlocal cooperative consisting of local governments in Whatcom County. At December 31, 1996, the council consisted of representatives of the following local governments:

- City of Bellingham
- City of Blaine
- City of Everson
- City of Ferndale
- City of Lynden
- City of Nooksack
- City of Sumas
- Whatcom County
- Port of Bellingham
- Birch Bay Water & Sewer District
- Whatcom Water District #10
- Whatcom Water District #12
- Whatcom County Conservation District

B. Basis of Presentation - Fund Accounting

The accounts of the council are organized on the basis of funds, each of which is considered a separate accounting entity. The council uses only governmental funds as listed below. Each governmental fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures.

GOVERNMENTAL FUND TYPES:

General Fund

This fund is the general operating fund of the council. It is used to account for all financial resources and transactions except those required to be accounted for in another fund.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

Accounting records for the council are maintained in accordance with methods prescribed by the State Auditor under the authority of Washington State law, Chapter 43.09 RCW. The council uses the revenue and expenditure classifications contained in the Budgeting, Accounting and Reporting System (BARS) prescribed by the State Auditor.

In governmental and fiduciary funds, revenues are recognized only when received in cash and expenditures are recognized when paid, including those properly chargeable against the report year budget appropriations as required by state law. This is a departure from generally accepted accounting principles which require revenue and expenditure recognition on the modified-accrual basis of accounting (GAAP). Purchases of fixed assets are expensed during the year acquired.

D. Duties of Whatcom County

As required by statute, Whatcom County serves as the council's treasurer, issues council warrants, invests available cash, and prepares cash receipt and disbursement reports of the council's financial activity.

E. Budgets

1. Scope of Budget

An annual appropriated budget is adopted for the council at the level of the fund. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. Annual appropriations lapse at year end.

2. Procedures for Adopting the Original Budget

The council's budget procedures are mandated by its By Laws, Section 10. The steps in the budget process are as follows:

- a. By October 1 of each year a budget estimate for the ensuing year is mailed to each representative.
- b. Each member entity reviews the budget estimate, making additional recommendations it deems appropriate.
- c. The council, at its regular November meeting considers the preliminary budget, makes such additional changes as may be required, and approves it.
- d. The approved preliminary budget is transmitted by the chairperson to the governing bodies of the member agencies.
- e. At the annual meeting held in December, the council reviews the preliminary budget, makes such additional changes as may be necessary, and adopts the final budget.
- f. Two copies of the approved budget are forwarded to the Whatcom County Auditor by January 15, and such other persons as the membership may direct.

3. Amending the Budget

The council may amend its budget, provided that copies of such changes shall be filed with the Whatcom County Auditor and, further provided that, at no time may the council's budget expenditures exceed funds reasonably expected to be available.

F. Assets and Liabilities

1. Investments

The council had no investments during the audit period.

2. Fixed Assets

Fixed assets are expensed when purchased. The council has not established a fixed asset account group.

3. Long-term Debt

The council had no long-term debt during the audit period.

4. Compensated Absences

Vacation pay may be accumulated up to thirty days and is payable upon resignation, retirement, or death. The liability for accumulated unused vacation has not been calculated and is not included in the financial statements.

G. Revenues and Expenditures

1. Governmental and fiduciary funds use the cash basis of accounting where revenues are recognized when received in cash and expenditures are recognized when paid, including those properly chargeable against the report year's budget appropriations as required by state law. This is a departure from generally accepted accounting principles (GAAP) which require revenue and expenditure recognition on the modified-accrual basis of accounting.
2. The accompanying Schedules of Financial Assistance provides a listing of all federal and state assistance programs in which the council participates and summarizes the council's grant transactions for 1995 and 1996.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The council overspent the 1996 budget by approximately \$6000.00 which represents approximately 2 percent of the total budgeted expenditures. This was due to the addition of one employee for the Commute Trip Reduction program.

NOTE 3 - PENSION PLAN

Substantially all council full-time and qualifying part-time employees participate in the statewide Public Employee's Retirement System (PERS) administered by the Department of Retirement Systems, under cost-sharing multiple-employer public employee retirement systems. Actuarial information is on a system-wide basis and is not considered pertinent to the council's financial statements. Contributions to the system by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend information showing each system's progress in accumulating sufficient assets to pay benefits when due is presented in the state of Washington's *Comprehensive Annual Financial Report*. Please refer to said report for detailed information.

State of Washington
Office of Financial Management
300 Insurance Building
PO Box 3113
Olympia, WA 98504-0201

NOTE 4 - SHORT-TERM DEBT

The accompanying Schedule of Registered Warrants provides a listing of the outstanding registered warrants of the council and summarizes the council's debt transactions for 1995 and 1996.

NOTE 5 - RISK MANAGEMENT, CONTINGENCIES AND LITIGATION

The council maintains insurance against most normal hazards. In the opinion of management, the council's insurance policies are adequate to pay all known or pending claims.

WHATCOM COUNTY COUNCIL OF GOVERNMENTS
Schedule Of Registered Warrants
For The Fiscal Year Ended December 31, 1996

<u>BEGINNING</u> <u>BALANCE</u>	<u>ISSUED</u>	<u>REDEEMED</u>	<u>ENDING</u> <u>BALANCE</u>
81,568	114,696	(196,264)	-0-

Additional Information

WHATCOM COUNTY COUNCIL OF GOVERNMENTS
Schedule Of Registered Warrants
For The Fiscal Year Ended December 31, 1995

<u>BEGINNING</u> <u>BALANCE</u>	<u>ISSUED</u>	<u>REDEEMED</u>	<u>ENDING</u> <u>BALANCE</u>
113,208	254,847	(286,487)	81,568

Additional Information

WHATCOM COUNTY COUNCIL OF GOVERNMENTS
Schedule Of State Financial Assistance
Governmental Assistance Received From State Agencies Or Local Governments
For The Fiscal Year Ended December 31, 1996

Grantor & Program Name	Federal CFDA No.	Other Ident. Number	Current Year Expenses	SUB-TOTALS BY PROGRAM
WSDOT RTPO		GC10539/PL6616	15584	
		GC10539/PL6616	15134	30718
DOE		TAX91088	11209	11209
DOE		TAX90200	4911	4911
TOTAL			46838	46838

Additional Information

WHATCOM COUNTY COUNCIL OF GOVERNMENTS
Schedule Of State Financial Assistance
Governmental Assistance Received From State Agencies Or Local Governments
For The Fiscal Year Ended December 31, 1995

Grantor & Program Name	Federal CFDA No.	Other Ident. Number	Current Year Expenses	SUB-TOTALS BY PROGRAM
WSDOT RTPO		GC9891/PL5616	14560	
		GC10539/PL6616	15621	30181
DOE		TAX91088	937	937
TOTAL			31118	31118

Additional Information

WHATCOM COUNTY COUNCIL OF GOVERNMENTS
Whatcom County, Washington
January 1, 1995 Through December 31, 1996

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Chairman of the Executive Board
Whatcom County Council of Governments
Bellingham, Washington

We have audited the financial statements of the Whatcom County Council of Governments, Whatcom County, Washington, as of and for the fiscal years ended December 31, 1996 and 1995, and have issued our report thereon dated November 5, 1997. These financial statements are the responsibility of the council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *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 assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of the Whatcom County Council of Governments taken as a whole. The accompanying Schedules of Federal Financial Assistance are presented for purposes of additional analysis and are not a required part of the financial statements. The information in the schedules has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.


BRIAN SONNTAG, CGFM
STATE AUDITOR

November 5, 1997

WHATCOM COUNTY COUNCIL OF GOVERNMENTS
Schedule Of Federal Financial Assistance
Federal Assistance Received Indirectly Through A State Agency Or
Other Local Government
For The Fiscal Year Ended December 31, 1996

Grantor & Program Name	Federal CFDA No.	Other Ident. Number	Current Year Expenses	SUB-TOTALS BY PROGRAM (CFDA No.)
WSDOT FHWA	20.205	GC10539/6606	58076	
		GC10539/6606	57676	
WSDOT STP	20.205	GC9891/PL9891	15261	
			9449	
GUIDE	20.205	GC10330	4870	
MT.BAKER	20.205	GCA0319	5197	
Sub Total	20.205			150529
WSDOT FTA	20.505	GC10539/6606	14414	
		GC10539/6606	10505	
Sub Total	20.505			24919
TOTAL			175448	175448

WHATCOM COUNTY COUNCIL OF GOVERNMENTS
Schedule Of Federal Financial Assistance
Federal Assistance Received Indirectly Through A State Agency Or
Other Local Government
For The Fiscal Year Ended December 31, 1995

Grantor & Program Name	Federal CFDA No.	Other Ident. Number	Current Year Expenses	SUB-TOTALS BY PROGRAM (CFDA No.)
WSDOT FHWA	20.205	GC9891/5606	29253	
		GC10539/6606	58160	
WSDOT STP	20.205	GC9891/3730	22490	
		GC9891/3730	15261	
WSDOT GUIDE	20.205	GC10330	36217	
Sub Total	20.205			161381
WSDOT FTA	20.505	GC9891/5606	6417	
		GC10539/6606	14414	
Sub Total	20.505			20831
TOTAL			182212	182212

WHATCOM COUNTY COUNCIL OF GOVERNMENTS
Whatcom County, Washington
January 1, 1995 Through December 31, 1996

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Chairman of the Executive Board
Whatcom County Council of Governments
Bellingham, Washington

We have audited the financial statements of the Whatcom County Council of Governments, Whatcom County, Washington, as of and for the fiscal years ended December 31, 1996 and 1995, and have issued our report thereon dated November 5, 1997.

We have applied procedures to test the council's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedules of Federal Financial Assistance, for the fiscal years ended December 31, 1996 and 1995:

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Administrative requirements

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Davis-Bacon Act
- Relocation assistance and real property acquisition
- Drug-Free Workplace Act
- Subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the council's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the council had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read 'Brian Sonntag', written over a large, stylized circular flourish.

BRIAN SONNTAG, CGFM
STATE AUDITOR

November 5, 1997

WHATCOM COUNTY COUNCIL OF GOVERNMENTS
Whatcom County, Washington
January 1, 1995 Through December 31, 1996

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Nonmajor Federal Financial Assistance Program Transactions

Chairman of the Executive Board
Whatcom County Council of Governments
Bellingham, Washington

We have audited the financial statements of the Whatcom County Council of Governments, Whatcom County, Washington, as of and for the fiscal years ended December 31, 1996 and 1995, and have issued our report thereon dated November 5, 1997.

In connection with our audit of the financial statements of the council and with our consideration of the council's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the fiscal years ended December 31, 1996 and 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures and special tests and provisions related to vouchers that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the council's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that the Whatcom County Council of Governments had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.


BRIAN SONNTAG, CGFM
STATE AUDITOR

November 5, 1997

WHATCOM COUNTY COUNCIL OF GOVERNMENTS
Whatcom County, Washington
January 1, 1995 Through December 31, 1996

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Chairman of the Executive Board
Whatcom County Council of Governments
Bellingham, Washington

We have audited the financial statements of the Whatcom County Council of Governments, Whatcom County, Washington, as of and for the fiscal years ended December 31, 1996 and 1995, and have issued our report thereon dated November 5, 1997.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit, we considered the council's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated November 5, 1997.

The management of the council is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation

of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Cash receipts
 - Purchasing and receiving
 - Payroll

- **General Requirements**
 - Political activity
 - Civil rights
 - Cash management
 - Federal financial reports
 - Allowable costs/cost principles
 - Administrative requirements

- **Specific Requirements**
 - Types of services
 - Matching, level of effort, earmarking
 - Reporting
 - Special requirements

- **Claims For Advances And Reimbursements**

- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Cash disbursements
 - Receivables
 - Accounts payable
 - Inventory control
 - Property, plant, and equipment
 - General ledger

- **General Requirements**
 - Davis-Bacon Act
 - Relocation assistance and real property acquisition
 - Drug-Free Workplace Act
 - Subrecipient monitoring

- **Specific Requirements**
 - Eligibility

During the fiscal years ended December 31, 1996 and 1995, the council had no major federal financial assistance programs and expended 85.8 and 88.6 percent, respectively, of its total federal financial assistance under the following nonmajor federal financial assistance program: Highway Planning and Construction (CFDA 20.205).

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the aforementioned nonmajor program. Our procedures were less in scope than would be necessary to render an opinion on these internal control structures policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses, as defined above.

This report is intended for the information of management and the council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



BRIAN SONNTAG, CGFM
STATE AUDITOR

November 5, 1997

WHATCOM COUNTY COUNCIL OF GOVERNMENTS
Whatcom County, Washington
January 1, 1995 Through December 31, 1996

Status Of Prior Findings

The findings contained in the prior audit report were resolved as follows:

1. Control Over Cash Receipts Should Be Improved

Resolution: Entity has made the necessary improvements in the cash receipting controls and no areas of concern still exist.

2. Control Over Payroll Should Be Improved

Resolution: Entity has made the necessary improvements in the payroll controls and no areas of concern still exist.

3. The Council Should Improve Controls Over Financing Operations

Resolution: Entity has made substantial improvements in the controls over financing operations and all registered warrants have been redeemed.

WHATCOM COUNTY COUNCIL OF GOVERNMENTS
Whatcom County, Washington
January 1, 1995 Through December 31, 1996

Directory Of Officials

Executive Board

John Hobberlin, Chair	Blaine City Council
Ken Roberts, Vice Chair	Mayor, City of Nooksack
Yvonne Goldsmith, Sec/Treas.	Ferndale City Council
Mark Asmundson	Mayor, City of Bellingham
Alvin Starkenburg	Whatcom County Council
Pete Kremen	Whatcom County Executive
Doug Smith	Port of Bellingham
Louise Bjornson	Bellingham City Council

Voting Members

Mike Quinn	Councilmember, Sumas
Gerald Digerness	Whatcom County Conservation District
Kathy Sutter	Whatcom County Council
Tony Freeland	Water District No. 10
Pat Sizemore	Birch Bay Water and Sewer District
Gena Welch	Water District No. 12
Fred Bovenkamp	Councilmember, Lynden
Bob Ryan	Councilmember, Bellingham
Gena Tolle	Mayor, City of Everson

Associate Members

Marc Landsen	Sudden Valley Association
Mark Sardo	Whatcom County Opportunity Council
Pat Alesse	Birch Bay Chamber of Commerce

Executive Director

James Miller

Mailing Address

Council	2011 Young St Bellingham WA 98225
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