

Common Threads Farm

Single Audit Reports

Year Ended December 31, 2023

Common Threads Farm

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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 *Government Auditing Standards*

To the Board of Directors
Common Threads Farm
Bellingham, Washington

We have audited, in accordance with the 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, the financial statements of Common Threads Farm (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Common Threads Farm’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Common Threads Farm’s internal control. Accordingly, we do not express an opinion on the effectiveness of Common Threads Farm’s internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2023-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Common Threads Farm's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Common Threads Farm's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Common Threads Farm's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Common Threads Farm's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Larson Gross PLLC

Bellingham, Washington
September 30, 2024

Independent Auditor’s Report on Compliance for the Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors
Common Threads Farm
Bellingham, Washington

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Common Threads Farm’s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on Common Threads Farm’s major federal program for the year ended December 31, 2023. Common Threads Farm’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, Common Threads Farm complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2023.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Common Threads Farm and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of Common Threads Farm’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Common Threads Farm’s federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Common Threads Farm's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Common Threads Farm's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Common Threads Farm's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Common Threads Farm's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Common Threads Farm's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor’s Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Common Threads Farm as of and for the year ended December 31, 2023, and have issued our report thereon dated September 30, 2024, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Larson Gross PLLC

Bellingham, Washington
September 30, 2024

Common Threads Farm

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2023

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal Assistance Listing Number</u>	<u>Award/Pass-Through Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture			
SNAP Cluster			
Pass-through from Washington State University			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	207WAWA5Q3904	\$ 114,424
Farm to School Grant Program	10.575	CN-F2S-IMPL-20-WA	<u>60,480</u>
Total U.S. Department of Agriculture			<u>174,904</u>
Corporation for National and Community Service			
Pass-through from State of Washington			
AmeriCorps State and National	94.006	20AFHWA0010002	<u>852,225</u>
Total Corporation for National and Community Service			<u>852,225</u>
Total Expenditures of Federal Awards			<u>\$ 1,027,129</u>

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Notes to Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2023

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Common Threads Farm (the Organization) under programs of the federal government for the year ended December 31, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to, and does not present the financial position, changes in net assets, or cash flows of the Organization.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Indirect Cost Rate

The Organization has elected not to use the 10% de minimis indirect cost rate allowed under Uniform Guidance.

Common Threads Farm

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2023

I. Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified? Yes X None reported
- Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency (ies) identified? Yes X None reported
- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes X No

Identification of Major Federal Programs:

<i>Federal Assistance Listing Number</i>	<i>Name of Major Federal Program or Cluster</i>	<i>Type of Auditor's Report Issued on Compliance for Major Federal Programs</i>
94.006	Corporation for National and Community Service - AmeriCorps State and National	Unmodified

Dollar threshold used to distinguish between type A and B programs:

\$750,000

- Auditee qualified as low-risk auditee? Yes X No

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2023

Section II – Financial Statement Findings

Finding 2023-001 – Internal Controls Over Revenue Account Reconciliations and Financial Close and Reporting Processes

Criteria: The Organization is responsible for maintaining effective internal controls over their accounting records, account balances, and financial statement disclosures. Accounting records should include a complete, balanced general ledger that records all transactions, supported by appropriate subsidiary records, to permit the preparation of accurate financial statements on a timely basis. Procedures should be in place to ensure that balance sheet accounts are independently reviewed and reconciled to subsidiary records at least monthly.

Further, internal controls should be designed to safeguard the Organization’s assets and help prevent or detect losses. A fundamental concept in a good system of internal controls is the segregation of duties. There should be segregation in place over these functions - 1) authorization, 2) custody, 3) and record keeping/ reconciliation, such that no one position can perform more than one of these duties.

Condition and context: In the process of performing our audit, we encountered substantial errors in the preparation of revenue schedules related to the accounting of grants and contracts, contributions, and program services. Based on our observations of the work performed and discussions with various accounting personnel, it is our opinion that there was an overall lack of understanding and experience in the area of revenue accounting on the part of the current accounting staff. Because federal and private grants make up the majority of the Organization’s activity, we feel that it is of vital importance that the accounting department of the Organization include individuals who are experienced and knowledgeable in the areas of grant accounting and monitoring grants, particularly federal grants.

Cause: The Organization did not have a sufficient number of experienced finance staff to prepare the accounting records and perform required monthly general ledger account reconciliations and financial close and reporting adjustments in a timely manner.

Repeat finding: This is not a repeat finding.

Effect: An ineffective financial close process and delay in reconciling general ledger accounts makes it much more difficult for the Organization’s management to prevent and detect potential fraudulent or improper activity, thus greatly increasing the Organization’s risk of fraud and errors. A significant amount of time, effort, and costs were needed to analyze and reconcile accounting records and make correcting journal entries.

Recommendation: We recommend that the Organization immediately evaluate the current accounting department with the understanding of the importance of having personnel who have an appropriate level of experience and knowledge in the area of federal and private grants and who are properly trained and committed to the task. We also recommend management continue to re-evaluate and reinforce its internal control policies and procedures and to ensure that monthly accounting reconciliations are performed and reviewed timely to produce accurate financial statements, and ensure there is sufficient segregation of duties of accounting functions to reduce the risk of fraud and errors.

Management’s Response: Management concurs with this finding. See the corrective action plan.

Common Threads Farm

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2023

Section III – Federal Award Findings and Questioned Costs

None reported for the year ended December 31, 2023.