

# Annual SAO Updates

Financial statement and Accountability audits

Erika Davies

*Assistant Audit Manager*

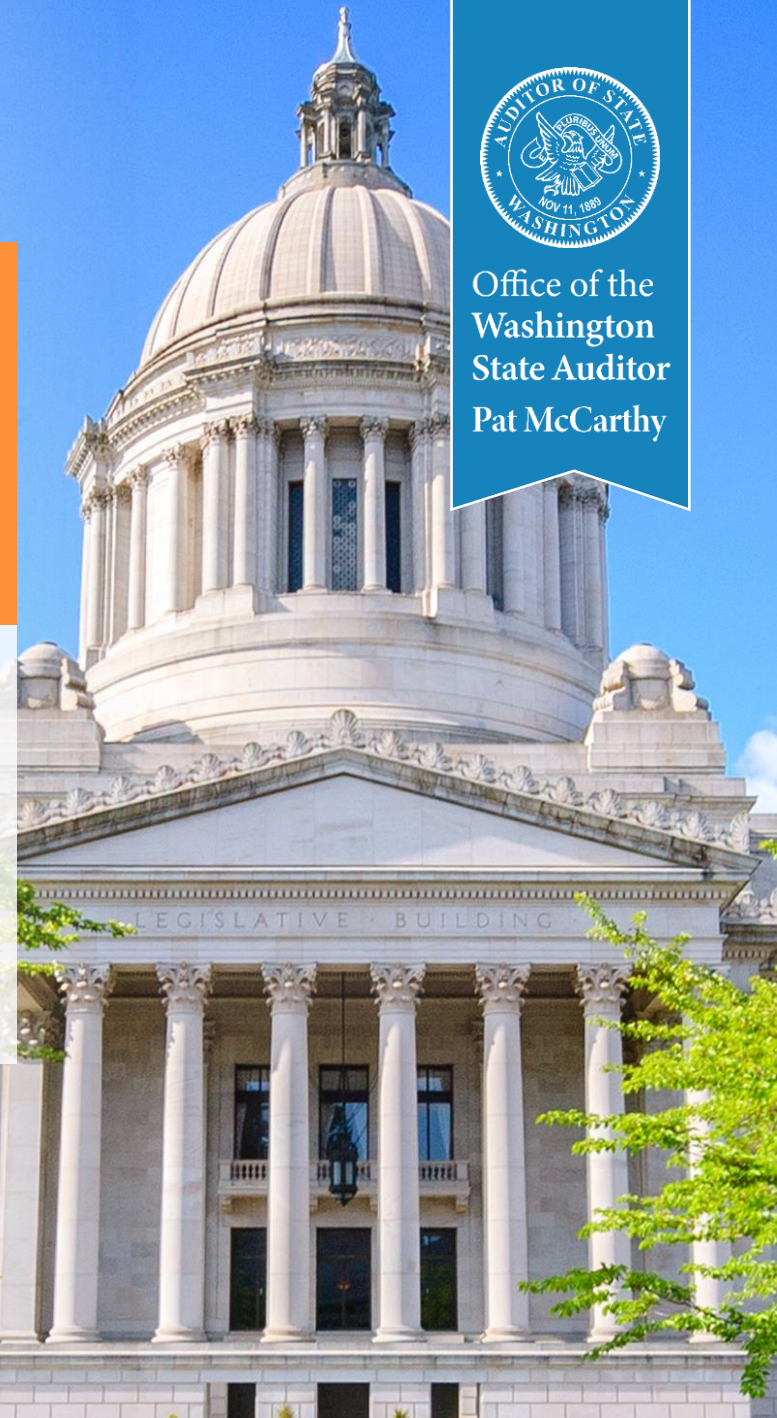
Erin Anderson

*Assistant State Auditor*

October 23, 2020



Office of the  
Washington  
State Auditor  
Pat McCarthy



# Today's Presenters

*Statewide Community and Technical College Experts*



**Erika Davies**

*Assistant Audit Manager  
Team Everett*



**Erin Anderson**

*Assistant State Auditor  
Team Financial Audit*

# Agenda



- Fiscal year 2019 audit cycle overview
- Financial audit themes
- Accountability audit themes
- Audit risks for fiscal year 2020 audits
- Conducting remote audits
- SAO resources





# Fiscal year 2019 audit cycle overview



# Audit exceptions – Findings



Safeguarding  
of assets

Accounts  
payable  
disbursements

Financial  
statement  
preparation (2)

# Audit exceptions – Management Letters



Financial  
condition

Cash receipting

Financial  
statement  
preparation (3)

Cost allocation



# Financial audit themes



# Certificates of Participation



- In the year of issuance, determine if timing of the funds will have impact on the following two balances:
  - Receivables: analyze and determine if the receivable related to the COP should be reported and classified as current or non-current
  - Net investment in capital asset: if COP funds were not spent on related capital asset activity in the reporting year, they should not be included in the net investment in capital asset calculation
  - Incorrect inclusion of COP funds in this balance could lead overstatement in net investment in capital asset balance and understatement of restricted net position



# Certificates of Participation



- Refer to SAAM 85.72.40 and GASB 34 for information in reporting COP's
  - If there are significant unspent proceeds at year-end you may need to make an adjustment to Net Investment in Capital Assets and associated restricted/unrestricted net position
  - This adjustment may not come through the SBCTC provided financial statement workbook as the formula for NICA pulls in all capital-related debt according to the GL code, which is misleading if there are significant unspent proceeds at FYE

# GASB 68/73/75



- Pension and OPEB related balances continue to be one of the most frequent areas of errors and causes of audit recommendations
- Each year, staff should closely review the calculations for pension and OPEB liability balances and all related balances (deferred inflows/outflows) as well as the associated note disclosure
  - Tie calculation inputs to source documents
  - Ensure calculations in SBCTC provided spreadsheets are mathematically accurate and pulling correct amounts
  - Cross – check amounts reported on financial statements and notes

# GASB 68/73/75



- Specific errors found in the previous cycle of audits include:
  - Contribution amounts reported in each plan did not tie to supporting documentation
  - Reported Deferred inflows and outflows incorrectly excluded certain plans (TRS 1 and TRS 2/3) or were calculated incorrectly (specifically related to UAAL)
  - Incorrectly including administrative fees in calculations of pension expense, deferred outflows/inflows related to pension

# Revenues and Expenses

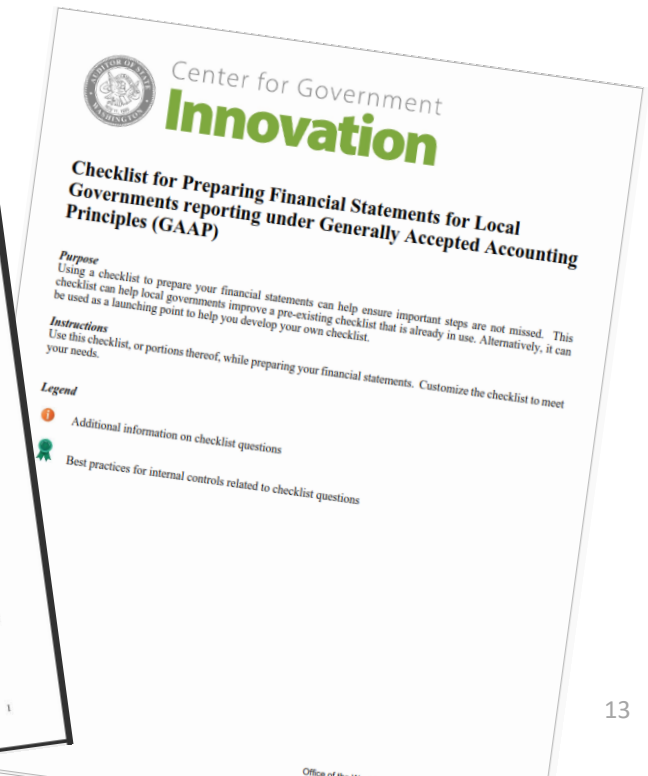
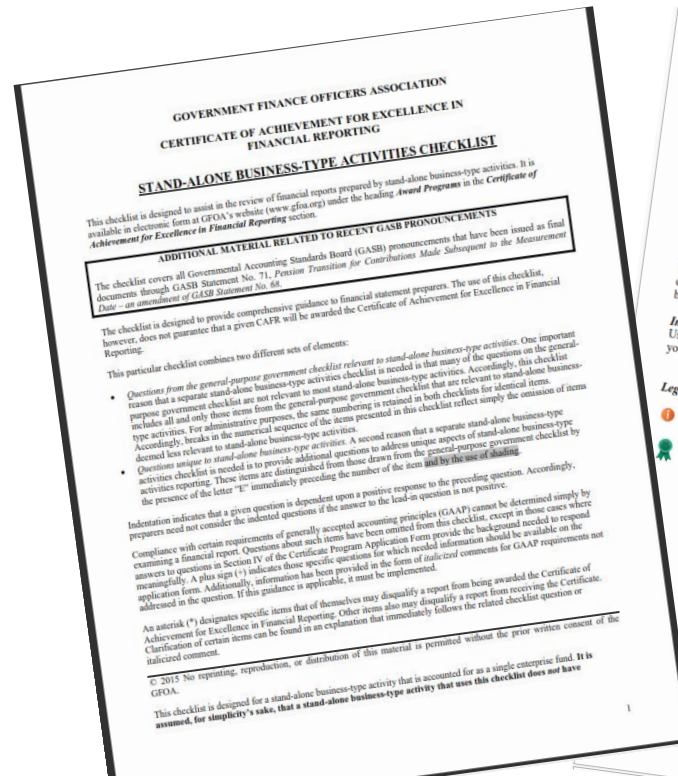


- Other common issues identified in audits include:
  - Reliance on SBCTC provided scholarship discounts and allowances spreadsheet leading to overstatement/understatement of balance compared to system reports
  - State and local grants/contracts revenues not being reported in the correct fiscal year
  - Amounts reported under “Miscellaneous” revenues and expenses line items not significantly detailed enough to be meaningful resulting in classification errors

# Final review



- Detailed secondary review of the financial statement package by someone knowledgeable of financial reporting
- Avoid reliance on the SBCTC or a contracted CPA firm
- Utilize checklists
  - GFOA checklist
  - SAO checklist





# Accountability audit themes

# Safeguarding of Assets

- In a recent College audit, we identified weaknesses in the College's small and attractive asset policy
  - Did not segregate duties between purchasing, receiving, and reconciliation functions
  - Also did not identify a dollar threshold for tracking small and attractive assets



# Safeguarding of Assets

- Identified additional weaknesses in internal control process
  - Asset list maintained by Finance was saved on a network drive that could be accessed by several employees
  - No one at the College authorized or reviewed changes made to the asset listing
  - Assets that were purchased that qualified as small and attractive were not always being added to the listing
  - No documentation of physical inventory in the last two years





# Safeguarding of Assets



- Audit testing confirmed the following results:
  - Assets selected from physical observation were not found on the asset listing
  - Assets selected from A/P and credit card expenditures were not added to the asset listing
  - Missing assets
  - Disposed assets not supported by adequate documentation

**MISSING**

# Safeguarding of Assets



- SAAM requirements described in chapters 30, 35, and 70
  - SAAM 30.40.20: Perform a risk assessment of the agency's assets to identify those assets that are particularly at risk or vulnerable to loss
  - SAAM 30.45.10: Have a policy in place for performing regular physical inventories at least once every other fiscal year.
    - Policy should address who will conduct physical inventories, at what time of the year, who should perform reconciliations between actual counts and entity records, and how identified variances should be resolved.
  - SAAM 70.75.40: Comply with RCW 43.09.185 and immediately report losses to the Office of the State Auditor (SAO)

# Safeguarding of Assets

- Best practices and internal controls over safeguarding assets
  - Establish segregation of duties between purchasing, receiving, disposal, physical inventory, and reconciliation oversight functions
  - Develop procedures for adding, moving, and removing small and attractive assets from the master list
  - Establish an “Inventory Officer” responsible for maintaining the small and attractive asset list, coordinating physical inventories, and acting as the point of contact for any decentralized departments or locations



# Safeguarding of Assets

- Best practices and internal controls over safeguarding assets (continued)
  - Maintain documentation of physical inventory conducted, results, and any follow-up on discrepancies between the list and actual counts
  - Maintain documentation of disposed items (i.e. insurance claims, police reports, surplus declarations by governing body, damage report, sales receipt, etc.)



# Cost Allocation – payroll

- Common relationship between Foundation (separate nonprofit organization) and College is an exchange of services
  - Example – Foundation provides support for College projects and scholarships for students in exchange for space on College campus, equipment, and administrative support from College personnel
- One audit during the period found that for employees who work for both the Foundation and the College, 80% of payroll costs were being covered by the College
  - Not supported by a cost allocation plan or a time study to show actual time spent on activities of the two different entities



# Cost Allocation – payroll

- Written cost allocation plans:
  - Describe how the cost will be allocated
  - Describe how the allocation methods are fair and equitable
  - Identify the documentation required to support the allocations
    - Example: Time study (see next slide)



# Cost Allocation – payroll



## Example

### Clerk-Treasurer

Time Study - Representative one month (20 days/160 hours)

Council meetings/minutes/prep	22
Voucher/warrants	28
Payroll	10
Utility bill processing	18
General cash receipting	18
Mail/general citizen inquiries	16
Utility receipting	20
Month end reports/accounting	18
Utility billing inquiries/complaints	10
<b>Total</b>	<b>160</b>
<hr/>	
Utility related hours (30%)	48
General Government related hours (70%)	112
<b>Total</b>	<b>160</b>

# Cost Allocation – payroll

- Other common issues include:
  - Plan not recently updated
  - Plan does not represent current operations
  - Allocation method not fair and equitable
  - Allocations based on unsupported estimates
  - Estimates not reconciled to actual expenditures
  - Budget allocations not reconciled to actual expenditures
  - No support for allocation calculations







# Audit risks for fiscal year 2020 audits

# Electronic Funds Transfers



- Required risk to assess for all entities our Office audits due to increase in the number of payroll and vendor EFT cyber related frauds
- Controls should be in place related to changing existing EFT associated bank account numbers or adding new accounts/vendors
  - Staff with ability to add or change EFT bank accounts should go through a process to validate the changes (i.e. follow up with a previously known contact to confirm changes)



# Electronic Funds Transfers

- Pierce County Housing Authority case study
  - Period of the fraud: March 2016 – July 2019
  - Type of loss: Wires, ACH, credit cards
  - Amount of loss: **\$6,948,277**

## > PIERCE COUNTY HOUSING AUTHORITY

### >> FRAUD CASE

Automated Clearing House	\$3.24 million
Wire Transfers to FD's Acct	\$3.05 million
Wire Transfers to Bank	\$635,000
Credit Card Payments	\$25,000
<b>TOTAL</b>	<b>\$6.95 million</b>

# Electronic Funds Transfers

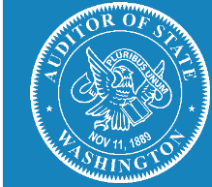


- Pierce County Housing Authority case study (continued)
  - Detected during a regular financial statement audit
  - Auditor was reviewing bank statements and noticed unusual wire transfers
  - Wires were described as “investment purchases”, that were supposedly cancelled, but this was unable to be confirmed in future bank statements

# Electronic Funds Transfers




- What can you expect during an audit?
  - Types of transactions auditors will review
  - Type of documentation we will look for
  - Attention to employees with access to online banking portal
  - Utilize SBCTC created query for payroll EFT's



# Electronic Funds Transfers


- Resources to help strengthen controls over EFT's

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Independence • Respect • Integrity

## Banking and Wire Transfers: Protecting Electronic Transactions

Malware infections on government computers can lead to successful cyber-attacks and fraudulent wire transfers. These incidents primarily target small- to medium-size governments, because they often lack the complex security of a large corporation but maintain a larger cash balance than most individuals.

The best practices in this booklet will help you reduce the risk associated with online banking and electronic file transfers (EFT). Nothing can eliminate all risks. However, multiple layers of security and informed, vigilant users will help you minimize the risk.



For more information that can help local governments evaluate programs and services, improve results, and communicate with citizens, visit the Local Government Performance Center on the State Auditor's Office online at [www.sao.wa.gov](http://www.sao.wa.gov).



Leadership and Planning

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Information Technology

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Sept. 2019

Center for Government Innovation



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## Are you doing all you can to keep your government safe from a cyber attack?

- 1. Join MS-ISAC, the collaborative effort the Department of Homeland Security calls "the key resource for cyber threat prevention... for the nation's...governments."**

The Multi-State Information Sharing and Analysis Center (MS-ISAC) provides many services to member governments such as cybersecurity advisories and alerts and incident response for entities experiencing a cyber threat. Explore the many benefits of a free membership at [www.cisecurity.org/ms-isac/](http://www.cisecurity.org/ms-isac/).
- 2. Do you know about free training options for leaders and managers, and also for technical staff you might oversee?**

FedVTE is a free online, on-demand cybersecurity training system providing cybersecurity training courses for federal, state, and local government personnel. <https://niccs.us-cert.gov/training/federal-virtual-training-environment-fedvte>. It includes basic training for managers with courses such as, "The Election Official as IT manager", and "Cyber Security Overview for managers"; but also more technical training for IT staff.
- 3. Do you need an employee awareness training cybersecurity program?**

Everyone does, but a recent free option became available at <https://www.eset.com/us/cybertraining>. It is 90 minutes long, interactive, and provides employees with a class certification to demonstrate they completed it. There are other options available at a cost, such as through [knowbe4.com](http://knowbe4.com).



October 2019

# Financial Condition

- Governments have experienced a wide range of economic and operational effects as a result of COVID-19
- We expect most will have to anticipate reduced or delayed revenues and increases expenses
  - Specifically, we would expect to see a drop in auxiliary service revenue as these services depend on students being on campus



# Financial Condition

- Auditors will assess the College's financial health through a variety of procedures
  - Risk assessment inquiry
  - Reviewing meeting minutes
  - Analyzing financial ratios
    - Example of a typical ratio
    - Example questionnaire







# Conducting remote audits

# Pre-audit meetings

- Topics to include:
  - Audit timing
  - Deadlines
  - Staff availability (including if staff are working remotely)
  - Strategy to share records
  - Video, chat and screen sharing preferences
- Ask your auditor for resources to help you prepare (planning guide, SAO resource database documents for specific topics, etc.)





# Provided by Client listings

- Planning documents, other common documents we will use throughout the audit
- Ensure records for the years under audit are organized and readily available in electronic format, if possible
  - Utilize SAO's secure file transfer system

Provided by Client Listing  
For the period July 1, 2015 through June 30, 2019

*Instructions: Please provide the documents listed below for your upcoming audit.*

	Description	Format Requested	Submitted to SAO? (Yes/No)	Client Notes
1.	The name and position title of the College's internal control officer and copy of most recent annual risk assessment for fiscal year as required by OFM (SAAM 20.15.50.a).	Any Format		
2.	Listing of any significant events that occurred during the audit period (i.e., new debt, major purchases, major construction, new accounting software, etc.)	Any Format		
3.	Listing of all cash receiving locations and types of receipts. Also include petty cash and change fund locations and amounts.	Any Format		
4.	Listing of all related parties of the College (component units, joint operations, joint ventures, or jointly governed organizations).	Any Format		
5.	Listing of any turnover of key personnel at the College.	Any Format		
6.	Listing of any non-SAO audits or engagements during the audit period.	Any Format		
7.	Provide update on any prior audit recommendations. List of prior audit recommendations can be found in the "PA Recommendations" tab.	Any Format		
8.	Bank and Investment Statements at Year End 6/30/19 and subsequent month statements 7/31/19, 8/31/19 .	Onsite (Paper)		
9.	Reconciling items between bank and book (listing of outstanding checks, deposits in transit, etc.)	Onsite (Paper)		
10.	Written confirmation that the financial statement package is final and ready for audit	Any Format		
11.	Set of Final Statements including Statement of Net Position, Statement of Revenues, Expenses & Changes in Net Position, and Cash Flow Statement	Excel		



# Weekly audit status meetings

- Hold status update meetings with liaison at least weekly
- Share document request list
- Open and honest communication
  - Realistic expectations for document turnaround
  - College staff availability
  - Concerns/difficulties in obtaining information or documents
- We are able to set up specific days/times to go on-site and review documentation





# SAO Resources

# Helpdesk/My Subscriptions



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# SAO Website – COVID-19 Impacts



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## COVID-19 Accounting and Reporting

### On this page...

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[Training and Workshops](#)

[Local Government Advisory Committee](#)

tended to certain impacts have resulted in several...  
nts, and discuss... filing deadline. This page i

# SAO Website – Resource Database



## Cash Receipting

Keep your money secure:  
Tips for leaders, managers, supervisors  
and cashiers



## Segregation of Duties

Essential Internal Control

Why it matters  
How to get started  
Helpful hints for small government  
Plus, self-assessments and checklists



How are the

## PHISH BITING

today?



CYBERSECURITY  
is everyone's job.

## Backup and Recovery Best Practices

Cybersecurity considerations for  
local government leadership



## Best Practices for Bank Reconciliations

Center for  
Government  
Innovation



Office of the  
Washington  
State Auditor  
Pat McCarthy



There are many risks to your data, including hardware failure, natural disasters, human error, theft, and attacks such as malware and ransomware. You might not be able to anticipate every data risk, but you can...





# Questions



# Information



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