



Washington State Auditor's Office

Independence • Respect • Integrity

State Audit Update

Financial Management Advisory Council

May 28, 2015

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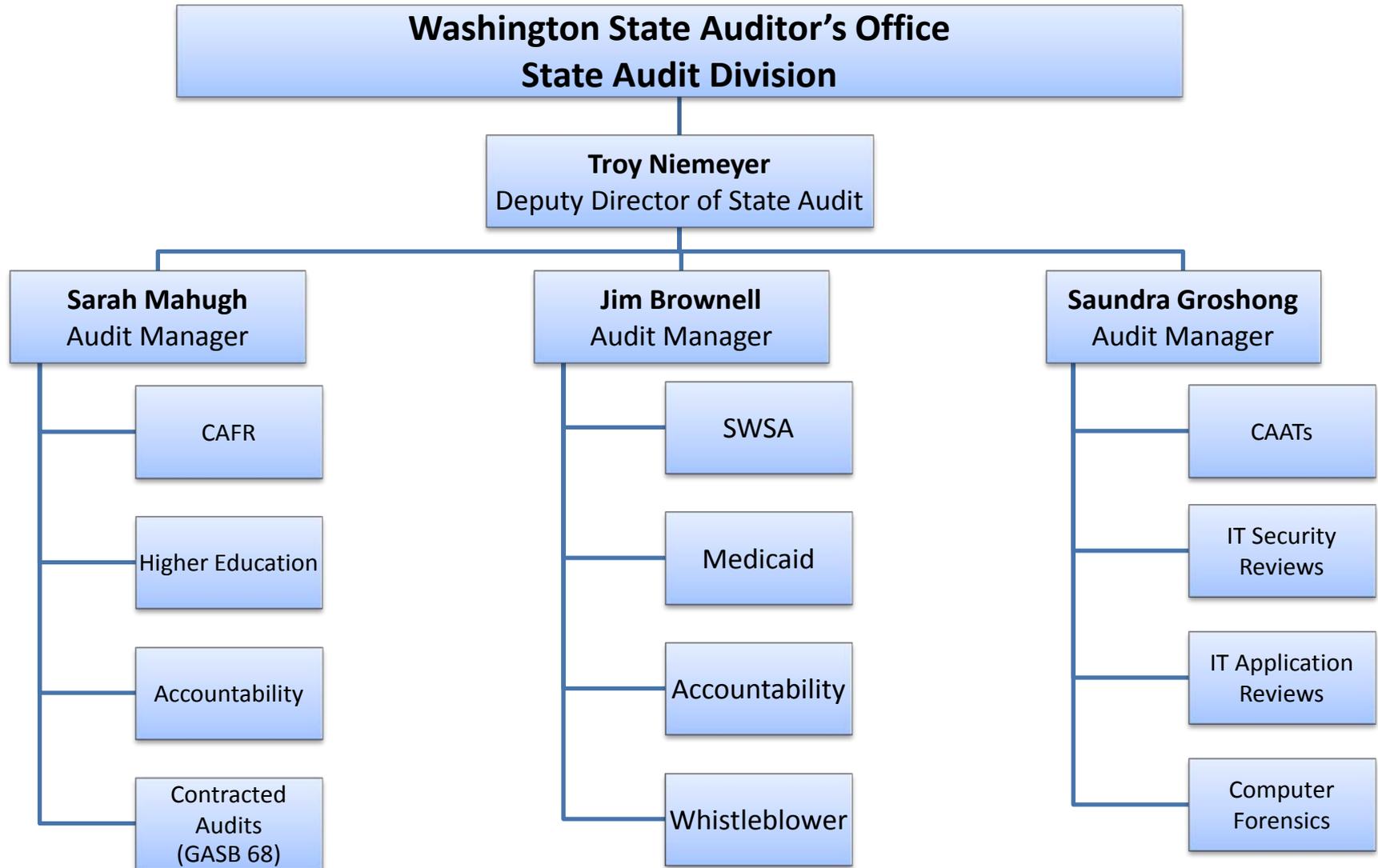
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Topics for discussion

- Current organizational structure
- Statewide single audit (SWSA)
- Whistleblower program
- Comprehensive annual financial report (CAFR)
- Higher education audits
- Accountability audits
- Contracted audits
- Future audit work plan

Current organizational structure



Statewide Single Audit - 2014

Overview

- The Single Audit is an independent audit of systems and internal controls over federally funded programs the state has designed to ensure compliance with federal regulations.
- The audit is conducted in accordance with the provisions of the federal Office of Management and Budget's Circular A-133 and U.S. Government Auditing Standards.
- The state received \$15.7 billion in cash and other federal assistance in fiscal year 2014.

Audit coverage and reporting

- Audited 32 federal programs covering \$9.4 billion.
- Performed audit work at 23 different state agencies (this includes universities and community colleges).
- The Single Audit report for the state of Washington is published by OFM:
 - The 2014 report was released in late March.
 - A summary report was published on our website in late April.

Audit Results

- We reported 55 audit findings.
- Combination of significant deficiencies or material weaknesses in internal controls, significant non-compliance and questioned costs of \$3.6 million.
- Increase from 45 findings reported for the 2013 audit can be attributed largely to:
 - Problems meeting Federal Funding Accountability and Transparency Act (FAFTA) reporting requirements (*12 findings in 2014*)
 - Small programs (< \$30 million) that are audited infrequently and have less oversight (*18 findings*)
 - Unresolved findings from prior years (*22 findings*)

Statewide Single Audit – Five year history

SWSA findings and questioned costs - 2010 to 2014

Audit year	Total federal assistance received	Number of programs audited	Number of audit findings	Questioned costs
2014	\$15,730,569,572	32	55	\$3,625,781
2013	\$14,892,685,569	31	45	\$4,275,906
2012	\$15,764,520,777	30	63	\$3,950,901
2011	\$17,308,755,010	32	51	\$3,511,932
2010	\$18,280,120,745	31	57	\$8,224,226

Statewide Single Audit – New guidance

New uniform guidance for Single Audits

- This affects federal awards issued on or after December 26, 2014.
- Supersedes many OMB Circulars including A-133 and A-87.
- Some changes are:
 - The audit threshold has been increased from \$500,000 to \$750,000.
 - The questioned cost threshold has been increased from \$10,000 to \$25,000.

Statewide Single Audit – New guidance

Some other changes are:

- Uniform cost principles for federal awards to non federal entities have been established by consolidating the three cost principle circulars.
- The salary support required for some recipients has been simplified.
- Subrecipient monitoring requirements have been increased. This includes requiring pass-through entities to perform risk assessments of subrecipients.
- Costs incurred by a non federal entity to recover improper payments are allowable as either direct or indirect costs, as appropriate.

Whistleblower Program

- Our Office is responsible for investigating reports of improper governmental actions made by state employees
- The following must be true in order for us to open an investigation:
 - The whistleblower must be a current state employee.
 - The complaint must include a specific subject or subjects.
 - The asserted improper action must be a violation of state law or rule.
 - The asserted improper action must have occurred within the past year.
- Complaints can be submitted anonymously
 - When we open these cases, we are required to consult with a three-person panel after our preliminary investigation to determine whether to proceed.

Whistleblower Program

- The program is staffed by three full-time whistleblower investigators and a lead investigator (supervisor).
- In calendar year 2014, we:
 - Received 224 whistleblower complaints
 - Initiated investigations into 47 of the complaints
 - Published 25 reports – 14 resulted in reasonable cause findings
- Used Lean concepts to make process improvements. Specifically:
 - Decreased the average time of investigations.
 - Implemented performance measures to better track statutory requirements.
 - Made IT improvements to standardize workpapers and better track the status of investigations.

Whistleblower Program

- At the beginning of calendar year 2015, our Office sent out an email notification to all state employees* that:
 - Reminded them about the program.
 - Described how employees can report improper governmental action.
- A separate notification was sent to HR departments reminding them to:
 - Notify their employees each year about the whistleblower program.
 - Provide a list of public officials at their agency authorized to receive whistleblower reports.

Overview

- The CAFR audit is an independent audit of the state's basic financial statements.
- We conducted our audit in accordance with Generally Accepted Governmental Auditing Standards (GAGAS).
- The CAFR audit is one of the State Auditor's Office's largest audits drawing upon the resources of a number of audit teams and relying upon several CPA audits of state agency financial statements.

Audit coverage and reporting

- Audited 13 agencies with 68 account balances material to state's basic financial statements.
- Audit reports:
 - Financial statement opinion released on October 31, 2014.
 - Currently, the fastest state CAFR opinion in the Nation.
 - Report on internal controls over financial reporting and compliance and other matters was published in the Single Audit Report.
 - Issued CAFR summary report
http://www.sao.wa.gov/resources/Documents/2014_CAFR_Summary_Report.pdf

Significant risks

- Internal controls over payroll
- Reporting infrastructure assets under the modified approach
- Employment Security Department's Next Generation Tax System (NGTS)
- Management override of controls

Audit results

- Our 2014 audit resulted in a clean audit opinion.
- We identified no significant deficiencies or material weaknesses that were reported as audit findings.
- We did identify controls weaknesses which were reported in a management letter.

Higher Education audits

- We currently have 34 Community Colleges with Financial Audits.
- Several are completed and many more are currently underway.
- Financial audits are a new requirement for the Colleges to receive accreditation.
- **Audit observations:**
 - ❑ First year audits, so many exceptions are related to the learning curve that comes with preparing financial statements for the first time.
 - ❑ Colleges are also decentralized which has increased our audit risk related to many functions such as cash receipting, capital asset tracking, small and attractive assets, etc.
 - ❑ Colleges have foundations which should have activities separate and not commingled with the College's operations.
 - ❑ Colleges are also complex in funding as they must balance decreasing appropriations, increasing costs, and legislature's request to keep student costs low.

University of Washington

- The Senate passed ESSB 6002 requiring an audit of the University of Washington's major accounts.
- On December 31st, 2014, we published a major report on the "Higher Education Dedicated Local Funds and Operating Fee Accounts"
- This report discussed higher tuition rates with decreased state appropriations and how enrollment and tuition rates have steadily increased as state appropriations decreased.

Accountability audits

Overview

- What is an accountability audit?
 - A risk based audit that takes a selection of audit areas and determines if there is reasonable assurance that the agency has adequate safeguarding of public resources from fraud, loss, or abuse. This includes the design implementation, and maintenance of internal controls relevant to these objectives.
- Major difference from past accountability audits is a greater focus on internal controls and determining if they are designed properly and if monitoring is occurring to ensure they are functioning as designed.
- As done in the past, we are working with agencies as partners in accountability to provide helpful and useful recommendations which reduce risk.

Accountability audits

- Accountability audits for the following agencies have been completed or are underway on Team SAW:
 - Services for the Blind
 - Social & Health Services
 - Employment Security
 - Health
 - Early Learning
 - Minority & Women's Business Enterprises
 - Veterans Affairs
 - Military
 - Natural Resources
 - Agriculture

- These are audits scheduled to complete or start prior to June 30th, 2015.

Accountability audits

Accountability audits for the following agencies have been completed or are underway on Team FA:

- African American Affairs
- Board of Volunteer Firefighters
- Horse Racing Commission
- Liquor Control Board
- Puget Sound Partnership
- Student Achievement Council
- Utilities & Transportation Commission
- Recreation and Conservation Office
- State Board of Community and Technical Colleges
- Commerce - Travel
- The Evergreen State College
- South Puget Sound College
- Grays Harbor College
- Office Superintendent Public Instruction
- Enterprise Services
- Labor and Industries
- Licensing
- Revenue
- Corrections
- Ecology - Travel
- Social & Health Services - Travel

These are also audits scheduled to be completed or started prior to June 30th, 2015.

Accountability audits

Audit reports

- A separate audit report is issued for each accountability audit.
- If the accountability audit report includes any audit findings, be sure to familiarize yourself with **SAAM 55.10** (*audit tracking*).
 - This chapter details OFM and agency responsibilities for audit finding resolution and tracking:
 - **SAAM 55.10.10** states OFM is responsible to cause corrective action for any findings reported in an accountability audit
 - **SAAM 55.10.20** states that the Agency is responsible for providing OFM necessary information and to cause corrective action in a timely manner. State agencies are required to submit to the Accounting Division of OFM within 30 days a corrective action plan. Corrective active plan templates can be found at www.ofm.wa.gov/policy/55.10.htm.
 - This is not required if the audit has no findings.

Accountability audits



Washington State Auditor

May 11, 2015

Ms. Maia D. Bellon, Director
Washington State Department of Ecology

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for Department operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the Department's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

A handwritten signature in cursive script that reads "Jan M. Jutte".

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR

Accountability audits

AUDIT SUMMARY

Results in brief

In most areas we audited, Department operations complied with applicable requirements and provided adequate safeguarding of public resources. The Department also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we identified areas in which the Department could make improvements.

We recommended that the Department improve internal controls over corporate travel cards to ensure compliance with state laws and regulations.

These recommendations were included in our report as a finding.

We also noted certain matters that we communicated to Department management in a letter dated April 27, 2015, related to meals and light refreshments. We appreciate the Department's commitment to resolving those matters.

About the audit

This report contains the results of our independent accountability audit of the State of Washington from July 1, 2012 through June 30, 2013.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the Department's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following area was examined during this audit period:

- Travel expenses

What are contracted audits?

- These are both financial statement and attestation audits done through a contract process.
- Current ones assigned to Team FA:
 - Bates Tech. College
 - Columbia River Gorge
 - Evergreen State College
 - Centralia College
 - Labor & Industries
 - Clover Park College
 - Renton Tech. College
 - South Puget Sound
 - GASB 68 attestation engagements
 - 79 reports phase 1
 - 75 reports phase 2

Future audit work plan

- SAO has created a proposed plan for future accountability audit work. State agencies are included in the plan and will be cycled through.
- Accountability audits will be cycled based on many factors such as:
 - Prior audit issues
 - Size and complexity of agency
 - Financial activity (revenues and expenditures)
- The actual amount of hours for the audit will be based upon a risk assessment

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