TO: The Honorable Jay Inslee
    The Honorable Troy Kelley
    The Honorable Bob Ferguson

    The Honorable Andy Hill
    The Honorable Jim Hargrove
    The Honorable Ross Hunter
    The Honorable Bruce Chandler

FROM: David Schumacher
    Director

SUBJECT: POST AUDIT OF THE BOOKS, ACCOUNTS, AND RECORDS OF THE STATE AUDITOR’S OFFICE

I am pleased to transmit the State Auditor’s Office Post Audit Report for the 2011-2013 Biennium, which is available online at http://www.ofm.wa.gov/reports/audit/postauditreport.pdf.

Pursuant to RCW 43.09.340, the Office of Financial Management (OFM) contracted with an accounting firm to prepare this report of legal compliance. Davis Accounting Tax & Auditing Services was selected under contract #K982.

If you have any questions, please contact Sandy McGough, OFM State Financial Consultant, at (360) 725-0194 or sandy.mcgough@ofm.wa.gov.

cc: Keenan Konopaski, Legislative Auditor, Joint Legislative Audit and Review Committee
    Hunter Goodman, Secretary of the Senate, Washington State Senate
    Richard Rodger, Director, Senate Committee Services, Washington State Senate
    Barbara Baker, Chief Clerk, House of Representatives
    Jill Reinmuth, Director, Office of Program Research, House of Representatives
    Laurie Fortier, Library Information Specialist, Washington State Library
    Wendy Jarrett, Assistant Director, Accounting Division, OFM
Washington State Auditor’s Office

Independent Accountant’s Report – Agreed Upon Procedures

Biennium Ended June 30, 2013

OFM Contract K982

Prepared by

Davis Accounting Tax & Auditing Services

December 18, 2013
Independent Accountant’s Report

To the Office of Financial Management
State of Washington

We have performed the procedures enumerated in the attached report, which was agreed to by the Washington State Office of Financial Management, solely to assist you in evaluating the Washington State Auditor’s Office (SAO) compliance with laws under the Revised Code of Washington for a two year period ended June 30, 2013. Additionally, the Departments of Enterprise Services, Office of the Chief Information Officer and the Office of Financial Management also have established policies based on laws, regulations, and standards related to various internal control systems that SAO is required to follow. These policies are also included.

SAO is responsible for conducting its business in accordance with the above-mentioned laws, regulations, standards, and internal policies. They are also responsible for developing and maintaining a system of internal controls comprising methods and procedures that will safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies for accounting and financial controls. These systems of internal controls are also included in these agreed upon procedures.

This engagement to apply agreed upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described on the attachment for the purpose for which this report has been requested or for any other purpose.

In planning and performing our agreed upon procedures, we considered SAO’s applicable internal controls as a basis for designing the specific agreed upon procedures and evaluating compliance with relevant regulations and other requirements, but not for the purpose of expressing an opinion on the effectiveness of the SAO’s internal control as a whole. Accordingly, we do not express an opinion on the effectiveness of the SAO’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our agreed-upon procedures engagement we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 or noncompliance 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 or lack of compliance with applicable laws, rules and regulations 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.

The procedures performed and related results are enumerated in the attachment to this report.

We identified one finding, and two significant deficiencies which have been described in the attached report. We did not identify any deficiencies in internal control that we consider to be material weaknesses. The Department’s response to the identified finding and significant is described in Attachment II – Washington State Auditor’s Response. We did not audit the State Auditor’s response and, accordingly, we express no opinion on it.

We were not engaged to and did not perform an examination, the objective of which would be the expression of an opinion on the Washington State Auditor’s compliance with applicable state laws and regulations. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Washington State Office of Financial Management and Washington State Auditor, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

[Signature]

Davis Accounting Tax & Auditing Services
December 18, 2013
Attachment I

Agreed-Upon Procedures Report
Executive Summary

Pursuant to Contract K982, Davis Accounting Tax & Auditing Services (DATA Services) was engaged by the Office of Financial Management (OFM) to perform agreed upon procedures referred to as a “post audit” of the Washington State Auditor’s Office (SAO) for the biennium ended June 30, 2013. The agreed upon procedures included an assessment of the adequacy of internal control over, and SAO’s compliance with, state statutes and regulations and SAO policies and procedures regarding the following requirements:

General Administrative:

1. Internal controls, risk assessment and financial disclosure certification activities requirements set forth in State Accounting & Administrative Manual, Chapter 20 – Internal Control and Auditing. This chapter provides information about internal control concepts and includes certain specified required activities. Specific required activities are described at SAAM 20.15.50, 20.25.50 and 20.40.40a.

2. Office of the Chief Information Officer (OCIO) policies and standards over information technology purchases, portfolio management, security, and disaster recovery/business resumption planning.

3. Revised Code of Washington (RCW) 42.17.190 (3) & (4), Lobbying activities allowed and disallowed.

Financial Accounting – Costs & Expenses:

4. Compliance with proper allocation of costs among funds in accordance with the following:
   b. RCW 43.09.416, Auditing services revolving account – Allocation of costs to funds, accounts, and agencies – Billing rate.
   c. RCW 43.09.475, Performance audits of government account.
   d. Accounting standards generally accepted in the United States of America, including state and federal allocable cost principles.

5. Employee travel expense reimbursement requirements set forth in RCW 43.03 and SAAM Chapter 10 – Travel.
6. Personal/professional service contract procurement and expenditures were conducted in accordance with applicable requirements as follows:

Personal/professional contracts procured prior to January 1, 2013:

- RCW 39.29 – Personal Service Contracts
- SAAM Chapter 15 - Personal Service Contracts

Personal/professional contracts procured after December 31, 2012:

- RCW Chapter 39.26 – Procurement of Goods and Services
- Applicable DES policies #DES-090-00, #DES-125-03, #DES-130-00, #DES-140-00, AND #DES-170-00

7. Compliance with the requirements of SAAM Chapter 30 – Capital Assets Policies.

8. Compliance with the requirements of SAAM Chapter 45 – Purchase Cards and Review of expenditures for employee awards and recognition for compliance with RCW 41.60.150 and 41.60.160.

Financial Accounting – Accounts Receivables and Billings:

9. Accounting for accounts receivables and billings for audit services in accordance with Generally Accepted Accounting Principles (GAAP), including the proper use of dedicated funds, SAAM 85.54 and the following RCW’s:

- RCW 43.09.270, Local government accounting – Expense of audit, what constitutes
- RCW 43.09.280, Local government accounting – Expense of examination
- RCW 43.09.2801, Local government accounting – Expense of examination – Additional charge, and related RCW 42.41.060, Local government administrative hearings account
- RCW 43.09.281, Appeal procedure to be adopted – inclusion of number and disposition of appeals in annual report
- RCW 43.09.282, Local government accounting – Municipal revolving account – Records of auditing costs
- RCW 43.09.412, Auditing services revolving account – Transfers and payments into account – Allotments to State Auditor
Internal Controls Established by SAO to address Identified deficiencies in the Statewide HRMS System used to Process Payroll:

10. Access controls implemented by SAO to establish a proper segregation of duties over incompatible duties within the human resources and fiscal services departments

Conduct of Audits:

11. RCW 43.09.260, Examination over local governments – Reports – Action by Attorney General

The agreed upon procedures covered the period July 1, 2011 to June 30, 2013. Audit work commenced in September 2013 and was completed in December 2013. Work, as applicable, was performed in accordance with Government Auditing Standards, commonly referred to as Yellow Book Standards. Procedures performed included interviews with management and staff; observations and walkthroughs of business processes, review of policies and procedures, and substantive tests of transactions.

Our report included one finding, two significant deficiencies as follows:

Finding #1: The working capital reserves in the state agency auditing revolving services account #483 at June 30, 2012 and 2013 were in excess of the maximum amount permitted by RCW 43.09.416 which limits the amount of such working capital to 5% of the accounts biennium appropriation.

Significant Deficiency #1: The procurement officer does not monitor employee travel card use for personal or unallowable purchases. Currently the procurement officer verifies the employee timely pays the monthly bill in full each month and also reviews all requests for reimbursement of expenses charged on the card. However, since an employee is unlikely to request reimbursement for an unallowable charge, there is no verification that the employee is not using the card inappropriately.

Significant Deficiency #2: SAO’s Asset Tracking System’s (ATS) reporting capabilities are deficient. Assets which are not assigned to a team or location in the system are not reflected on reports. This situation would allow an individual in I.T. to purchase inventory assets, assign an inventory tag # (Required for approval of payment to vendor), exclude the asset “assigned to” information in ATS, misappropriate the asset, and the theft would not be detected as the asset would not be reflected on reports used to track inventory assets.

The following summarizes the results of our procedures and identifies any findings and exceptions we noted as well as any recommendations we made.
Element 1 - Internal Controls, Risk Assessments and Financial Disclosure Certification

We performed procedures to determine SAO materially complied with the following State Administrative & Accounting Manual (SAAM):

1. SAAM 20.15.50 – Annual Requirements for Agencies
2. SAAM 20.25.50 – What internal control documentation is required?
3. SAAM 20.40.40 – What are the basic requirements of internal auditing?

Status of Prior Biennium Findings & Recommendations:
N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

However, we noted certain “Other Matters and Recommendations” related to the timely filing of required communications and certifications SAAM 20.15.50), which we reported to management in our April 1, 2012 report. We did not identify any instances of late filing during the biennium ended June 30, 2013.

Current Biennium Results:
We determined that SAO materially complied with the requirements of SAAM 20.15.50, SAAM 20.25.50 and SAAM 20.40.40. We also noted that the Other Matters and Recommendations of the prior biennium were addressed by management and were no longer considered applicable.

Element 2 - Compliance with Office of the Chief Information Officer (OCIO) Policies & Standards

We performed procedures to determine if SAO materially complied with certain OCIO policies and standards, and applicable Information Services Board (ISB) policies and standards prior to October 1, 2011.

Status of Prior Biennium Findings & Recommendations:
N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

Current Biennium Results:
We determined that SAO materially complied with the requirements of OCIO policies and standards.
**Element 3 - Controls Over Compliance with RCW 42.17.190 (3) & (4) - Lobbying Activities Allowed and Disallowed**

We performed procedures to evaluate whether SAO had adequate policies & procedures in place to ensure compliance with the above referenced RCWs.

**Status of Prior Biennium Findings & Recommendations:**

N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

**Current Biennium Results:**

We determined that SAO had adequate controls in place to ensure material compliance with the requirements of RCW 42.17.190 (3) & (4).

**Element 4 - Compliance with the Proper Allocation of Costs among Funds**

We performed procedures to determined that SAO materially complied with the following RCW’s and principles as they pertain to the proper allocation of costs among various funds, the establishment of billing rates and limitations on working capital reserves:


2. **RCW 43.09.416**, Auditing services revolving account – Allocation of costs to funds, accounts, and agencies – Billing rate.


4. Accounting principles generally accepted in the United States of America, including state and federal allocable cost principles.

**Status of Prior Biennium Findings & Recommendations:**

N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.
Current Biennium Results:

With the exception of the amount of working capital within the Auditing service revolving account, we determined that SAO complied with the above referenced requirements as follows:

1. Direct costs of audit services are charged to the proper fund.
2. Allocable direct costs are allocated to the various funds based on reasonable allocation methods. Such allocations are adequately documented and supported.
3. Administrative and other overhead-type costs are allocated to the various funds based on reasonable allocation methods. Such allocations are adequately documented and supported.
4. Billing rates are based on costs incurred in the prior biennium and anticipated costs in the new biennium.

Current Biennium Finding:

SAO’s working capital reserves during the biennium ended June 30, 2013 were in excess of the maximum amount permitted by RWC 43.09.416 which limits the amount of such working capital of the state agency auditing revolving services account #483 to 5% of the accounts biennium’s appropriation.

Element 5 - Compliance with Employee Travel Expense Reimbursement Requirements

Our testing in this area consisted of two major objectives as follows:

A. To determine if SAO policies and procedures complied with the requirements RCW 43.03 and SAAM Chapter 10.

B. To determine if SAO travel expense reimbursement transactions complied in all material respects with the applicable criteria as well as with SAO’s written policies and procedures.

Additionally, our testing was coordinated with our testing within two other areas as follows:

1. To determine if costs were charged to Proper AFRS fund based on the purpose of the travel (See “Element 4 - Compliance with the Proper Allocation of Costs among Funds”).

2. Determine if billable travel has been billed to the appropriate entity (See “Element 9 - Accounting for Accounts Receivables and Billings for Audit Services”).
Status of Prior Biennium Findings & Recommendations:
N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

However, we noted certain “Other Matters and Recommendations” related to deficiencies in policies and procedures over six requirements within SAAM Chapter 10, which we reported to management in our April 1, 2012 report. In that letter we recommended management address these items within SAO travel policies and procedures.

We determined SAO has adequately addressed these items within current policies and procedures.

Current Biennium Results:
We determined that SAO materially complied with SAO travel & expense reimbursement policies and procedures and the requirements of RCW 43.03 and SAAM Chapter 10.

Element 6 - Personal Service Contract Procurement, Management and Accounting

Our testing in this area was to determine if:

A. SAO policies and procedures were consistent with the following requirements:

   Personal/professional contracts procured prior to January 1, 2013:
   • RCW 39.29 – Personal Service Contracts
   • SAAM Chapter 15 - Personal Service Contracts

   Personal/professional contracts procured after December 31, 2012:
   • RCW Chapter 39.26 – Procurement of Goods and Services
   • Applicable DES policies #DES-090-00, #DES-125-03, #DES-130-00, #DES-140-00, AND #DES-170-00

B. SAO’s policies and procedures, including control and tools used to administer its personal service contracting activities, provide reasonable assurance that such activities comply with the requirements.

C. The procurement of personal service contracts materially complied with the requirements.
Additionally, our testing was coordinated with our testing within two other areas as follows:

D. To determine if costs properly supported and approved and were charged to Proper AFRS fund based on the purpose of the contract (See “Element 4 - Compliance with the Proper Allocation of Costs among Funds”)

E. Determine if billable personal service contract expenditures have been billed to the appropriate entity at the proper amount (See “Element 9 - Accounts Receivables and Billings”).

Status of Prior Biennium Findings & Recommendations:
N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

Current Biennium Results:
We determined that SAO materially complied with SAO personal service contract procurement policies and procedures and the above referenced requirements. However, we did identify two exceptions related to the period of performance and proper support for contract expenditures paid during the biennium. These two items, while not considered to be a finding or a significant deficiency were communicated to management as “Other Matters and Recommendations” in our report.

**Element 7 - Compliance with the Requirements of SAAM Chapter 30 – Capital Assets**

Our testing in this area was to:

A. Determine SAO policies, procedures and controls over capital and inventorial assets;
   - are consistent with and materially comply with applicable requirements set forth in SAAM Chapter 30, and
   - provide reasonable assurance SAO complies with the applicable requirements of SAAM Chapter 30

B. Determine if SAO has conducted a physical inventory of capital and inventorial assets in accordance with the requirements of SAAM Chapter 30

C. Determine if capital and inventorial asset transactions posted to AFRS Object code J have been;
   - properly supported and approved
   - properly entered into the CAMS and ATS systems as required
   - properly recorded in the proper AFRS “PI” code (Represents SAO team #). The PI code ultimately determines how the cost is allocated among the various AFRS funds (See Element 4 – Cost Allocation and Proper Funds & Rates)
Status of Prior Biennium Findings & Recommendations:
N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

However, we did identify one reportable condition and two other matters which, while not significant enough to be deemed a finding or reportable condition, were deemed significant enough to reflect in the report as an “Other Matter and Recommendation”.

We reviewed the status of these items and noted SAO had adequately addressed each item during the biennium.

Current Biennium Results:
We determined that SAO materially complied with the requirements of SAAM Chapter 30 – Capital Assets. However, we noted one significant deficiency in internal control related to SAO’s Asset Tracking System’s (ATS) reporting capabilities.

We also noted one other matter related to the purchase of excess IT equipment. Although not a finding or significant deficiency, we believe the amount of certain IT equipment that is located in storage to be important enough to communicate to management under “Other Matters and Recommendations”.

Element 8 - Compliance with the Requirements of SAAM Chapter 45 – Purchase Cards, and Review of Expenditures for Employee Awards and Recognition for Compliance with RCW 41.60.150 and 41.60.160

Purchase Card Compliance with SAAM Chapter 45:
Our testing in this area was to determine if:

A. SAO has established controls and procedures, consistent with SAAM Chapter 45, to ensure all purchase card transactions are properly approved and supported and posted to the correct AFRS funds and accounts policies and procedures regarding controls over and the appropriate use of purchase cards are consistent with SAAM Chapter 45.

B. SAO maintains the required activity logs for all purchase cards which have been properly reviewed, approved and reconciled to individual charges reflected on monthly statements and supporting documents.

C. Select a sample of purchase card transactions and determine if any purchases that should have been purchased under a state master agreement were not so purchased.
D. Scan a sample of purchase card statements for evidence of personal or otherwise inappropriate items such as alcohol or unallowable employee recognition or award type expenditures.

Employee Awards and Recognition Compliance with RCW 41.60.150 & 41.60.160:
In addition to work conducted under purchase card compliance above, we
   A. Examined supporting documentation for Employee Awards and Recognition Expenditures to determine if compliance testing of such costs was necessary
   B. Determined if costs of the retirement party for the previous State Auditor were paid for with state funds or were properly paid from with private or other non-state resources.

Status of Prior Biennium Findings & Recommendations:
N/A – Not included in the scope of agreed-upon procedures for the previous biennium ended June 30, 2011.

Current Biennium Results:
We determined that SAO materially complied with the above referenced requirements.

Although our transaction testing did not identify any exceptions or compliance issues, our evaluation of the controls and processes identified a significant deficiency in internal control related to the monitoring of employee travel card use for inappropriate charges.

Element 9 - Accounting for Accounts Receivable and Billings for Audit Services

Our testing in this area consisted of eight major objectives as follows:
   A. Determine if SAO’s accounts receivable billing system, procedures and documentation complied with SAAM Chapter 85.54 and applicable RCW’s.
   B. Determine compliance with GAAP and proper use of dedicated funds by determining billable amounts are billed to the proper entity and in proper amounts (Completeness & Accuracy) as follows:
      • All items that are billable by SAO are billed (completeness),
      • Amounts billed are for amounts due SAO (existence/occurrence),
      • Billed amounts are billed to the proper entity, using proper billing rates and are properly supported (valuation, accuracy).
      • Billed revenues and receivables are reflected in the proper AFRS fund (accuracy, compliance).
C. Determine if SAO properly applied RCW 43.09.2801 - Whistleblower surcharges to local governments not having a whistleblower program are established in accordance with RCW 42.41.060 and transferred to the Local Govt. Admin. Hearing Account (Fund 180).

D. Determine if SAO complied with SAAM 85.54.55 - Write-offs of billable amounts are properly authorized/approved (If significant)

E. Determine if SAO complied with SAAM 85-54-65.b – Subsidiary ledgers are to be balanced against the associated general ledger control accounts at least monthly.

F. Determine SAO has adopted appeal procedures for auditees to dispute amounts billed as required by RCW 43.09.281

G. Determine if SAO’s allocations of billings for the audit of the Statewide Comprehensive Annual Financial Report (CAFR) are reasonable.

H. Determine if SAO’s allocations of billings for the audit of the Statewide Single Audit (SWSA) are reasonable.

Status of Prior Biennium Findings & Recommendations:
Our report on the post audit of the biennium ended June 30, 2011, dated April 1, 2012, included one finding related to the improper allocation of billings for the state-wide single audit (SWSA) during the fiscal year ended June 30, 2010. We also identified a related reportable condition regarding the lack of established procedures ensuring SWSA billing allocations are updated in accordance with the SWSA billing allocation plan.

We determined that SAO has adequately addressed the finding and reportable condition.

Current Biennium Results:
There were no findings noted. However, we did have three exit comment items for management.

However, we did identify two issues which, while not a finding or significant deficiency, are important enough to communicate to management as “Other Matters and Recommendations” in our report. These items relate to past-due receivable balances and insufficient written collection and write-off policies and procedures.
Element 10 - Access Controls Implemented by SAO to Address Identified Deficiencies in the Statewide HRMS Payroll System

We performed procedures to evaluate whether SAO has adequately addressed identified deficiencies in the statewide HRMS payroll system which could allow individuals with access to HRMS to:

- inappropriately alter compensation levels and other data maintained in the system’s master files,
- create fictitious employees
- alter their leave accumulation data in HRMS

We also performed procedures to determine SAO has established controls and procedures to ensure actual payroll paid to employees is reasonable and consistent with authorized compensation.

Status of Prior Biennium Findings & Recommendations:
N/A – Not included in the scope of agreed-upon procedures for the previous biennium ended June 30, 2011.

Current Biennium Results:
We determined that SAO had adequate controls in place to ensure address the identified deficiencies in the statewide HRMS payroll system.

Element 11 - Compliance with RCW 43.09.260 – Local Government Audits – Reports - Action by Attorney General

We performed inquiry and observation procedures to determine SAO’s compliance with requirements set forth in the following RCW subsections:

A. 43.09.260.1. (Frequency of Audits)
B. 43.09.260.4 (Establishment of a schedule governing the auditing of local governments which shall include: A designation of the various classifications of local governments; a designation of the frequency for auditing each type of local government; and a description of events which cause a more frequent audit to be conducted.)
C. 43.09.260.5 (Required inquiries to be made in each audit)
D. 43.09.260.6 (Audit report issuance and filing requirements)
Status of Prior Biennium Findings & Recommendations:
Based on work we conducted for the biennium ended June 30, 2013, we determined the status of the finding for the prior biennium ended June 30, 2011 regarding the lack of compliance with RCW 43.09.260.1, to have been corrected and is no longer considered a finding.

Current Biennium Results:
There were no findings noted.

We determined SAO materially complied with RCW 43.09.260.2, RCW 43.09.260.4, RCW 43.09.260.5, and RCW 43.09.260.6.

The following pages provide additional details within each element about the agreed-upon procedures and applicable results for each element of the engagement.
Element 1: Internal Controls, Risk Assessments and Financial Disclosure Certification

Applicable Criteria

RCW 43.88.160 (4a) requires the Director of the Office of Financial Management (OFM) to;

“Develop and maintain a system of internal controls and internal audits comprising methods and procedures to be adopted by each agency that will safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies for accounting and financial controls. The system developed by the director shall include criteria for determining the scope and comprehensiveness of internal controls required by classes of agencies, depending on the level of resources at risk.

Each agency head or authorized designee shall be assigned the responsibility and authority for establishing and maintaining internal audits following the standards of internal auditing of the Institute of Internal Auditors."

The Office of Financial Management has met their responsibility under RCW 43.88.160 (4a) through the adoption of the State Administrative & Accounting Manual (SAAM) Chapter 20 – Internal Control and Auditing. The following Subsections were included in the scope of our engagement:

SAAM 20.15.50 (Annual Requirements for Agencies) requires:

- SAO to periodically conduct a comprehensive review of the internal control structure to determine if it is adequately addressing agency risks. This can be done agency-wide at one time or by sections of the agency over a period of time.

- Agencies must maintain adequate written documentation of activities conducted in connection with risk assessments, review of internal control activities and follow-up actions (See SAAM 20.25.50 below).

- The internal control officer also provides assurance to the agency head that the agency has performed the required risk assessments and the necessary evaluative processes. This communication may be ongoing and informal, but at least once per year, this assurance must be made in writing to the agency head.

- The internal control officer is responsible for ensuring that the required documentation is maintained and available for review by agency management, the State Auditor's Office (SAO), and OFM.
• Annually, each agency head and chief financial officer is required to sign and submit a Financial Disclosure Certification and, if applicable, a Federal Assistance Certification, to OFM’s Statewide Accounting Division. These certifications must be filed by the following due dates;
  • SAAM 90.40.10 requires the Financial Disclosure certification to be signed and filed with OFM by September 18.
  • SAAM 95.20.90 requires the Federal Assistance Certification to be filed by December 6, 2013. SAO does not receive federal assistance so this form is not applicable.

SAAM 20.25.50 (What Internal Control Documentation is Required?) requires the following minimum documentation:

• Key policies, procedures and processes
• Annual assurances required by SAAM 20.15.50.a

SAAM 20.40.40a (What are the Basic Requirements of Internal Auditing?) states:

• Agency heads or authorized designees are assigned the responsibility and authority for establishing and maintaining an internal audit program. An agency’s decision to employ an internal audit program should be made based on the results of a risk assessment and the priority of the need for an internal program as compared to the agency's other programmatic needs.

**Objectives**

We performed various procedures to achieve four testing objectives related to the above referenced applicable criteria during the biennium ended June 30, 2013. Those four objectives were as follows;

1. To determine SAO had an on-going risk assessment program in place, including adequate documentation of such risk assessments during the biennium ended June 30, 2013 as required by SAAM 20.15.50.a.

2. To determine SAO filed all applicable annual certifications with OFM during the biennium ended June 30, 2013 as required by SAAM 20.15.50.b.

3. To determine SAO maintained documentation of the agency’s key policies, procedures and processes and of the written communication to the State Auditor that the agency has performed the required risk assessments and the necessary evaluative processes as required by SAAM 20.25.50.
4. To determine the authority for establishing and maintaining an internal audit program has been appropriately assigned and that the agency’s decision to employ an audit program is based on the results of a risk assessment and the priority of the need for an internal program as compared to the agency’s other programmatic needs, as required by SAAM 20.40.40.a

Testing Procedures

1. Reviewed prior biennium work papers and report as well as the above referenced applicable criteria (Objectives #1 - #4).

2. Obtained the name and contact information of the individual who has been assigned the responsibility to establish and maintain SAO’s internal audit program (Objective #4).

3. Performed inquiry of various staff regarding the existence and application of SAO’s risk assessment and internal control activities, including identification of processes in place to ensure compliance with the applicable criteria stated above (Objectives #1 - #4).

4. Requested and received access to all risk assessments and internal control reviews performed during the biennium ended June 30, 2013 and reviewed the documentation associated with those reviews (Objective #1).

5. Reviewed the annual Financial Disclosure Certification filed with OFM for the fiscal year ended June 30, 2013 to determine it was signed by the agency head and chief financial officer and filed with OFM as required by SAAM 20.15.50. The annual Federal Assistance Certification was not applicable to SAO (Objective #2).

6. Reviewed various SAO policies and procedures related to specific areas included in the scope of the agreed-upon procedures (Objective #3).

7. Obtained a copy of the annual communications to the State Auditor that the agency has performed the required risk assessments and the necessary evaluative processes as required by SAAM 20.15.50 (Objective #3).

8. Obtained access to SAO’s internal audits and risk assessments files and scanned for evidence that SAO complied with the requirement to establish an internal audit program (Objective #4)

Results of Testing

1. SAO materially complied with the requirements of SAAM 20.15.50.a as follows:

   a. We noted that SAO performed five risk assessments since July 1, 2011, including assessments of the information technology, human resources, financial services, public records and procurement services.
b. Adequate documentation supporting the risk assessment was included in the files.

c. The required written annual assurances to the agency head were dated February 10, 2012 and December 24, 2012.

2. SAO materially complied with the requirements of SAAM 20.15.50.b as follows:

a. The Financial Disclosure Certification filed for the fiscal year ended June 30, 2013 was signed by the agency head and chief financial officer and filed with OFM as required.

b. We reviewed the information contained in the certification and compared to accounting records and other supporting documentation without exception.

3. SAO materially complied with the requirements of SAAM 20.25.50

a. We noted SAO had policies and procedures available to staff on the SAO intranet.

b. Our review of various policies and procedures related to areas included in the scope of our agreed-upon procedures noted that they were materially consistent with applicable SAAM policies and procedures and other required sources as appropriate.

4. SAO materially complied with the requirements of SAAM 20.40.40.a as follows:

a. The responsibility to establish and maintain an internal audit program has been properly assigned to staff at an appropriate level.

b. SAO performed an internal audit of their security over computer systems.

c. SAO performed an internal audit of HRMS access controls established to provide proper segregation of duties within the payroll and human resource services departments.

d. SAO performed reviews of the timeliness of local government audits and fraud investigations as well as reviews of the cost and timeliness of performance and state Accountability audits.

e. SAO performed a quality review of financial reports issued during the biennium and participated in a Peer Review program.

f. We noted evidence that SAO management (including the internal control officer, Chief financial officer and the Deputy Chief of Staff) meet at least annually to discuss the risk assessments and internal audit program.
Status of Prior Biennium Findings and Recommendations

N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

However, we noted certain “Other Matters and Recommendations” related to the timely filing of required communications and certifications SAAM 20.15.50), which we reported to management in our April 1, 2012 report. In that letter we recommended management develop procedures to ensure timely filing of these documents. We did not identify any instances of late filing during the biennium ended June 30, 2013.

Current Biennium Findings and Recommendations
None noted.
Element 2: Compliance with Office of the Chief Information Officer (OCIO)* Policies and Standards

Applicable Criteria

The following OCIO policies and standards and previous Washington State Department of Information Services, Information Services Board’s (ISB*) policies and standards had the following applicable and measurable criteria relevant to SAO’s activities:

<table>
<thead>
<tr>
<th>OCIO</th>
<th>Policy Description</th>
<th>ISB*</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td>IT Portfolio Management Policy</td>
<td>100</td>
</tr>
<tr>
<td>112.10</td>
<td>IT Portfolio Management Standards</td>
<td>101</td>
</tr>
<tr>
<td>121</td>
<td>IT Investment Policy</td>
<td>200</td>
</tr>
<tr>
<td>121</td>
<td>IT Investment Standards</td>
<td>201</td>
</tr>
<tr>
<td>141</td>
<td>IT Security Policy</td>
<td>400</td>
</tr>
<tr>
<td>141.10</td>
<td>IT Security Standards</td>
<td>401</td>
</tr>
<tr>
<td>151</td>
<td>IT Disaster Recovery and Business Resumption Planning Policy</td>
<td>500</td>
</tr>
<tr>
<td>151.10</td>
<td>IT Disaster Recovery and Business Resumption Planning Standards</td>
<td>501</td>
</tr>
</tbody>
</table>

* The ISB was replaced by the Office of the Chief Information Officer (OCIO), effective October 1, 2011.

Objectives

To determine if SAO materially complied with certain requirements as set-forth above. Due to the technical aspects of these requirements which are reviewed and certified separately from our Post-Audit agreed-upon procedures engagement, we have limited our objectives to determining the following:

1. SAO has controls in place to address the following IT requirements:
   a. Ensure an audit over compliance with IT Security Policy and Standards has been conducted at least every three years.
   b. Ensure annual certification of compliance have been timely filed each year.
   c. Ensure an annual review of the IT Investment Portfolio, Security and Disaster Recovery/Business Resumption Plans has been conducted

2. Determine an audit over compliance with IT Security Policy and Standards has been conducted at least once every three years.
3. Determine an annual certification of compliance has been timely filed during the biennium.

4. Determine an annual review of the IT Investment Portfolio, Security and Disaster Recovery/Business Resumption Plans has been conducted.

Testing Procedures

1. Reviewed the prior biennium examination workpapers.

2. Reviewed the OCIO policies and requirements above for significant changes subsequent to the previous biennium examination.

3. Performed inquiry procedures related to SAO compliance with applicable requirements.


5. Sighted acknowledgment of receipt of annual certification of compliance and determined they were filed timely and accepted by OCIO.

Requirements and Results of Testing

Compliance with Required Policies and Procedures:
We noted there were no significant changes to applicable policies and requirements since the previous biennium, nor did we find any significant changes to SAO policies and procedures.

Based on our inquiries and our review of the prior biennium examination, the lack of significant changes to either the requirements or SAO’s policies and procedures during the current biennium under examination, and our inquiry of SAO personnel, we did not identify any exceptions or findings related to SAO’s applicable policies and procedures.

Status of Prior Biennium Findings and Recommendations

N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

Current Biennium Findings and Recommendations

None noted.
Element 3: Controls Over Compliance with RCW 42.17.190 (3) & (4) – Lobbying Activities Allowed and Disallowed

Applicable Criteria
As referenced in the Task 3 title above.

Scope and Objectives
To determine if SAO policies and procedures are adequate to ensure material compliance with the above referenced RCW.

Testing Procedures
1. We reviewed the applicable RCW’s and SAO policies & procedures and evaluated for adequacy.
2. Interviewed the fiscal services manager and performed walk-through procedures of the process used to identify potential reportable lobbying activity.
3. Sighted email correspondence with executive level staff requesting information on lobbying activities.
4. Performed a search for lobbying activity within the SAO time and billing system which includes a timesheet code for lobbying.

Results of Testing
We found the following controls in place to ensure compliance with the above referenced RCW;

a. SAO has policies pertaining to lobbying activities and all new employees are required to read them and certify that they have read them.

b. The policy;
   • Clearly states what is allowed and what is not allowed
   • Clearly states what is reportable and how it is to be reported so that it can be included in the Quarterly filing with the Public Disclosure Commission (PDC).
   • Provides for timesheet codes to be used for reporting lobbying activities.
c. SAO has procedures in place to compile information from executive management who do not prepare timesheets.

d. There was no staff time coded to the lobbying activity in the time and billings system during the biennium.

Status of Prior Biennium Findings and Recommendations

N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

Current Biennium Findings and Recommendations

None noted.
Element 4: Compliance with the Proper Allocation of Costs among Funds

Applicable Criteria

Compliance with proper use of dedicated funds - Determined costs are allocated to the proper AFRS fund (#001 for School Programs, #413 for Local Government Audits, #483 for State Agency Audits, #533 for Performance Audits) as required by the following:


b. RCW 43.09.416, Auditing services revolving account – Allocation of costs to funds, accounts, and agencies – Billing rate.

c. RCW 43.09.475, Performance audits of government account.

d. Accounting principles generally accepted in the United States of America, including state and federal allocable cost principles.

Scope and Objectives

To determine if SAO properly allocates costs to the various AFRS funds in accordance with the above referenced criteria.

Testing Procedures

1. We reviewed the applicable RCW’s and SAO policies & procedures and evaluated for adequacy.

2. We performed tests of travel, personal service contracts and equipment and asset acquisition transactions during the biennium to determine if such costs, when directly assignable to a specific audit type (i.e. performance audit, local government audit, etc.) were recorded in the proper AFRS account (Fund) for the applicable audit type.

   • For costs not directly assignable to a specific audit or audit type, but assignable to a specific SAO “Team” (i.e. Team Olympia, Human Resources, etc.), we determined the proper SAO “Team” was charged for that direct cost. Such costs are then allocated among AFRS funds during the month-end cost allocation process. Since each team’s allocation percentages are different, the month-end allocation between AFRS funds could be inaccurate if the cost is not recorded within the proper “Team”.

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3. We evaluated SAO’s cost allocation plan related to individual audit “Teams” as well as administrative and overhead “Teams” (i.e. Fiscal Services, I.T., Human Resources, etc.) and general shared costs for reasonableness.

4. We re-performed the monthly cost allocation for the Month of December 2012 to determine if the allocation of overhead and administrative costs was in accordance with SAO’s cost allocation plan.

5. We reviewed the process used to establish billing rates to determine billing rates charged to state agencies are based on the prior biennium costs and anticipated future biennium costs.

6. We calculated the working capital for the state agency auditing revolving services account (fund) #483 at June 30, 2012 & 2013. We then divided the working capital amount by the total appropriations for the biennium ended June 30, 2013 to determine if the working capital percentage exceeded the maximum 5% limitation specified in RCW 43.09.416.

Results of Testing:
We noted the following pertaining to the proper allocation of costs among funds:

1. SAO had adequate policies and procedures in place related to the proper allocation of costs among funds.

2. All directly chargeable travel, personal service contract costs, equipment and asset acquisition, and purchase card transactions tested were charged to the proper fund.

3. All allocable travel, personal service contract costs and equipment and asset acquisition transactions tested were allocated to the proper SAO “Team”.

4. SAO’s cost allocation plan used to allocate overhead, administrative and shared costs was based on a reasonable cost allocation methodology (See “Cost Allocation Methodology” below).

5. We re-performed the December 2012 cost allocation without exception.

6. We reviewed the process used to determine billing rates charged to state agencies and found they are based on the prior biennium costs and anticipated costs.

7. We found the working capital percentage of total biennium appropriations exceeded the 5% maximum at June 30, 2012 and 2013.
Cost Allocation Methodology:

We noted SAO generally allocates overhead, administrative and shared costs based on direct service hours associated with providing services related to one of the following:

- Local Governments (allocable to fund #413 – Municipal revolving account)
- State Agencies (Allocable to fund #483 – State auditing services revolving account)
- Performance Audits (Allocable to fund #553 – dedicated performance audit fund)
- School Programs (Fund 001 – General fund appropriation)

The cost allocation methodology involves a multi-step allocation process whereby all indirect costs within each organizational unit (Team) are generally allocated as follows;

1. **Audit Teams** – Indirect Costs for each individual audit team are allocated among the four funds based on the total % of direct service hours provided to each type of audit by members of the applicable team.

2. **Audit Support Teams** – There are two types of audit support teams. Teams that support all types of audits and teams that support only certain types of audits. Indirect costs within the individual audit support teams are allocated among the applicable funds based on the cumulative total % of direct service hours within all the audit teams served by the unit unless another allocation base is more appropriate.

3. **Organization-wide Support** – Such as fiscal management, human resources, etc. are allocated based on the total costs charged to the various funds after the allocation of audit and audit support teams described in #1 and #2 above.

Status of Prior Biennium Findings and Recommendations

N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

Current Biennium Findings and Recommendations

We identified one finding as follows:

**Finding:**
The working capital balance within the Audit Services Revolving Account (AFRS fund #483) exceeded 5% of the appropriation budget for the account during the biennium ended June 30, 2013 as follows;
The working capital balance at June 30, 2012 was approximately 13.2% of the appropriation for the biennium ended June 30, 2013.

The working capital balance at June 30, 2013 was approximately 15.6% of the appropriation for the biennium ended June 30, 2013.

Estimated Causes:
The overfunded working capital in the Auditing Services Revolving Account appears to be due to three factors as follows:

First, the assumptions used by management to estimate the necessary billing rate did not materialize or did not materialize to the extent SAO management had anticipated.

Second, SAO does not formally evaluate the need to adjust the billing rate during the biennium when such assumptions prove to be incorrect.

Third the limitation of working capital to 5% of the biennium’s appropriation does not appear to provide sufficient working capital, and more importantly cash flow, for the Auditing Services Revolving Account to operate. Furthermore, the requirement is inherently flawed since circumstances for which SAO has no control over could trigger non-compliance. The following provides some perspective on how this limitation is inherently flawed:

a. The current working capital limitation is not based on an analysis of the true working capital or cash flow needs of SAO, but is based on anticipated expenditures over a 24 month period. Using 5% of the appropriation budget for the 24 month biennium is the equivalent to allowing SAO to hold enough net current assets to cover 1.2 months of appropriation expenditures (5% * 24 months).

Such a limit does not appear adequate to meet the needs of an organization that must bill for services after all costs have been incurred especially when a significant amount of those costs are payroll related or otherwise contractually required to be paid for by a specified date.

This is especially true for SAO since most revenues within this account are billed quarterly. Such a limit, combined with quarterly billings and potential delays for billing disputes would likely result in continuous cash flow difficulties within the account. The use of a quarterly billing frequency requires a working capital balance sufficient to cover a minimum of 3 months of estimated expenditures. This translates to approximately 12.5% of the biennium’s appropriation for the account. Actual working capital needs would likely need to exceed 12.5% to address contingencies, uncollected or disputed receivables and variances in billing and spending patterns throughout the biennium.
b. SAO could exceed the 5% limit through no fault of the agency, but simply due to a reduction to the biennium appropriation by the State Legislature. Such a reduction would immediately reduce the amount of allowable working capital in the account. If SAO was previously close to, or at, the 5% working capital limit before the appropriation is reduced, then the reduction in the appropriation amount is likely to result in a working capital % that exceeds 5% of the new appropriation amount.

**Effect** – The impact on the State is that billing rates charged to state agencies paying for state audits may have been higher than allowable to meet the cost funding of the Auditing Services Revolving Account, including working capital needs as specified in the applicable RCW.

**Recommendation** - We recommend that SAO develop a formal plan to periodically evaluate the working capital level in the account and consider adjustments to the billing rate if significant amounts of working capital in excess of the 5% limit exist and appear to be more than short-term.

We also recommend SAO consider the need to bill monthly to enhance cash flow in the account and/or pursue an increase in the 5% working capital limit that may be more appropriate to allow for proper cash flow management. Such an increase should be based on a reasonable estimate that considers the billing frequency and the variable rate at which revenues are earned and expenditures incurred within the account.
Element 5:  Compliance with Employee Travel Expense Reimbursement Requirements

Applicable Criteria

RCW 43.03 – State government – executive, salaries and expenses
State Administrative & Accounting Manual (SAAM) Chapter 10

Scope and Objectives

A. To determine if SAO policies and procedures complied with the requirements of the applicable criteria cited above.

B. To determine if SAO travel expense reimbursement transactions complied in all material respects with the applicable criteria as well as with SAO’s written policies and procedures.

Additionally, our testing was coordinated with our testing within two other areas as follows:

C. To determine if SAO travel expense costs selected for testing were posted to the proper SAO “Team” and or fund in AFRS as part of our testing of SAO’s proper allocation of costs among funds (See “Element 4 - Compliance with the Proper Allocation of Costs among Funds”).

D. To determine if travel expenses which are directly billable to an auditee have been properly billed to that auditee as part of our testing of accounts receivable and billings for audit services (See “Element 9 – Accounting for Accounts Receivables and Billings for Audit Services”).

Objective A – Determined if SAO Policies and Procedures Complied with Applicable Laws and Regulations

Testing Procedures – Objective A

1. We reviewed the applicable RCW’s and OFM SAAM requirements.

2. We compared SAO policies and procedures to the SAAM requirements to identify any inconsistencies or violations as well as issues not specifically addressed in the SAO policies and procedures.
Results of Testing – Objective A

SAO policies and procedures complied in all material respects with the applicable criteria cited above.

Status of Prior Biennium Findings and Recommendations

N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

However, we noted certain “Other Matters and Recommendations” related to deficiencies in policies and procedures over six requirements within SAAM Chapter 10, which we reported to management in our April 1, 2012 report. In that letter we recommended management address these items within SAO travel policies and procedures.

We determined SAO has adequately addressed these items within current policies and procedures.

Current Biennium Findings and Recommendations

None noted.

Objective B – Determine Compliance of SAO Travel Expense Reimbursement Transactions

Testing Procedures – Objective B

1. We tested 43 employee monthly travel expense reimbursement requests entered in the Time and Expense Management System (TEMS) to determine compliance with the SAAM, as well as with SAO policies and procedures. These documents included 301 AFRS posting transactions.

Results of Testing – Objective B

SAO materially complied with laws, rules, regulations and internal policies and procedures regarding travel expense reimbursements. No exceptions to laws, rules, and regulations were noted. We noted one exception to SAO’s travel policy as follows:
An employee, with an official workstation in Olympia, WA, was reimbursed for mileage from a temporary work location in Vancouver, WA to his home in Redmond.

Although this is fully reimbursable under SAAM Chapter 10.50.25a, only the portion the miles from Vancouver to Olympia is allowable under SAO Travel Policy II, E.4f, which states:

*When employees are traveling from their home to an audit assignment away from their official duty station or the city of their official residence, they will be reimbursed for the mileage from their duty station to the assignment or from their official residence to the audit assignment, whichever is less.*

This exception is not deemed a finding as it was only an exception to SAO internal policy which is different from statewide regulations set-forth in SAAM Chapter 10.

**Status of Prior Biennium Findings and Recommendations**

N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

**Current Biennium Findings and Recommendations**

None noted. The one exception to SAO’s internal policies described under “Results of Testing – Objective B” above were allowable under statewide regulations contained in SAAM Chapter 10 and was not deemed significant enough to be reflected as a finding.

**Objective C – Determine SAO Travel Expense Reimbursement Transactions are Charged to the Proper Fund**

**Testing Procedures – Objective C**

1. We tested 43 employee monthly travel expense reimbursement requests in TEMS representing 301 AFRS posting transactions to determine they were posted to the proper SAO “Team” and/or fund in AFRS.

**Results of Testing – Objective C**

No exceptions were noted – See “Element 4 – Compliance with the Proper Allocation of Costs among Funds”.
Status of Prior Biennium Findings and Recommendations
N/A – See “Element 4 – Compliance with the Proper Allocation of Costs among Funds”.

Current Biennium Findings and Recommendations
N/A – See “Element 4 – Compliance with the Proper Allocation of Costs among Funds”.

Objective D – Determine SAO Travel Expense Billable to Auditees are Billed and Accounted for Properly

Testing Procedures – Objective D
1. While performing testing on travel expense reimbursement transactions we identified all such charges which were billable to an auditee entity by scanning for the details of the travel activity such as entity number, audit number and other information.
2. For all items identified as billable, we traced such costs into SAO’s time & billing system (TABS) to determine all such items were properly billed to the appropriate auditee.

Results of Testing – Objective D
No exceptions were noted – See “Element 9 – Accounting for Accounts Receivable and Billings for Audit Services”.

Status of Prior Biennium Findings and Recommendations
N/A - See “Element 9 – Accounting for Accounts Receivable and Billings for Audit Services”.

Current Biennium Findings and Recommendations
N/A - See “Element 9 – Accounting for Accounts Receivable and Billings for Audit Services”.

Element 6:  Personal Service Contract Procurement, Management and Accounting

Applicable Criteria

A. SAO Administrative Policies and Procedures – Contracting for Services

B. The following RCW’s, State Administrative & Accounting and DES policies related to procurement of Personal Service Contracts were applicable for the following periods:

   Personal/professional contracts procured prior to January 1, 2013:
   - RCW 39.29 – Personal Service Contracts
   - SAAM Chapter 15 - Personal Service Contracts

   Personal/professional contracts procured after December 31, 2012:
   - RCW Chapter 39.26 – Procurement of Goods and Services
   - Applicable DES policies #DES-090-00, #DES-125-03, #DES-130-00, #DES-140-00, AND #DES-170-00

Objectives

To determine if:

A. SAO policies and procedures were consistent with the above referenced “Applicable Criteria”

B. SAO’s policies and procedures, including control and tools used to administer its personal service contracting activities, provide reasonable assurance that such activities comply with the above referenced “Applicable Criteria”.

C. The procurement of personal service contracts materially complied with the above referenced “Applicable Criteria”.

Additionally, our testing was coordinated with our testing within two other areas as follows:

D. To determine if costs properly supported and approved and were charged to Proper AFRS fund based on the purpose of the contract (See “Element 4 - Compliance with the Proper Allocation of Costs among Funds”)

E. Determine if billable personal service contract expenditures have been billed to the appropriate entity at the proper amount (See “Element 9 - Accounts Receivables and Billings for Audit Services”).
Objective A – Determined if SAO Policies and Procedures were Consistent with Applicable Laws and Regulations

Testing Procedures – Objective A
1. Reviewed SAO’s Administrative Policies and Procedures – Contracting for Services to determine if they were consistent with the above referenced “Applicable Criteria”.

Results of Testing – Objective A
SAO policies and procedures were consistent with the above referenced “Applicable Criteria”.

Status of Prior Biennium Findings and Recommendations
N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

Current Biennium Findings and Recommendations
None noted.

Objective B – Evaluation of Policies and Procedures, Including Controls and Tools used to Administer Personal Service Contracts

Testing Procedures – Objective B
1. Reviewed SAO’s policies and procedures, including controls and tools used to administer its personal service contracting activities and evaluated if they provided reasonable assurance that such activities comply with the above referenced “Applicable Criteria”.

Results of Testing – Objective B
SAO’s policies and procedures, including controls and tools used to administer its personal service contracting activities provide reasonable assurance that such activities comply with the above referenced “Applicable Criteria”.

We noted the availability and use of tools and resources which are used to ensure compliance with the various requirements. Tools and resources available to personnel involved in the procurement and management of personal service contracts include:

a) Procurement requirement checklists
b) Contract Services Work Request form
c) Contract Services Work Order form
d) RFP templates
e) Contract templates
f) Evaluation Score Sheet & Instructions
g) Vendor performance report checklists
h) Links to DES templates and interagency agreements

We noted the use of a contract procurement and management tracking system used to manage tasks within the procurement process as well as the progress of awarded contracts. This system includes a database with sorting and filtering capabilities to allow project managers to monitor the status of their projects.

We noted SAO provides training to individuals responsible for procuring or managing personal service contracts. The contract manager maintains a list of all staff that has completed the required training.

**Status of Prior Biennium Findings and Recommendations**

N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

**Current Biennium Findings and Recommendations**

None noted.

**Objective C – Procurement of Personal Service Contracts**

**Compliance with Applicable Requirements**

**Testing Procedures – Objective C**

We performed the following to determine if SAO complied with the procurement process and project management requirements contained within the above referenced “Applicable Criteria”: 
1. Obtained a list of SAO staff that has completed the training required within the above referenced “Applicable Criteria”.

2. Obtained the following necessary to conduct procurement transaction testing:
   
a) Listing of all personal service contract expenditure transactions posted to AFRS Object Code “C”. This listing was segregated into five separate groups of contracts as follows:
   
   • Contracts allocable to multiple AFRS funds, and
   • Contracts directly chargeable to AFRS funds:
     
     #413 (Local Government Revolving Fund)
     #483 (State Government Revolving Fund)
     #553-070 (Performance Audit Fund – dedicated to School Programs)
     #553-970 (Performance Audit Fund)
     
   b) We obtained a list, from the Contracts Tracking System Database, of all personal service contracts and filtered to show only those contracts which began during the biennium ended June 30, 2013. We also filtered out contracts where SAO was the vendor and not the purchaser.

3. Compared the vendor names recorded in AFRS to the vendor names reflected in the list of vendors obtained from the Contracts Tracking System Database to determine all such personal service contract expenditures related to a properly procured/approved personal service contract.

4. We performed the following procedures to determined SAO’s compliance with competitive procurement requirements contained within the above referenced “Applicable Criteria”:
   
a) We tested a sample of 9 of the 27 contracts procured during the biennium ending June 30, 2013.
   
b) Examined procurement documents scanned into the Contracts Tracking System for the contracts above to determine the RFP, contractor selection process and other documentation materially complied with above referenced “Applicable Criteria”.


Results of Testing – Objective C

We determined SAO materially complied with the above referenced “Applicable Criteria”. Our testing noted the following:

1. The contract manager maintained a list of individuals who have obtained the required training in personal service contract procurement/management activities. We tested seven personal service contracts and found the individuals responsible for the procurement and/or management of the contracts were on the list of trained individuals.

2. All personal service contract expenditures recorded in AFRS during the biennium were to vendors with contracts recorded in the Contracts Tracking System database unless a contract was not required due to allowable exceptions.

3. SAO utilized competitive procurement practices during the biennium ended June 30, 2013 as evidenced by the following:
   
   Procurement documents scanned into the Contracts Tracking System for all nine of the personal service contracts examined included:
   
   - An RFP meeting the above referenced “Applicable Criteria”
   - Evidence supporting the evaluation and selection of the successful bidder
   - Evidence of required processes such as debriefing and appeal procedures described in above referenced “Applicable Criteria”

Status of Prior Biennium Findings and Recommendations

N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

Current Biennium Findings and Recommendations

None noted.
Objective D – Personal Service Contract Expenditures were Properly Authorized, Recorded and Posted to the Applicable AFRS Funds

Testing Procedures – Objective D

1. We selected a sample of 31 contract expenditure transactions for testing. The following chart provides information about the population and sample size of contract expenditure transactions for the biennium ended June 30, 2013:

<table>
<thead>
<tr>
<th></th>
<th>Fund 413</th>
<th>Fund 483</th>
<th>Fund 553-070</th>
<th>Fund 553-970</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Total Contract</td>
<td>7.9%</td>
<td>17.2%</td>
<td>0.1%</td>
<td>74.8%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Expenditure Dollars – by AFRS Fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sample Size</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>24</td>
<td>31</td>
</tr>
<tr>
<td>Total Population Count</td>
<td>12</td>
<td>21</td>
<td>9</td>
<td>35</td>
<td>77</td>
</tr>
<tr>
<td>% of Pop. Tested</td>
<td>25%</td>
<td>14%</td>
<td>11%</td>
<td>69%</td>
<td>40%</td>
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<tr>
<td>$’s Tested</td>
<td>$134,990</td>
<td>$291,974</td>
<td>$1,075</td>
<td>$1,270,568</td>
<td>$1,698,607</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>$153,931</td>
<td>$635,501</td>
<td>$1,516</td>
<td>$4,479,123</td>
<td>$5,270,070</td>
</tr>
<tr>
<td>% of Expenditures Tested</td>
<td>88%</td>
<td>46%</td>
<td>71%</td>
<td>28%</td>
<td>32%</td>
</tr>
</tbody>
</table>

2. We examined applicable supporting documentation and traced transactions into AFRS and the time and billing system, when applicable to determine the;

   a. Amount was billed within the contracts period of performance,
   b. Retainage was properly withheld from contractor payment when applicable,
   c. Expenditure was properly supported and approved
   d. Expenditure was charged to the proper AFRS fund(s)
   e. The expenditure did not bring the total contract expenditures to an amount in excess of the contract plus approved amendments.
   f. If the expenditure was billable, the applicable auditee was properly billed for the cost plus SAO’s standard mark-up, if any.
Results of Testing – Objective D
We identified two exceptions as described under “Other Matters & Recommendations” below.

Status of Prior Biennium Findings
N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

Current Biennium Findings and Recommendations
None noted. The two exceptions noted under results above were not deemed significant enough to be reflected as a finding.

Other Matters & Recommendations:
The following item, while not a finding is deemed significant enough to be reported to management.

We identified expenditures which were incurred outside of the contract period or may have been in excess of amounts that should have been paid. The following summarizes those transactions:

• Contract (K-277) – $135 in travel costs billed by vendor and paid by SAO was incurred prior to the contract start date of 2-10-12. Costs included rental car charges of $118 on 1/24/12 to 1/25/12 and parking of $17 on 2/7/12. Total vendor invoice was $103,958 of which $135 occurred prior to the contract start date of 2-10-12.

Contract (K366) for speaker to provide a two day performance audit training course for up to 45 participants at a cost not to exceed $6,750. The vendor’s proposal stated that travel costs were “not to exceed” $1,500. The proposal also stated the total price was not to exceed $6,750. There was no documentation supporting the vendors claim for the full amount of travel costs.

Objective E – Billable Personal Service Contract Expenditures were Billed to the Proper Entity and Reflected as Resources of the Proper AFRS Funds

Testing Procedures – Objective E
We traced billable personal service contract expenditures to the billing documents maintained in the auditee billing records to determine the amounts were billed to the proper entity for the cost
plus SAO’s standard mark-up, and such billings were reflected as resources of the proper AFRS funds as follows:

1. Traced the personal service contract expenditure into the proper auditee’s billing records.
2. Traced the billed amount into AFRS to determine the receivable was reflected as a resource of the proper AFRS fund.

**Results of Testing – Objective E**

Of the 31 personal service contract expenditures tested under Objective D above, 13 included contractor charges which were billable to auditee entities.

We found that all such billable amounts were properly billed to the auditee at the proper amount, and such billings were recorded in the proper AFRS fund.

**Status of Prior Biennium Findings and Recommendations**

N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

**Current Biennium Findings and Recommendations**

None noted.
Element 7: Compliance with Requirements of SAAM Chapter 30 – Capital Assets

SAO’s capital assets primarily consist of office furniture and equipment, computers, and related computing and communication equipment. The most significant capital outlay type expenditures are typically computer technology and related items.

Terms and Acronyms:
The following terms and acronyms are used throughout the applicable policies, procedures and rules as well as within this report:

**Inventorial Assets** – Are defined in SAAM 30.40.10 as all assets meeting the state’s capitalization policy, as well as, all assets with unit costs (including sales tax and ancillary costs) less than $5,000 identified as small and attractive assets. (Inventorial assets also include other items not pertinent to SAO such as art and historical collections and trust lands.)

**Small and Attractive Assets** – are defined in SAAM 30.40.20 to include any item the agency has identified, through a risk assessment, as items that are particularly at risk or vulnerable to loss. Absent a risk assessment and written policies for identifying and controlling small and attractive assets, agencies must include, at a minimum, specific assets with unit costs of $300 or more as small and attractive: Specific items applicable to SAO include commodity classes:

- 5822 Communications equipment, public safety: audio and video
- 6651 Optical devises, binoculars, telesops, infrared viewers, and rangefinders
- 6710-6730 Cameras and Photographic Projection Equipment
- 7012-7013 Microcomputer Systems, Laptop and Notebook Computers
- 7034-7039 Other IT Accessorial Equipment and Components (Scanners, Data Displays, etc.)
- 7420-7450 Office Equipment
- 7730 Record Players, Radios, Television Sets, Tape Recorders, VCRs, and Video Cameras, home type

SAAM 30.40.20 also requires all assets belonging to commodity class code major group 10xx – Weapons, Firearms, Signal Guns and Accessories to be included in an agency’s small and attractive records.

**ATS** – Asset Tracking System is the SAO in-house system used to track all “inventorial” assets.
**CAMS** – Capital Asset Management System is the State-wide system used to maintain capital asset inventory records for all assets meeting the state’s capitalization policy (generally all personal property type capital assets exceeding $5,000 and all real property type capital assets exceeding $100,000).

**Applicable Criteria**

Fixed assets accounting is governed by SAAM Chapter 30.

SAO policy is set forth in various administrative policies and procedures as follows:

- Accounting, Budgeting and Procurement Policies – Fixed Assets  
  (Effective 01/28/98)
- Acquisition – Supplies and Non-computer Related Equipment  
  (Effective 12/26/97)
- Accounting, Budgeting and Procurement Policies – Acquisition – Telephone Services and Equipment (Land Based)  
  (Effective 12/26/97)
- Computer Policies – IT Equipment and Services Use and Protection Policy  
  (Effective Date 12/10/10)

**Overall Objectives**

A. Determine SAO policies, procedures and controls over capital and inventorial assets;

- are consistent with and materially comply with applicable requirements set forth in SAAM Chapter 30, and
- provide reasonable assurance SAO complies with the applicable requirements of SAAM Chapter 30

B. Determine if SAO has conducted a physical inventory of capital and inventorial assets in accordance with the requirements of SAAM Chapter 30.

C. Determine if capital and inventorial asset transactions posted to AFRS Object code J have been;

- Properly supported and approved
- Properly entered into the CAMS and ATS systems as required
- Properly recorded in the proper AFRS “PI” code (Represents SAO team #). The PI code ultimately determines how the cost is allocated among the various AFRS funds (See **Element 4 – compliance with the Proper Allocation of Costs Among Funds**
Objective A – SAO Policies, Procedures and Internal Controls over Capital and Inventorial Assets are Consistent & in Compliance with SAAM Chapter 30

Testing Procedures & Results – Objective A

We reviewed SAAM Chapter 30 and identified the significant action required of SAO. Each of these requirements is listed below and includes a reference to how SAO complied with the requirements.

1. The agency head must designate, in writing, one or more Agency Inventory Officers to be responsible for maintaining and safeguarding the agency’s capital assets (SAAM 30.10.40).

   Complied - Fixed Asset Policy #5 which states “Managers are responsible for all state property under their control and shall promptly report any missing property to financial services”.

   IT Equipment & Services Use and Protection Policy - III Computer Equipment Acquisition and Surplus assign responsibility for purchasing and maintaining all computer equipment with IT Staff.

2. All inventorial capital assets are to be marked upon receipt that the property belongs to the State of Washington (SAAM 30.30.10). All fixed assets are to be tagged using a standardized adhesive tag or inscribing the asset according to the following format (SAAM 30.30.20):

   • Washington State (or state seal insignia),
   • Agency name (or authorized abbreviation or agency number),
   • Optional bar code
   • Assigned control number

   Complied – Received items are stored in a locked room until SAO has processed the asset. Processing includes recording the asset in ATS (and CAMS as necessary). The ATS system assigns identification numbers and labels which are affixed to the asset before it is delivered to the team/individual to have physical custody of the asset. We observed this process and observed inventory tags on various assets.

3. Capital asset inventory tags and control numbers need to be controlled to ensure safeguarding of unissued, mutilated, and voided capital asset inventory tags (SAAM 30.30.50).
Complied - The asset inventory tags are issued by the Department of Printing and are maintained by K. Adams in a locked file. Access is limited to specific individuals who process the receipt and disposal of inventory assets. The inventory tag numbers are sequentially issued by the system for control purposes.

Additionally we verified the proper numeric sequence of tags issued for all assets recorded in ATS since April 2008.

4. Agencies are to maintain capital asset inventory systems that include records for all inventorial assets. Agencies are to use the Capital Asset Management System (CAMS) for all assets meeting the state’s capitalization policy (SAAM 30.40.30). Agencies may use an alternative in-house system to maintain small and attractive asset inventories.

Complied – SAO uses CAMS to maintain required records of assets meeting the state’s capitalization policy. SAO uses the in-house ATS to maintain records of all inventorial items (including items recorded in CAMS). ATS records include an identifier as to whether the item should be recorded in CAMS. The field order for the purchase of CAMS asset items are forwarded to fiscal for entry into CAMS. At least once per year, an ATS report is run listing all CAMS required purchases and emailed to fiscal who reconciles CAMS.

5. The agency’s inventory officer has assigned tagging responsibilities to specific individuals and has developed and implemented procedures to ensure that the necessary information is entered into the agency’s capital asset inventory system (SAAM 30.40.40).

Complied – Responsibility has been assigned to the IT Group. Although multiple IT staff can enter information into ATS which is linked to the next sequentially numbered inventory tag, only K. Adams has access to the inventory tags. Procedures and access controls have been put into place to ensure that necessary information is entered into the system.

6. Agencies are to adopt internal policies and procedures regarding the timely removal of capital assets from inventory, including procedures for the proper approval of disposal requests (SAAM 30.40.45).

Complied – Fixed Assets Policy #6 states that all disposals of furniture, equipment and computers shall be done through the Department of Enterprise Services (DES) Surplus Operations. All disposals must be done through the procurement officer, or in the case of computer equipment, the Information Technology Group. Items are not removed from the ATS or CAMS until the asset is picked up by DES and a surplus property document number has been received and entered into the system.
7. Capital Assets are removed from active inventory based on the completion and submission of a Property Disposal Request using the Property Disposal Request System located on the DES website (SAAM 30.40.45).

**Complied** - Items are not removed from the ATS or CAMS until the asset is picked up by DES and a surplus property document number has been received and entered into the system. We noted such documentation reflected in the physical inventory records.

**NOTE** – Items not found during the physical inventory are not necessarily removed unless they are known to be no longer held. IT periodically provides a report of assets not found to all managers to see if they can be found (may have been moved to another team and not updated in ATS. This is a reasonable process to avoid recording a disposal prematurely.

8. Agencies are responsible to cleanse assets of any sensitive information prior to surplus or disposal (SAAM 30.40.45).

**Complied** – Use of DES’s Division of Surplus Property for all disposals.

9. When suspected or known losses of inventorial assets occur, agencies should conduct a search for the missing property, and if the missing property is not found (SAAM 30.40.80):

- Follow the loss procedures in SAAM Chapter 20.30 (including reporting the loss to the State Auditor’s office and the Office of Financial Management’s Risk Management Division)
- Remove the lost or stolen property from the agency’s inventory and accounting records
- Maintain records for losses of inventorial assets

**Complied** – SAO fixed asset policy #5 has addressed the policies and procedures deficiency noted in the post-audit of the biennium ended June 30, 2011.

Current SAO policy #5 instructs managers to report the missing property to "IT or others as appropriate. Lost or stolen items must be reported to the Financial Services Manager, Information Services Manager, and the appropriate division director. The policy also instructs the manager to “forward a copy of the police report to the Accounting Manager and to the I.T. Manager if computer equipment was stolen.”
Status of Prior Biennium Findings and Recommendations

N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

We also reported one “Other Matters and Recommendations” to management in our April 1, 2012 report. This matter related to the deficiencies in policies and procedures over the handling of lost or stolen property.

We determined SAO has adequately addressed these items within current policies and procedures.

Current Biennium Findings and Recommendations

None noted.

Objective B – SAO has Properly Conducted a Physical Inventory of Capital and Inventorial Assets in Accordance with the Requirements of SAAM Chapter 30

Testing Procedures & Results – Objective B

We reviewed SAAM Chapter 30 and identified the significant action required of SAO. We then reviewed SAO’s physical inventory files to evaluate and determine if SAO complied with the applicable requirements set-forth in SAAM Chapter 30.45. Each of these requirements is listed below and includes a reference to how SAO complied with the requirements.

1. A physical inventory of all inventoried fixed assets is to be conducted at least once every other year (SAAM 30.45.10).

Complied – Based on a review of the physical inventory files, SAO conducted a physical inventory in May 2012. The previous physical inventory was conducted in May 2010.

2. In order to ensure objective reporting of inventory items, a physical inventory should be performed by personnel having no direct responsibility (custody and receipt/issue authority) for assets subject to the inventory count (SAAM 30.45.20).

Complied – Based on a review of the letter of instructions provided to each inventory count team member, the instructions for the inventory process included directions that it
should be performed by personnel having no direct responsibility for the assets subject to the inventory count and recommended at least two individuals perform the count together. There was evidence on several count sheets that two individuals performed the inventory count.

3. Written physical inventory instructions must be documented and distributed to each person participating in the inventory process.

**Complied** – We reviewed a copy of the instructions maintained in the physical inventory records. We also observed email correspondence between the inventory officer and various inventory count teams.

All information required to be contained in the instructions by SAAM 30.45.30 was included.

4. After the physical inventory count is completed, the agency inventory officer is to conduct the reconciliation process. When all differences have been identified and explained, the inventory is considered reconciled (SAAM 30.45.40).

**Complied** – We reviewed the follow-up work and subsequent reconciliation in the physical inventory files. See “Results of Physical Inventory” below for additional information.

5. After the reconciliation process is complete, the agency officer is to certify the reconciliation with a statement and signature that it is correct and report this to the supervisor (SAAM 30.45.40)

**Complied** – We examined the certification letter in the physical inventory files.

6. The certification, together with the reconciliation and the inventory listing serves as the support for the inventory balance and for accounting adjustments, if any, and must be retained by the agency (SAAM 30.45.50).

**Complied** – We examined the certification letter and reconciliation workpapers in the physical inventory files.

**Results of Review of Physical Inventory:**
Based on a review of the physical inventory files including summary reconciliation workpapers, we noted the physical count identified 53 items reflected in ATS could not be located. After
further investigation was performed by the inventory count teams that number was reduced to 46 missing items.

We performed a researched the current status of these missing assets in the ATS system and noted that ten had been subsequently found and ten others were identified as “surplus completed”. The remaining items were identified as “Not Tracked” which is a designation given to assets which are below the inventorial threshold but were erroneously added to the ATS records in past years. I noted all of the items identified as “Not Tracked” had been purchased more than five years ago and appeared to be low value items such as routers, portable/personal scanners and printers.

**Status of Prior Biennium Findings and Recommendations**

N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

However, we noted one reportable condition related to a lack of control over inventorial assets being transferred between teams and locations.

SAO has adequately addressed the prior biennium condition through an on-line reporting system which allows staff and managers to report such transfers electronically to IT personnel who then physically verify the transfer and enters the information into ATS. All employees are also required to log into their account at the end of each fiscal year where they must certify that they have custody of all assets listed in their account. If they do not have all assets listed, they are to report that information with their annual certification.

We also reported one “Other Matters and Recommendations” to management in our April 1, 2012 report. This matter related to the lack of a written certification that the physical inventory procedures were performed as required by SAAM 30.40.45 and 30.40.50.

We determined SAO provided such certification for the physical inventory that was performed during the biennium ended June 30, 2013.

**Current Biennium Findings and Recommendations**

None noted.
Objective C – Capital and Inventorial Assets Expenditure Transactions are Properly Supported, Approved and Accounted for in AFRS, CAMS & ATS as Appropriate

Testing Procedures – Objective C

We selected a sample of 25 expenditure transactions posted to AFRS Object code J. This represented 5% of the total population of transactions. We performed the following procedures to attain our transaction testing objectives (Expenditure was properly supported and approved, properly accounted for in AFRS, CAMS & ATS as applicable:

1. Agree the total recorded cost of the selected transaction to the vendor invoice or other supporting documents.

2. Determined the transaction was properly approved as follows:
   a) Approved by team/office manager (If computer related, must be approved by IT)
   b) Field Order or Central Stores Order completed and approved by Accounting Manager

3. Determine the cost was appropriately accounted for.
   - if capitalizable (= to or > $5,000), it was recorded in SubObject “JC” or
   - if not capitalizable (< $5,000) it was recorded in Subobject “JA” or “JB”.

4. If capitalizable, determine item was recorded in CAMS.

5. Traced the purchased items to the ATS report to determine the item was properly input into ATS.

6. Identify the intended use of the asset (i.e. Team # asset to be assigned to). Assigned team determines how the cost is ultimately allocated among the various AFRS funds.

Results – Objective C

We found expenditures to be properly supported and approved, recorded in the proper fund and properly entered into CAMS and ATS as applicable. However, during our testing we identified a deficiency in the ATS reporting system which we deemed to be a Material Weakness - See Current Biennium Findings and Recommendations below.
Status of Prior Biennium Findings and Recommendations

N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

Current Biennium Findings and Recommendations

None noted.

Significant Deficiency – ATS Reporting Deficiency:

The following condition could allow for the theft or loss of inventoriable assets which would not be detected by employees in the normal course of their duties.

**Condition** - During our testing of the IT equipment purchases to determine such items are properly tagged and entered into the Asset Tracking System (ATS), we could not locate most of the 100 printers on the Asset Inventory Report created by the ATS system. Upon further examination we determined they were recorded in the ATS system but could not be included in inventory reports because the asset had not been assigned to an employee or a team.

SAO procedures call for all such purchases to be assigned to an employee or a team when it is entered into the ATS system. If the asset is not issued for use and is placed in storage, that asset is supposed to be assigned to the IT team. The assets we tested had not been properly assigned to the team.

**Cause** - We determined that the reporting capabilities in ATS do not allow such assets to be reflected in any of the ATS reports or exported out of the data base unless such an assignment has been recorded.

We were able to find the asset in the ATS system when we searched by its tag number. Therefore, we verified the asset was properly tagged and recorded. The asset just will not be reflected on any reports generated by the system.

**Effect** – Due to this flaw, any inventoriable assets recorded in ATS which have not been assigned to an employee or team will not be reflected on asset inventory reports. Therefore, any physical inventory counts to verify the existence of assets on the inventory reports will not include these assets. If such assets are lost or stolen, the physical inventory process would not detect such loss. This situation could allow an employee misappropriate small and attractive assets which they have entered into ATS and issue a tag # but not assign the asset in the system so that future physical inventories will not identify the theft.
**Impact on Post-Audit Procedures** – Due to the possibility of misappropriation, we expanded our test to search for out of sequence or missing tag numbers on the report of all ATS assets. We limited our search to assets purchased after April 27, 2008 and found 103 out of 1,381 tag numbers were missing on the report. All such missing tag #’s occurred in March of 2013. This included 88 of the printers we had tested during our test of equipment purchases (12 had subsequently been assigned to a team and were now reflected in the ATS reports). Since we sighted a large inventory of those printers in the storage room (we did not count them) it appears that this situation is isolated and does not appear to be related to a misappropriation of assets.

However, SAO should perform verification procedures to determine the asset is recorded in ATS and that the asset exists in the IT Vault. See **Recommendation** below.

**Recommendation** – SAO should fix the reporting capabilities so that all assets entered into the system are reflected in reports even if information in a field is missing.

SAO should perform verification procedures to determine the assets associated with the missing tag numbers are recorded in ATS and that the asset exists in the IT Vault. Such verification will require a search for each individual tag number in ATS (ATS reports will not list assets not assigned to a team or location). Once the asset is located in ATS, the tag number and asset information should be documented on a manually created inventory list which should then be used to locate the related asset in the IT vault to verify its physical existence.

**Other Matters & Recommendations:**

The following item, while not a finding is deemed significant enough to be reported to management.

**Excess IT Equipment Purchases & New Unassigned Items in Storage**

During our testing of capital asset and inventorial asset purchases, we selected a purchase of 100 personal printers that were purchased in May 2013. While tracing these small and attractive assets into the ATS system we noticed that 88 of the printers had not been issued/assigned to an employee or team as of December 15, 2013.

We located a significant number of these printers remained in un-opened boxes stored in the locked storage vault in IT.
Our testing also found other instances where the number of items purchased seemed to be in excess of need. We noted the locked storage room appeared to have a significant number of computers, monitors and other equipment.

**Causes of Condition** – IT staff indicated that SAO was attempting to standardize equipment among all audit staff so that all printer ink cartridges and similar items would be the same from team to team. Therefore a bulk purchase was made to accomplish this standardization. We were told that these printers had not been issued since most of the teams still had ink cartridges in office supplies that needed to be used with the existing printers before they were ready to change to the new printers.

**Effect** – Purchasing large quantities of computer equipment and components, unless there is an existing or anticipated need in the short-term does not appear to be consistent with “best practices”. Technology changes rapidly and prices either continue to decline or features improve over a short period of time.

**Recommendation** – SAO should consider establishing formal IT inventory level benchmarks which can be used by management to decide if a purchase is necessary or if the quantity to be purchased is necessary. We recommend a periodic inventory or internal audit of the inventory be conducted to ensure excess inventory is not purchased.
Element 8: Compliance with Requirements of SAAM Chapter 45 – Purchase Cards, and Review of Expenditures for Employee Awards and Recognition for Compliance with RCW 41.60.150 and 41.60

Applicable Criteria

SAAM Chapter 45 – Purchase Cards contains the policies and procedures for the use of purchase cards by state agencies. This chapter also provides required minimum procedures for purchase card programs.

RCW 41.60.150 provides state agencies with the authority to recognize employees for accomplishments including outstanding achievements, safety performance, longevity, outstanding public service or service as employee suggestion evaluators and implementers. Recognition awards may not exceed $200 in value per award. During the biennium ended June 30, 2013, awards of cash or cash equivalents (i.e. gift certificates or gift cards) were prohibited.

RCW 41.60.160 prohibits elected state officials or state agency directors from receiving awards under RCW 41.60.150.

Objectives

Purchase Card Compliance with SAAM Chapter 45:

Our testing in this area was to determine if:

A. SAO has established controls and procedures, consistent with SAAM Chapter 45, to ensure all purchase card transactions are properly approved and supported and posted to the correct AFRS funds and accounts policies and procedures regarding controls over and the appropriate use of purchase cards are consistent with SAAM Chapter 45.

B. SAO maintains the required activity logs for all purchase cards which have been properly reviewed, approved and reconciled to individual charges reflected on monthly statements and supporting documents.

C. Purchase card transactions were conducted in accordance with procurement standards requiring the use of state master agreements when applicable.

D. Purchase card transactions do not include personal or otherwise inappropriate charges such as alcohol or unallowable employee recognition or award type expenditures.
Employee Awards and Recognition Compliance with RCW 41.60.150 & 41.60.160:
In addition to work conducted under purchase card compliance above, our testing included procedures to determined if:

E. SAO complied with the limitations on allowable Employee Awards and Recognition Expenditures.

F. costs of the retirement party for the previous State Auditor were paid for with state funds (Not allowed under RCW 41.60.160) or were properly paid from with private or other non-state resources.

Testing Procedures & Results
Purchase Card Compliance with SAAM Chapter 45:
We reviewed SAO’s purchase card policies and procedures and performed inquiry and observation procedures designed to evaluate whether SAO had adequate policies & procedures in place to ensure purchase card transactions do not include unallowable purchases.

We also performed a walk-through of the month-end purchase card reconciliation process to evaluate whether SAO maintains the required activity logs for all purchase cards which have been reviewed, approved and reconciled to individual charges reflected on the monthly statements and supporting documents.

RESULTS - SAO policies and procedures were deemed to be adequately designed to materially comply with SAAM Chapter 45. However we identified two significant deficiencies -See Current Biennium Findings and Recommendations below.

Selected a sample of 5 monthly purchase card statements from two randomly selected months during the biennium and performed the following procedures;

1. Determined the applicable activity log was properly reviewed and approved by verifying the statement has been properly reconciled to the individual charges and supporting documents and that the reconciliation has been reviewed and approved by the card custodian, custodian’s manager and by Fiscal Services.

2. Determine the details on the activity log were properly supported and the “TEAM BENEFITTED” column has been completed for each transaction since this will determine how the costs are split among AFRS funds (See Element #4 – Compliance with Proper allocation of Costs among Funds).
3. Determine the items on the activity log agree with the P-Card statement. Verify that the statement has been properly reconciled to the individual charges and supporting documents for those charges and that such reconciliation has been reviewed and approved by the custodian, custodian’s manager and Financial Services.

4. Scan the purchases for evidence of personal or otherwise inappropriate charges (such as alcohol).

5. Review the vendor for each charge and compare to state master agreements to determine either there were no applicable master agreements or the vendor was part of a master agreement (See DES website for listing).

RESULTS – No exceptions were noted.

Employee Awards and Recognition Compliance with RCW 41.60.150 & 41.60.160:

1. We inquired of the SAO Chief of Staff and Fiscal Services Manager regarding their knowledge of expenditures for employee awards and recognition.

2. Performed a search for employee awards and recognition expenditures through an AFRS query of the applicable expenditure accounts.

3. While testing the sample of 5 monthly purchase card statements above, we considered if any transactions selected for testing included employee awards and recognition type expenditures requiring testing for compliance with RCW 41.60.150 and 41.60.160.

4. We inquired of the SAO Chief of staff, Fiscal Services Manager, and other SAO employees regarding their knowledge of the retirement party for the previous State Auditor. All stated that tickets were sold for the event and the proceeds were used for the event.

5. We examined a bank statement for a private account designated for the retirement party and noted that the account did not include state funding.

RESULTS – There were no such expenditures according to SAO staff interviewed and we did not identify any such expenditures during our search work. No transactions required testing for compliance with RCW 41.60.150 or 41.60.160.

Status of Prior Biennium Findings and Recommendations

N/A – Not included in the scope of agreed-upon procedures for the previous biennium ended June 30, 2011.
Current Biennium Findings and Recommendations

Our testing did not identify any inappropriate or unallowable charges during the biennium. However, we noted one significant deficiency in internal control related to SAO’s purchase card policies and procedures as follows.

**Significant Deficiency #1 – Monitoring of SAO Corporate Travel Card Usage:**

Although SAO Corporate Travel Card policy #7, states “*the procurement officer shall monitor the use of corporate travel cards.....review employee use*”, this is not currently being performed.

Employees are responsible for ensuring they do not use the card to purchase personal or unallowable items with the card and for the timely payment of the monthly card bill. Employees are also responsible for paying the balance due in full each month by the due date. Employees are only reimbursed by SAO for allowable costs which are properly supported and approved. Fiscal services currently monitor each card to determine employees are paying the monthly bill in full on a timely basis. Fiscal services also review all requests for reimbursement from employees for purchases using their travel card. However, there is no review of the other purchases made using the card for which an employee has not submitted a request for reimbursement. Without a review of all charges to the card SAO cannot ensure employees have not use the card for personal or unallowable purchases.

**Effect:**

Since the cardholder (employee) is responsible for paying the credit card balance each month and the agreement is between the employee and the credit card company, there is a low risk that SAO will actually pay for such unallowable costs. However, SAO may be at risk if the employee defaults on the card and there are unpaid unallowable charges.

Furthermore, the inappropriate use of the credit card by an employee may be construed as a “gift of public money” or an inappropriate short-term loan. This risk could be managed if the employee has signed an agreement to allow SAO to garnish wages to reimburse SAO for any unallowable charges ultimately paid by SAO.

**Cause:**

The purchasing officer believed the monitoring process being performed was adequate to comply with the applicable SAO Policy. The purchasing officer believed the only significant risks associated with the travel card program are that the employee does not pay the monthly bill or does not timely pay the bill.
Recommendation:

We recommend that the purchasing officer review the detail purchases reflected on all issued corporate travel cards to identify any unallowable uses. We also recommend SAO consider adding a clause to the employee’s travel card agreement that would allow SAO to withhold amounts from the employee’s paycheck if such allowable costs are not paid by the employee and SAO is required to pay the cost.
Element 9: Accounting for Accounts Receivables and Billings for Audit Services

Applicable Criteria
Generally Accepted Accounting Principles (GAAP) – All items that are billable by SAO are billed (completeness). Amounts billed are for amounts due SAO (existence/occurrence), amounts billed are billed to the proper entity, using proper billing rates and are properly supported (valuation/allocation, accuracy).

In addition to accounting principles generally accepted in the United States of America, there are several RCW’s and State Administrative and Accounting Manual requirements that apply as listed below.

Revised Code of Washington:
RCW 43.09.270, Local government accounting – Expense of audit, what constitutes

RCW 43.09.280, government accounting – Expense of examination

RCW 43.09.2801, Local government accounting – Expense of audit – Additional charge

RCW 43.09.281, Appeal procedure to be adopted – Inclusion of number and disposition of appeals in annual report

RCW 43.09.282, government accounting – Municipal revolving account – Records of auditing costs

RCW 43.09.412, Auditing services revolving account – Transfers and payments into account – Allotments to State Auditor

State Administrative and Accounting Manual (SAAM):
SAAM Chapter 85.54 addresses various requirements of an accounts receivable and billing system. The following are applicable to SAO:

85.54.35.a – Establishment of procedures for the timely billing and recording of receivables and accrued revenues.

85.54.50.a – Preparation, review and documentation of Aging reports.
85.54.50.b – Requires written collection procedures.

85.54.55.b – Requires quarterly estimates of uncollectible receivables be made and recorded.

85.54.55.d – Proper management review and approval of all write-offs of uncollectible receivables.

85.54.60 – Requires subsidiary receivable records and the maintenance of supporting documents contain all pertinent information relating to the transactions.

85.54.60.a – Requires sequentially numbered billing documents and the preparation and mailing of invoices, containing certain minimum information, to debtors.

85.54.60.b – Daily receipting processing and records.

85.54.60.c – Proper authorization and reporting to debtors of adjustments to receivable balances. Written procedures are to be developed and followed regarding adjustments.

85.54.65.a – Agencies are to establish and maintain a detailed subsidiary ledger on an open item basis which provide for certain minimum information

85.54.65.b – Subsidiary ledgers are to be balanced against the associated general ledger control accounts at least monthly.

Although there are other requirements within SAAM 85.54, they either do not apply to SAO or are deemed insignificant to SAO based on the nature of their receivables and collection history.

**Scope of Examination**

During the current agreed-upon procedures engagement, we performed procedures addressing SAO’s billing activities, documentation and subsidiary ledger requirements specified in SAAM Chapter 85 and the RCW’s referenced above.

We also performed procedures to determine the cost of the statewide Single Audit (SWSA) and statewide Comprehensive Annual Financial Report (CAFR) are allocated among state agencies on a reasonable basis consistent with RCW 43.09.416.

We did not perform any transaction testing related to the cash receipting process (SAAM 85.54.60.b).
Objectives

A. Determine if SAO’s accounts receivable billing system, procedures and documentation complied with SAAM Chapter 85.54 and applicable RCW’s.

B. Determine compliance with GAAP and proper use of dedicated funds by determining billable amounts are billed to the proper entity and in proper amounts (Completeness & Accuracy) as follows:
   • All items that are billable by SAO are billed (completeness),
   • Amounts billed are for amounts due SAO (existence/occurrence),
   • Billed amounts are billed to the proper entity, using proper billing rates and are properly supported (valuation, accuracy).
   • Billed revenues and receivables are reflected in the proper AFRS fund (accuracy, compliance).

C. Determine if SAO properly applied RCW 43.09.2801 - Whistleblower surcharges to local governments not having a whistleblower program are established in accordance with RCW 42.41.060 and transferred to the Local Govt. Admin. Hearing Account (Fund 180).

D. Determine if SAO complied with SAAM 85.54.55 - Write-offs of billable amounts are properly authorized/approved (If significant)

E. Determine if SAO complied with SAAM 85-54-65.b – Subsidiary ledgers are to be balanced against the associated general ledger control accounts at least monthly.

F. Determine SAO has adopted appeal procedures for auditees to dispute amounts billed as required by RCW 43.09,281

G. Determine if SAO’s allocations of billings for the audit of the Statewide Comprehensive Annual Financial Report (CAFR) are reasonable.

H. Determine if SAO’s allocations of billings for the audit of the Statewide Single Audit (SWSA) are reasonable.
Objective A – Determine if SAO Policies and Procedures Complied with Applicable Sections of the SAAM Chapter 85.54 and applicable RCW’s

Testing Procedures – Objective A

1. In addition to the transaction testing noted below, we performed observation and inquiry procedures to determine SAO’s compliance with the applicable SAAM requirements referenced under Criteria above (excluding subsection 85.54.60.b regarding cash receipting which was not included in the scope of our agreed upon procedures).

Results of Testing – Objective A

We noted the following:

a. Accounts receivable aging reports are prepared monthly and reviewed by the financial services manager in accordance with the requirements of 85.54.50.a.

b. As required by subsection 85.54.60, accounts receivable transactions are supported by documents reflecting all pertinent information relating to the transactions. Detailed posting of these documents is maintained in subsidiary ledgers which support amounts entered into the AFRS general ledger control account.

c. As required by subsection 85.54.60.a, sequentially numbered billing documents (invoices) containing all required information are prepared and sent to debtors. Such documents are maintained in well organized files separated by auditee and logically arranged by entity type to facilitate identification and location of documents as needed.

d. As required by subsection 85.54.60.c, SAO has written procedures to ensure that only authorized adjustments are recorded. These procedures are noted on the Write-off Summary Form used to authorize the write-off of receivables.

With the exception of the item noted under “Other Matters and Recommendations” below, SAO policies and procedures complied in all material respects with the applicable criteria above.

Status of Prior Biennium Findings and Recommendations

N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

Current Biennium Findings and Recommendations

None noted.
Other Matters and Recommendations

Item:
SAAM 85.54.50.b requires written policies and procedures to ensure that past due receivables are followed up promptly and in a manner that is cost effective. SAO does not have formal written policies over accounts receivable billings, collections, or receipting.

However, the financial services team has informal written procedures addressing all phases of the receivable process. These procedures and processes do materially comply with the applicable requirements of SAAM 85.54. Also see related item reflected as an “Other Matters and Recommendations” Under “Objective E” within this Element.

Recommendation:
We recommend SAO adopt written policies to ensure that past due receivables are followed up promptly and in a manner that is cost effective as required by SAAM 85.54.50.b.

Objective B – Determine if SAO Complied with GAAP & the Proper Use of Designated Funds

Testing Procedures – Objective B

Sample Selection Methodology:
In order to maximize audit efficiency, we determined the most efficient way to test the billing and receivable system was to coordinate our testing of billing activity with work conducted in our testing of expenses within other areas of the audit since certain expenses are billable to auditee entities. Therefore we selected all billable;

A. Travel and expense reimbursement transactions selected for testing within Element #5 – Travel Expense Reimbursements.
   • Including any billable hours reflected on the employees Time Summary Report for the month of the travel expense reimbursement tested.

B. Personal service contract expense transactions selected for testing within Element #6 – Personal Service Contract Procurement, Management and Accounting
A. Billable Travel & Expense Reimbursement Costs, Including Billable Employee Hours:

The following procedures were performed;

1. Determine the Billing Time Summary Report has been properly approved by a supervisor or higher level employee (Internal Control Objective).

2. Agree that the total amount of expense reimbursements reflected in TEMS to the total travel expense amount reflected on the monthly Time Summary for the employee as reflected in TABS.

3. For amounts billable, trace the amount reflected in TABS for each MCAG# (Auditee) and Audit # to information reflected in TEMS to determine the proper amount and audit were billed in TABS.

4. Trace billable travel costs to the pre-numbered billing invoice filed within the Auditee’s billing files.

5. Trace billable hours to the pre-numbered billing invoice filed within the Auditee’s billing file.

6. Determine billing rate reflected on the pre-numbered billing invoice is in agreement with the billing rates established by the SAO for the audit and employee type (Interns are typically billed at lower rates).

7. Determine the amounts billed to the auditee were recorded in AFRS properly (Local Govt. = 413) by verifying the billing transaction being tested is included in the JV batch total as follows:
   a. Agree the batch total from to the total billed receivables reflected in TABS by comparing the total to the total reflected on the Accounts Receivable JV Report for the month.
   b. Verify the total billings reflected in AFRS include the amount of the transaction being tested by tracing the billing invoice being tested into the TABS report.

B. Billable Personal Service Contract Expenses:

The following procedures were performed;

1. Review the contractor invoice, personal service contract and other supporting documents perform the following:
   a) Determine the amount billed is within the period of performance of the contract.
b) Determine if retainage should be withheld in accordance with the contract, and if so, the proper amount was withheld.

c) Determine the Invoice was approved for payment by the Contracts Manager or Contract Assistant and the audit team manager.

d) Determine a Form A-19 was prepared for the transaction below and verify it was approved by fiscal services.

e) Determine the proper AFRS fund was coded on the Form A-19 (Local = 413, State = 483).

f) Trace the amount on the A-19 to the vendor invoice.

g) Determine the amount approved for payment does not bring the total payments made on the contract to an amount that exceeds the contract, plus amendments.

2. If the contract expenditure is billable to a state or local auditee, Multiply the total cost by 1 plus the mark-up % used by SAO to determine the amount billable to the entity.

3. If billable, Review the applicable bill to the auditee and determine the following:

   a) The amount billed to the auditee on the SAO Invoice Voucher is the proper amount.

   b) The invoice voucher was certified by Janel Roper, Financial Services Manager.

   c) The invoice voucher was recorded as revenue within the proper AFRS Fund by Tracing the billing to AFRS by the JV Number.

**Results of Testing – Objective B**

No exceptions were noted. SAO materially complied with GAAP, including the proper use of designated funds.

**Status of Prior Biennium Findings and Recommendations**

N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

**Current Biennium Findings and Recommendations**

None noted.
Objective C – Determine if SAO Properly Applied RCW 43.09.2801 – Whistleblower Surcharges to Local Governments Not Having a Whistleblower Program

Testing Procedures – Objective C

1. Reviewed the TABS report of “Revenue Received for Local Gov Whistleblower” for the biennium ended June 30, 2012 to verify that the total amount is immaterial as anticipated.

2. Obtained a listing of all entities subject to the Whistleblower surcharge.

3. Randomly selected 25 entities from the selected 25 entities from the list of entities subject to the surcharge (step #2 above) and scanned invoices within each entity's billing files to determine the surcharge was properly applied to the entity.

4. Obtained the following reports providing information about the total surcharges collected and the total amount transferred to Fund 180 during the biennium:

   a. OFM Report Number RVF05 – “Revenue Summary Flexible by Account” for Agency 0950 (SAO) for Account 180 (Local Gov Administrative Hearings) – Reflects total Whistleblower surcharges collected and accrued during the biennium.

   b. OFM report Number GL01 – “General Ledger Analysis Flexible by Account-General Ledger” for Agency 0950 (SAO) for Account 180 (Local Gov Administrative Hearings) – Reflects the actual cash transfers to Account 180.

   c. SAO TABS report of “Revenue Received for Local Gov. Whistleblower” for the Quarter ended March 31, 2012 – Reflects Detail surcharges collected from all local government entities during the quarter.

5. Compared the total amount transferred to fund 180 as reflected on the two OFM reports (#1a & #1b above) to determine all cash collected during the biennium was transferred appropriately.

6. Selected the quarter ended March 31, 2012 for testing and compared the total revenue received, as reported by TABS (Report #1c above) to the total amount transferred in AFRS for the quarter as reported in the OFM report #1b above.

7. Randomly selected two of the twenty pages from the TABS quarterly billing report (step #6 above) and determined each entity was subject to the surcharge by tracing the entity back to the list of entities subject to the surcharge (Step #2 above).
Results of Testing – Objective C

No exceptions were noted.

Status of Prior Biennium Findings and Recommendations

N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

Current Biennium Findings and Recommendations

None noted.

Objective D – Determine if SAO Complied with SAAM 85.54.5 – Write-offs of Billable Amounts are Properly Authorized/Approval

Testing Procedures – Objective D

As noted during the planning process write-offs are not significant. However, based on the nature of such activity, we determined it necessary to;

1. Obtain a listing of all write-offs during the year.
2. Evaluate if the total write-offs are significant during the year.
3. Perform tests of write-off transactions to determine they were properly approved. (The amount of testing dependent on our evaluation in step #2 above.

Results of Testing – Objective D

There were no write-offs during the biennium. Testing does not apply.

Status of Prior Biennium Findings and Recommendations

N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

Current Biennium Findings and Recommendations

None noted.
Objective E – Determine if SAO Complied with SAAM 85.54.65.b
– Subsidiary Ledgers are to be Balanced Against the Associated General Ledger Control Accounts at Least Monthly

Testing Procedures – Objective E


2. Reviewed the reconciliations to determine the subsidiary records reconcile with AFRS and that the reconciliation was approved by Janel Roper.

3. Reviewed all amounts listed on the aging report at June 30, 2013 to determine if any amounts are so old as to call into question the collectability of the receivable transaction.

Results of Testing – Objective E

The subsidiary records were reconciled for June 30, 2012 and 2013 without exception.

Both reconciliations were approved by Janel Roper without exception.

We noted eight entities with outstanding balances older than six months past-due. See “Other Matters and Recommendations” Below.

Status of Prior Biennium Findings and Recommendations

N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

Current Biennium Findings and Recommendations

None noted.

Other Matters and Recommendations

We noted eight entities had outstanding balances which were more than six months old. The total receivable balance from these eight entities, including $96,000 billed within the last six months of the biennium was $147,825. Although this is immaterial, this matter was communicated to management in conjunction with "Other Matters and Recommendation” related to the lack of a
written policy related to following up on past due accounts receivables (See Objective A of this task).

**Objective F – Determine if SAO’s has Adopted Appeal Procedures for Auditees to Dispute Amounts Billed as Required by RCW 43.09.281**

**Testing Procedures – Objective F**

1. Reviewed SAO’s policies and procedures and inquired of fiscal services staff about the existence of a formal appeal procedure.

**Results of Testing – Objective F**

Appeal process is set-forth in WAC 48.21

**Status of Prior Biennium Findings and Recommendations**

N/A – not included in the scope of the post-audit for the biennium ended June 30, 2013.

**Current Biennium Findings and Recommendations**

None noted.

**Objective G – Determine if SAO’s Allocation of Billings for the Audit of the Statewide Comprehensive Annual Financial Report (CAFR) are Reasonable**

**Testing Procedures – Objective G**

We performed the following procedures to determine SAO allocated billings for the Statewide CAFR among state agencies on a reasonable basis in accordance with its CAFR allocation plan:

1. We reviewed SAO’s process for allocating the cost of performing the audit of the Statewide CAFR and determined the methodology applied is reasonable and provides for an administratively efficient allocation of the bill to various state agencies.
2. We re-performed the CAFR billing allocation for the quarterly billing cycle ending March 31, 2012 and December 31, 2012.

3. Compared amounts billed to each state agency to the amounts calculated in step #2 above.

4. Investigated any significant variances as deemed necessary.

Results of Testing – Objective G

We noted the following:

a. The CAFR billing allocation plan used by SAO is based on reasonable cost allocation methodologies and processes. (See “Billing Allocation Methodology” below for an overview of the process.

b. Amounts billed to each state agency were in accordance with the billing allocation for the quarterly billing cycles ending March 31, 2012 and December 31, 2012.

SAO materially complied with the requirements referred to above. There are no findings or recommendations.

Billing Allocation Methodology

The CAFR Billing allocation plan is developed for each biennium and is updated at least annually by SAO. The following describes the allocation methodology used.

Billing Allocation Base:

The CAFR Allocation Base & Allocation %’s are determined as follows:

1. SAO allocates the cost of the statewide CAFR to various state agencies by evaluating the relative significance of three financial statement factors within each agency in comparison to the total statewide. Those factors include;

   • Total Expenditures
   • Total Net Assets
   • Total Revenues

2. SAO determines the total of all three financial statement categories in absolute terms (i.e. No distinction between debits and credits).
3. After computing the total balance of these three financial statement categories for each agency, SAO sorts the agencies from largest to smallest and identifies the 40 largest agencies.

4. These forty agencies are then grouped into eight categories (five in each category).

5. Each category is given a numeric value from 1 to 8, with the category containing the five largest entities (as determined in #3 above) given a value of 8.

6. All entities are then given an initial value = to the numeric value of the category in which they have been grouped (See #5 above).

7. This initial value is adjusted down by 2 points if the entity has had a financial statement audit conducted for the year (but not reduced below 0).

8. The % of CAFR costs allocated to each of these 40 entities is equal to their numeric value (as initially computed in #6 above and adjusted in #7 above), divided by the total of all numeric values of the forty entities combined.

**NOTE** – All other entities are excluded from the cost allocation as being deemed insignificant to the overall cost of the CAFR.

**Status of Prior Biennium Findings and Recommendations**

N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

**Current Biennium Findings and Recommendations**

None noted.

**Objective H – Determine if SAO’s Allocation of Billings for the Audit of the Statewide Single Audit (SWSA) are Reasonable**

**Testing Procedures – Objective H**

We performed the following procedures to determine SAO allocated billings for the Statewide SWSA among state agencies on a reasonable basis in accordance with its SWSA allocation plan:
1. We reviewed SAO’s process for allocating the cost of performing the Statewide Single Audit (SWSA) and determined the methodology applied is reasonable and provides for an administratively efficient allocation of the bill to various state agencies.

2. We re-performed the SWSA billing allocation for the quarterly billing cycle ending March 31, 2012 and December 31, 2012.

3. Compared amounts billed to each state agency to the amounts calculated in step #2 above.

4. Investigated any significant variances as deemed necessary.

**Results of Testing – Objective H**

We noted the following:

a. The SWSA billing allocation plan used by SAO is generally based on reasonable cost allocation methodologies and processes. (See “Billing Allocation Methodology” below for an overview of the process.

b. Amounts billed to each state agency were in accordance with the billing allocation for the quarterly billing cycles ending March 31, 2012 and December 31, 2012. (SAO Complied with requirements).

**Billing Allocation Methodology**

The SWSA Billing allocation plan is developed for each biennium and is updated at least annually by SAO. The following describes the allocation methodology used.

**Billing Allocation Base:**

In accordance with OMB Circular A-133, SAO plans the SWSA audit based which federal programs are identified as major programs. Major program determination is primarily determined by the total dollar amount of each federal program in comparison with other federal programs. Major program determination is further determined through a risk assessment process.

Based on the requirements of OMB Circular A-133, the primary factor for determining the cost of the SWSA is total cost of each program with additional impacts based on the types of programs and compliance requirements needed to be tested each year.
Therefore, SAO has determined the most reasonable basis for allocating SWSA costs to the various agencies is the total amount of federal expenditures each agency reflects on the State-wide Schedule of Expenditures of Federal Awards (SEFA).

SAO has also identified some adjustments that need to be made to the Allocation Base to achieve a fair and reasonable allocation of the SWSA Billing to the other agencies. The following adjustments to the initial base are considered:

1. Exclude Medicaid dollars reflected on the SEFA – Due to the unique aspects of Medicaid and the large dollar amount within this program SAO audits this program separately from the rest of the SWSA and bills for the cost of this separately from the SWSA.

2. Schools & Roads Cluster Grant – An entitlement program with minimal requirements at the State level. Furthermore, funding for this entitlement grant is deemed questionable each year. This program is audited as a major program at OST every three years. This program was to be included as a major program in the FY 2009 year. However, according to SAO, this program does not require a significant amount of audit effort.

3. Reduction of Amounts of Passed-through to sub recipients – Since pass-through dollars within the SEFA do not significantly impact the cost of the SWSA, SAO has determined that all pass-through dollars should be reduced by 75% (e.g. $100,000 of pass-through dollars are given an allocation base value of $25,000).

4. Elimination of Agencies reporting less than $5 million (after 75% pass-through reduction) – Since any allocation of SWSA billing to these agencies would be nominal.

SEFA Used for SWSA Allocation Base:

SAO uses the most recently completed SEFA to develop a billing allocation plan for the SWSA. The following chart reflects which SEFA year was used for each of the fiscal years within the biennium ended June 30, 2013.

<table>
<thead>
<tr>
<th>Billings for the Period</th>
<th>SEFA for the Fiscal Year Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning</strong></td>
<td><strong>Ending</strong></td>
</tr>
<tr>
<td>July 1, 2011</td>
<td>September 30, 2011</td>
</tr>
<tr>
<td>October 1, 2011</td>
<td>June 30, 2012</td>
</tr>
<tr>
<td>October 1, 2012</td>
<td>June 30, 2013</td>
</tr>
</tbody>
</table>

Under the SAO billing allocation plan, the allocation %’s are to be recomputed annually based on the most recent SEFA available. If there is a significant change in the allocation %’s from those used to establish biennium budgets, then SAO evaluates whether the changes will result in
a significant change to the audit plan, and if so, whether the billing allocation %’s should be revised accordingly.

**Status of Prior Biennium Findings and Recommendations**

SAO adequately addressed the prior biennium reportable condition which had resulted in a finding that SAO did not allocate SWSA billings among state agencies in accordance with the SWSA billing allocation plan for the quarter ended December 31, 2009. We did not identify a similar issue in the biennium ended June 30, 2013.

**Current Biennium Findings and Recommendations**

None noted.
Element 10: Access Controls Implemented by SAO to Address Identified Deficiencies in the Statewide HRMS Payroll System

Applicable Criteria
SAAM Chapter 25.20 – Payroll Accounting Requirements
SAAM Chapter 85.34 – Payroll and Related Activities

Objectives
Determine if SAO has adequately addressed identified deficiencies in the statewide HRMS payroll system which could allow individuals with access to HRMS to:

- inappropriately alter compensation levels and other data maintained in the system’s master files,
- create fictitious employees
- alter their leave accumulation data in HRMS

Determine if SAO has established controls and procedures to ensure actual payroll paid to employees is reasonable and consistent with authorized compensation.

Testing Procedures and Results
1. We performed inquiry, observation and walk-thru procedures designed to evaluate whether SAO had adequate policies & procedures in place to address the identified deficiencies in the statewide HRMS payroll system.
2. We interviewed auditors on SAO’s Team STAT who performed an internal audit of applicable controls. We determined the internal audit work was properly designed to determine system access controls have been established to address the identified deficiencies.
3. We obtained a current listing of SAO staff access rights to HRMS from Team STAT and reviewed the listing for incompatible functions.
4. Performed a walk-thru of the new employee set-up process performed in HR to verify HR personnel could not enter data that would enable them to create a fictitious employee.
5. Performed a walk-thru of the new employee set-up process performed in fiscal services to verify that they did not have the ability to initiate a new employee or change pay rates for existing employees.
6. Performed a walk-thru of fiscal service personnel monitoring and oversight activities including the following:

- Review of pre-payroll reports to verify the pay-rates, leave usage, hours worked for hourly employees are proper (i.e. agree with leave slips, approved time sheets, etc.)
- Review final payroll report and perform similar procedures as those applied to the pre-payroll reports.
- Review exception type reports and other internal monitoring tools used by fiscal services employees to verify the reasonableness and accuracy of payroll transactions.

**Status of Prior Biennium Findings and Recommendations**

N/A – Not included in the scope of agreed-upon procedures for the previous biennium ended June 30, 2011.

**Current Biennium Findings and Recommendations**

We determined that SAO had adequate controls in place to address the identified deficiencies in the statewide HRMS payroll system.
Element 11  RCW.43.09.260 – Local Government Audits – Reports – Action by Attorney General

Applicable Criteria

RCW 43.09.020 assigns the responsibility of performing audits of public accounts to the State Auditor as follows:

“The auditor shall be auditor of public accounts, and shall have such powers and perform such duties in connection therewith as may be prescribed by law.”

RCW 43.09.260 specifies the frequency in which audits of local governments are to be audited as follows:

RCW 43.09.260 (1) – “The examination of the financial affairs of all local governments shall be made at such reasonable, periodic intervals as the state auditor shall determine. However, an examination of the financial affairs of all local governments shall be made at least once every three years, and an examination of individual local government health and welfare benefit plans and local government self-insurance programs shall be made at least once every two years.”

RCW 43.09.260 also requires:

(4) The state auditor shall establish a schedule to govern the auditing of local governments which shall include: A designation of the various classifications of local governments; a designation of the frequency for auditing each type of local government; and a description of events which cause a more frequent audit to be conducted.

(5) On every such examination, inquiry shall be made as to the financial condition and resources of the local government; whether the Constitution and laws of the state, the ordinances and orders of the local government, and the requirements of the state auditor have been properly complied with; and into the methods and accuracy of the accounts and reports.

(6) A report of such examination shall be made and filed in the office of the state auditor, and one copy shall be transmitted to the local government. A copy of any report containing findings of noncompliance with state law shall be transmitted to the attorney general. If any such report discloses malfeasance, misfeasance, or nonfeasance in office on the part of any public officer or employee, within thirty days from the receipt of his or her copy of the report, the attorney general shall institute, in the proper county, such legal action as is proper in the premises by civil process and prosecute the same to final determination to carry into effect the findings of the examination.
Scope and Objectives

The scope of our agreed upon procedures engagement included procedures to determine SAO’s compliance with requirements set forth in the following subsections:

E. 43.09.260.1. (Frequency of Audits)

F. 43.09.260.4 (Establishment of a schedule governing the auditing of local governments which shall include: A designation of the various classifications of local governments; a designation of the frequency for auditing each type of local government; and a description of events which cause a more frequent audit to be conducted.)

G. 43.09.260.5 (Required inquiries to be made in each audit)

H. 43.09.260.6 (Audit report issuance and filing requirements)

Objective A – Compliance with Subsection 43.09.260.1 – Frequency of Audits

Testing Procedures – Objective A

Reviewed the prior year agreed-upon procedures report and applicable workpapers supporting our finding that SAO had not fully implemented our recommendation to issue disclaimers of opinions to entities who do not cooperate with the auditor’s office attempts to perform the necessary audit procedures. We noted our recommendations had not been fully implemented as of June 30, 2011 but that substantial progress had been made to achieve compliance with RCW 43.09.260.1.

We performed follow-up inquiry of staff in SAO Team LGS who has been monitoring the status of all local government audits to determine compliance with RCW 43.09.260.1 (frequency of audits) to determine the status of this prior finding.

We reviewed Team LGS’s monitoring spreadsheet to evaluate the frequency status of audits of local governmental entities.

Results of Testing – Objective A

SAO materially complied with the requirements of RCW 43.09.260.1.
We noted that Team LGS staff were working to bring SAO into compliance with RCW 43.09.260.1 and had developed a process to monitor audit frequency and to address delinquent audits.

We reviewed Team LGS’s monitoring spreadsheet and noted local government entities had either been:

- audited, or
- were in the process of being an audited, or
- been given a disclaimer of opinion with a finding for non-compliance with SAO requests for information, or
- had received a letter explaining that if information necessary to conduct the audit is not available by December 31, 2013, then a disclaimer & compliance finding report would be issued.

**Status of Prior Biennium Findings and Recommendations**

Based on work we conducted, the prior year finding related to compliance with the required frequency of audits of local governments has been adequately addressed and is no longer a finding.

**Current Biennium Findings and Recommendations**

None noted.

**Objective B – Compliance with RCW 43.09.260.4 - Establishment of Schedule Governing Auditing of Local Governments**

**Testing Procedures - Objective B**

1. Observed required schedule in Exhibit 1 – Schedule of Local Government Audit Frequencies of SAO’s Audit Policy #1210.

2. Observed required “factors which may cause a more frequent audit to be conducted” contained in SAO Audit Policy #1210, Requirement #2.

3. Reviewed SAO’s list of all local governments which governs the auditing of local governments and noted the list included the entity classification and its audit frequency.
Results of Testing - Objective B
SAO materially complied with the requirements of RCW 43.09.260.4. No exceptions noted.

Status of Prior Biennium Findings and Recommendations
N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

Current Biennium Findings and Recommendations
None noted.

Objective C – Compliance with RCW 43.09.260.5 – Required Inquiries to be Made in Each Audit

Testing Procedures – Objective C
1. Reviewed the annual request for information which is sent out to all local governments. The request includes a Schedule 21 Questionnaire which includes inquiry into all required items. We also reviewed standard audit checklists and representation letters used by auditors to ensure all required matters are addressed.

Results of Testing - Objective C
SAO materially complied with the requirements of RCW 43.09.260.5. The documents reviewed above contain inquiries required by RCW 43.09.260.5.

Status of Prior Biennium Findings and Recommendations
N/A - There were no prior biennium findings or recommendations contained in our report, dated April 1, 2012, for the previous biennium ended June 30, 2011.

Current Biennium Findings and Recommendations
None noted.
Objective D – Compliance with RCW 43.09.260.6 – Audit Report
Issuance & Filing Requirements

Testing Procedures – Objective D
1. Performed inquiry and observation procedures to determine SAO has adequate policies and
   procedures in place to ensure compliance with the above referenced RCW.
2. Reviewed various audit checklists, audit representation letters and the checklists and
   questionnaires mailed out annually and required to be provided to the auditor under RCW
   43.09.230 to determine if such inquiries are made.

Results of Testing - Objective C
SAO has adequate procedures such as checklists and the use of a central report issuance function
which ensures reports are issued to all required recipients. In addition, all reports are posted on
SAO’s website where they are available to the public and other interested parties.

Status of Prior Biennium Findings and Recommendations
N/A - There were no prior biennium findings or recommendations contained in our report, dated
April 1, 2012, for the previous biennium ended June 30, 2011.

Current Biennium Findings and Recommendations
None noted.
Attachment II

Washington State Auditor’s Response
Finding #1:

The working capital reserves in the state agency auditing revolving services account #483 at June 30, 2012 and 2013 were in excess of the maximum amount permitted by RCW 43.09.416 which limits the amount of such working capital to 5% of the accounts biennium appropriation.

State Auditor’s Office Response:
SAO agrees that our working capital was above the 5 percent statutory limit at June 30, 2012 and 2013. However, because of the timing of our receipts and expenditures during the year, trying to keep below that 5 percent limit could result in SAO having a negative cash balance, which also is prohibited by statute. We will review the options for addressing this situation, including possible 2015 legislation to modify the working capital requirement in RCW 43.09.

Significant Deficiency #1:
The procurement officer does not monitor employee travel card use for personal or unallowable purchases. Currently the procurement officer verifies the employee timely pays the monthly bill in full each month and also reviews all requests for reimbursement of expenses charged on the card. However, since an employee is unlikely to request reimbursement for an unallowable charge, there is no verification that the employee is not using the card inappropriately.

State Auditor’s Office Response:SAO concurs with this recommendation, and we implemented a review process as soon as it was brought to our attention. These eight cards are the employees’ responsibility, and there is no risk that SAO would pay for an unallowable expense as we only reimburse the employees for allowable expenses. However, we agree that monitoring detail charges on those cards will ensure any inappropriate charges are identified and appropriately dealt with.

Significant Deficiency #2:
SAO’s Asset Tracking System’s (ATS) reporting capabilities are deficient. Assets which are not assigned to a team or location in the system are not reflected on reports. This situation would allow an individual in I.T. to purchase inventorial assets, assign an inventory tag # (Required for approval of payment to vendor), exclude the asset “assigned to” information in ATS, misappropriate the asset, and the theft would not be detected as the asset would not be reflected on reports used to track inventorial assets.

State Auditor’s Response:
SAO concurs with this recommendation, and Information Services is working to develop reports for users in the new system to show items that have been received but not assigned to an audit team. We will also do additional work during the upcoming inventory audit to ensure all assets are accounted for.