

STATE OF WASHINGTON OFFICE OF FINANCIAL MANAGEMENT

Agreed-Upon Procedures

For the Biennium Ended June 30, 2017

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Independent Accountant's Report on Applying Agreed-Upon Procedures

State of Washington Office of Financial Management Olympia, Washington

We have performed the procedures enumerated below, which were agreed to by the management of the State of Washington Office of Financial Management (OFM), solely to assist you in the agreed-upon procedures performed over the Washington State Auditors' Office (SAO) compliance with certain requirements, as described below, for the biennium ended June 30, 2017. SAO's management is responsible for the design, implementation, and maintenance of the internal control cycles at the SAO as described below. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Introduction

- Washington State agencies are required to comply with numerous laws under the Revised Code of Washington (RCW). The Department of Enterprise Services (DES), Office of Chief Information Officer (OCIO), and the Office of Financial Management (OFM) also have established policies based on laws, regulations, and standards related to various internal control systems that most agencies are required to follow. In addition, agencies adopt regulations and policies specific to their operations.
- SAO is required to consider the above-mentioned laws, regulations, standards, and internal policies in conducting its business. In addition, they are required to develop and maintain a system of internal controls comprising methods and procedures that are designed to 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 work performed under these agreed-upon procedures does not address all of the requirements. The work performed is based on a process of OFM's assessing risk to each requirement under consideration. OFM has provided written agreement to the procedures.

Pursuant to RCW 43.09.340, the results of applying these agreed upon procedures should be used to assist SAO and OFM management in evaluating SAO's compliance with laws and regulations for the biennium ended June 30, 2017.

- Procedure 1: Determine compliance with the Washington State Administrative and Accounting Manual (SAAM) Chapter 20.15.50 - Annual Requirements for Agencies.
- a. Review support from SAO for adequate written documentation of activities conducted in connection with the following:
 - i. Periodic risk assessment and internal control monitoring.
 - ii. Written Annual Assurance by the Internal Control Officer.
 - iii. Required Annual Certification by the agency head and CFO as evidenced by signing the Financial Disclosure Certification form.



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Results: We reviewed the calendar year 2015 and 2016 Annual Reports on Risk Assessments from Diane Perry (Director of Operations/Risk Manager) to Troy Kelley (State Auditor). These reports included results of periodic risk assessments performed, review of internal control activities, and follow-up actions.

We reviewed the Financial Disclosure Certification forms for fiscal years 2016 and 2017. The 2016 Financial State Certificate was signed by Jan Jutte (Deputy State Auditor) and Janel Roper (Financial Services Manager). The 2017 Certificate was signed by Pat McCarthy (State Auditor) and Janel Roper (Financial Services Manager).

No exceptions or recommendations were noted as a result of reviewing the Annual Reports on Risk Assessments from the internal control officer to agency head, and Financial Disclosure Certifications forms.

Procedure 2: Determine compliance with Office of the Chief Information Officer (OCIO) Policies and Standards.

- a. Due to the technical aspects of the OCIO requirements, the procedures in this engagement related to compliance with OCIO policies and standards were limited to the following:
 - i. Review adequate written documentation from SAO to support the following:
 - An audit over compliance with IT Security Policy and Standards has been conducted at least once every three years.
 - Annual certification of compliance was timely filed.
 - Annual review of the IT Investment Portfolio, Security and Disaster Recovery/Business Resumption Plans was conducted.
 - Select three employees and review their system access to ensure it was appropriate for their current job description.
 - Select three former employees and verify their system access had been revoked upon their exit from the agency.

Results: We reviewed the "Independent Accountant's Report on an Audit of Washington State Auditor's Office (SAO) Compliance with State Information Security Policies For the Period January 1, 2017 through May 1, 2017" performed by the State Technical Audit Team.

We reviewed the "2016 Annual Agency of Certification of Compliance" signed by Jan Jutte (State Auditor). We reviewed the "2017 Annual Agency of Certification of Compliance" signed by Pat McCarthy (State Auditor) and Michael Marty (CIO).

For the biennium June 30, 2017, we reviewed the "Washington State Auditor's Office Continuity of Operations (COOP) Plan" reports dated May 2017 and January 2016.

We verified that the selected employees had appropriate system access for their job description. We verified that for two of the three selected former employees, their system access was revoked within five days of their termination. For one of the three selected former employees, their system access was revoked approximately seven weeks after their termination.

No other exceptions or recommendations were noted as a result of applying the agreed-upon procedures.

- Procedure 3: Determine compliance with RCW 43.09.416, determining the billing rate.
- a. For three travel transactions, three purchase card transactions, and three payroll disbursements, review adequate records from SAO to support the following:
 - i. Proper allocation of costs to funds, accounts, and state agencies served in accordance with RCW 43.09.416.
 - b. Recalculate one month's cost allocation of overhead and administrative costs for compliance with the RCW.
 - c. Verify compliance with the requirement that the billing rate be established based on costs incurred in prior biennium and anticipated costs in the new biennium by reviewing SAO's process and documentation.
 - d. Verify compliance with the requirement that working capital shall not exceed 5% of auditing services revolving account appropriation.

Results: For the selected travel, purchase card, and payroll transactions, we reviewed the cost allocation of these direct costs.

We also reviewed the cost allocation of overhead and administrative costs for the month of September 2017. SAO allocates overhead, administrative and shared costs based on direct service hours associated with providing services related to local governments, state agencies, performance audits, and school programs. All indirect costs are allocated to audit teams based on the percentage of direct service hours provided to each type of audit by team members. Indirect costs within the audit support teams are allocated among the funds based on the cumulative total percent of direct service hours within all the audit teams served. General support for SAO such as human resources and finance department activities are allocated based on the total costs charged to the various funds after the allocation of audit teams and audit support teams.

The working capital percentage of total biennium appropriations, calculated for the Auditing Services Revolving Fund - State Fund, exceeded the 5% maximum at June 30, 2016 and 2017. The working capital percentage at June 30, 2016 was 25.8%, and it was 18.6% at June 30, 2017. The state billing rate was reduced in January 2016 to reduce the working capital balance.

We reviewed SAO's monthly cash flow that is used to monitor rates, which are based on expenditures. Billing rates are adjusted as the need comes up, which could be every year (such as when state employees receive cost-of-living wage adjustments) or every two to three years if the expenditures do not change. Billing rates were \$82/hour, adjusted in January 2016 down from \$89/hour, lowering it based on lower overhead costs per hour worked. We obtained the June 2016 cash flow analysis and verified the \$82 bill rate was appropriately established based on costs incurred in the prior biennium and anticipated costs in the new biennium.

No other exceptions or recommendations were noted as a result of applying the agreed-upon procedures.

- Procedure 4: Sample employee travel transactions to determine compliance with the state travel regulations stated in RCW 43.03, SAAM Chapter 10, and SAO's written policies and procedures.
- a. Perform data analysis procedures on the population of travel transactions as follows:
 - i. Sum payments to each employee by dollar amount.
 - ii. Look for employees with P.O. box addresses.
 - iii. Identify employees with the same address or that are listed more than once in the vendor master file.
 - b. Provide results of the above data analysis procedures to management of OFM.
 - c. Determine if follow-up procedures are desired by OFM. See the Results section below for description of the follow-up procedures performed.
 - d. For ten selections, test employee travel transactions for compliance with the RCW, SAAM and SAO policy.

Results: We verified that the selected travel was approved at the appropriate level and evidence of approval was documented. We reviewed the selections to ensure that no personal costs appear to have been reimbursed. We verified that the Travel Expense Voucher included documentation of the purpose of the trip and how it related to the employee's work. We reviewed supporting receipts and agreed to the Reimbursement Report. We compared the nature of the costs and ensured it appeared allowable in accordance with SAAM and SAO policies. We ensured the reimbursed costs were calculated in accordance with SAAM and SAO policies, including reviewing dates, locations, and descriptions of the expenses.

We provided results of the above data analysis procedures to management of OFM on May 23, 2018. After reviewing the data analysis results, management of OFM requested follow-up procedures on ten of the disbursements. For these items, in accordance with OFM's request, we reviewed the Travel Expense Voucher and underlying receipts for proper approval and business purpose of the expense. No exceptions or recommendations were noted as a result of applying the follow-up procedures.

No exceptions or recommendations were noted as a result of applying the agreed-upon procedures.

Procedure 5: Sample physical asset transactions to determine compliance with the state capital asset requirements stated in Chapter 30 of SAAM and SAO policies.

a. For six small and attractive assets, test for compliance with SAAM and SAO policies.

Results: For all selections tested, we reviewed inventory records for small and attractive assets, and insured the proper detail was included in accordance with SAAM and SAO policies, such as acquisition date, location code, quantity, useful life, and others.

We noted that SAAM Chapter 30.40.20 requires that the agency's fixed asset policy consider inventory asset code 7014 (tablets and smart phones) with unit costs of \$300 or more as small and attractive assets. We noted the SAO fixed asset policy does not include asset code 7014 in the small and attractive category. However, per SAO management, SAO does include these types of assets in their tracking of small and attractive assets. Three out of six small and attractive assets tested were tablets and smart phones.

No other exceptions or recommendations were noted as a result of applying the agreed-upon procedures.

Procedure 6: Sample employee purchase card transactions to determine compliance with the state regulations stated in RCW 41.60, SAAM Chapter 20 and 40, DES's Purchase Card Policy, and SAO's written policies and procedures.

a. For fifteen selections, test employee purchase card transactions for compliance with the RCW, SAAM, DES and SAO policy.

b. Perform data analysis procedures on the population of purchase card transactions as follows:

- i. Look for transactions processed on weekends
- ii. Sum purchases by credit card holder and sorted from highest to lowest.
- iii. Sum purchases by vendor and sorted from highest to lowest.
- iv. Sort the listing by merchant category code.

c. Provide results of the above data analysis procedures to management of OFM.

d. Determine if follow-up procedures are desired by OFM. See the Results section below for description of the follow-up procedures performed.

e. For five selections, test expenditures for employee awards and recognition for compliance with the RCW, SAAM, DES and SAO policy.

Results: For the fifteen employee purchase card transaction selections, we requested the Purchase Card User Agreement form signed by the card user and appropriate approving manager. Among the fifteen purchase card transactions selected, we noted this represented fourteen different purchase card users. Of these fourteen purchase card users, we noted that eight did not have a signed Purchase Card User Agreement form on file for the period of the selected purchase. Upon discussion with management, forms are not maintained if they are superseded by a newer form (e.g. there is a change in supervisor and a new form is filled out), or if the employee is terminated or changes agencies.

We ensured that the fifteen selections were transacted by a cardholder/custodian/designated user on the current list of cardholders/custodians/designated users. We ensured that the purchasers of the selected items had completed training on appropriate use of the purchase card by viewing a signed statement at the bottom of the Purchase Card User Agreement form that they had completed training. We ensured that the expenditure was approved at the appropriate level, and proper supporting documentation was obtained prior to payment, such as invoice, purchase request, or receipt. We reviewed the nature of the purchased item and verified it was not unallowable in accordance with SAO policies, and was within authorization limits set by SAO.

For the five selected expenditures for employee awards and recognition, we vouched to support for the expenditure, including invoice, receipt, or purchasing card activity log, with evidence of proper approval for the disbursement. We noted none of the selections exceeded \$200 in value per award, and none were made to any elected state official or state agency or director, in accordance with state policies.

We provided results of the above data analysis procedures to management of OFM on May 23, 2018. After reviewing the data analysis results, management of OFM requested follow-up procedures on five of the disbursements. For these items, in accordance with OFM's request, we reviewed the Purchasing Activity Log and underlying receipts for proper approval and business purpose of the expense. No exceptions or recommendations were noted as a result of applying the follow-up procedures.

No other exceptions or recommendations were noted as a result of applying the agreed-upon procedures.

- Procedure 7: Evaluate the adequacy of receivables management; reviewed receivable collection process; assessed documentation of transactions affecting receivables; and sampled past due and uncollectible receivable transactions. Determine compliance with Chapter 85.54 of SAAM and SAO policies.
- a. For five past due receivable balances, test the receivable collection process for compliance with SAAM and SAO policies.
 - b. For five balances that were written off, test the authorization for compliance with SAAM and SAO policies.

Results: For all of the selections above, we vouched to the detailed subsidiary ledger and ensured the proper detail was included in accordance with SAAM and SAO policies, such as name of debtor, address, description, invoice number, date of invoice, and others. We reviewed the documentation of SAO's collection process in the form of an activity log, detailing the follow-up calls and communication with the debtor. Collection agencies are not being used, nor is interest charged on past due receivables, as SAO's debtors are made up entirely of other governmental agencies. SAAM disallows the use of collection agencies and the charging of interest on past due receivables for these types of debtors.

In addition, for the five written-off balances, we reviewed the request and approval for writing off the balance from an authorized director.

No exceptions or recommendations were noted as a result of applying the agreed-upon procedures.

Procedure 8: Evaluate the adequacy of cash/ACH/IAP receipts management; review collection process; assess documentation of receipt transactions; and sample cash/ACH/IAP receipts transactions. Determine compliance with Chapter 85.50 and 85.54 of SAAM and SAO policies.

a. For ten selections, test receipts for compliance with SAAM and SAO policies.

Results: For the ten selections, we vouched to the daily reconciliation of cash receipt records and deposit slips, and verified that the receipt was applied to the appropriate customer account. We vouched to the Cash Receipts Journal Summary report.

No exceptions or recommendations were noted as a result of applying the agreed-upon procedures.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the internal controls at the Washington State Auditor's Office. 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 information and use of the State of Washington Office of Financial Management and the Washington State Auditor's Office, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Certified Public Accountants
July 10, 2018

STATE OF WASHINGTON OFFICE OF FINANCIAL MANAGEMENT

**Management's Response to Results of Agreed-Upon Procedures
For the Biennium Ended June 30, 2017**

We agree with the accountants' results. The exceptions are being addressed as follows:

Procedure 2 - The State Auditor's Office concurs with this result. Our Office's Information Technology team has already implemented a process that ensures employee accounts are not accessible after 6 PM the day of separation and removed within a couple days after separation.

Procedure 3 - The State Auditor's Office concurs with this result. While state law requires that the working capital for the Auditing Services Revolving Account not exceed 5 percent of the current appropriation, the Auditor's Office has a competing priority to be in a positive cash balance position on June 30 as well. We have considered introducing legislation to change RCW 43.09 to relieve our Office of the working capital requirement because there is no benefit to the Auditor's Office to have excess cash, being limited to our legislative appropriation.

Procedure 5 - The State Auditor's Office concurs with this result. The fixed-asset policy is under review, and language will be added to include asset code 7014 in the small and attractive category.

Procedure 6 - The State Auditor's Office concurs with this result. Our Purchase Card manual has been updated to ensure we keep user agreements along with all other pertinent information until the biennial audit of our Office has been completed.

The State Auditor's Office appreciates the agreed-upon procedures that Clark Nuber has performed related to our internal operations. We value the audit process and the reported results.