



OFFICE OF
FINANCIAL MANAGEMENT

SAAM CHAPTER 20: A PREVIEW OF COMING ATTRACTIONS

FMAC

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Kim Thompson

Kim.thompson@ofm.wa.gov

725-0224

What and why?

- » SAAM Chapter 20 Internal Control Sections.
- » The last major update occurred in the 1990's.
- » Recent activity by
 - › The Committee of Sponsoring Organizations of the Treadway Commission (COSO)
 - › The U.S. Government Accountability Office (GAO)

What and why?

- » Section 20.40 Internal Auditing
- » The internal audit statute changed this past legislative session.
- » Changes will need to be made.
- » We will include agency stakeholders but no plan is yet in place.

When?

- » Initial date of October 1, 2015, won't be met. ☹
- › Getting the internal control part ready is taking longer.
- › We need to determine timing for the 2 parts.
- › OFM's new Assistant Director Brian Tinney started 9/16.
- » Watch the next *Connection* for further information.

How are internal control changes being made?

- » Original plan – use the COSO publication
- » Current plan – also use the GAO's Green Book

How are internal control changes being made?

- » The Green Book (GB)
 - › Issued by the GAO Comptroller General for the federal government community
 - › Used COSO as their starting point
 - › More plain talk than COSO
 - › Available electronically at no charge
<http://www.gao.gov/greenbook/overview>
- » Changes will be about 20% COSO, 80% GB.

How are internal control changes being made?

» Statewide Accounting

- › Prepared a draft
- › Asked a stakeholder group for feedback.

» Stakeholder group consists of:

- › Large agency management person
- › Combination enterprise risk manager/
internal control officer
- › Small agency fiscal officer
- › Assistant director
- › Representative from SAO.

What are the changes?

- » The underlying internal control requirement is basically the same, including
- » The 5 internal control framework components:
 - › Control environment
 - › Risk assessment
 - › Control activities
 - › Information and communication
 - › Monitoring

What are the changes?

» Component  principles  points of focus

» 17 Principles

› Elaborate on a respective component

» Points of focus (Called Attributes in GB)

› Explain the principle in greater detail

» Principles – generally applicable in every setting

» Points of focus – may or may not be applicable

Example Principle and Points of Focus

» **Principle 1:** Those charged with governance and management demonstrate commitment to integrity and ethical values. The following points of focus highlight important characteristics relating to this principle:

1. **Set the tone at the top and throughout the agency** – Those charged with governance and management at all levels of the agency demonstrate through their directives, actions, and behavior the importance of integrity and ethical values to support the functioning of the system of internal control.
2. **Establish standards of conduct** – The expectations of the agency head and senior management concerning integrity and ethical values are defined in the agency's standards of conduct and understood at all levels of the agency.

Example Principle and Points of Focus

3. **Evaluate adherence to standards of conduct –**
Processes are in place to evaluate the performance of individuals and teams against the agency's expected standards of conduct.
4. **Address deviations in a timely manner –**
Deviations of the agency's expected standards of conduct are identified and remedied in a timely and consistent manner.

What do the changes mean for agencies?

- » It will take a lot of thought and work to implement
- » There is no one-size-fits-all checklist
- » It is an on-going process that
 - › Is tailored to your size
 - › Takes into account changes
- » Consider this a major refresh
- » Use it to enhance your internal policies and approach
- » Strive to incorporate the principles and points of focus in all aspects of your agency's internal controls.

What is OFM's on-going emphasis?

There are 4 points that are not new but need emphasis

1. Every agency needs an Internal Control Officer who
 - › Provides written assurance at least annually to the agency head that the agency has performed the required risk assessments and the associated internal control monitoring processes.
2. Risk assessment is one of the components of the framework and therefore needs to be done by every agency.

What is OFM's on-going emphasis?

Required risk assessments:

- » Should address financial reporting and federal program compliance objectives.
- » They can be done agency-wide at one time or by sections of the agency over a period of time.
- » The agency should
 - › Consider significance when planning the assessment and monitoring.
 - › Strive to address high risk areas at least once a biennium.

What is OFM's on-going emphasis?

Risk assessment and internal control monitoring process:

- » Designed to provide management with reasonable assurance that controls are operating as expected.
- » Used to determine if internal control modifications are needed by considering various changes.
- » Any internal control weaknesses should be documented and addressed in a timely manner.

What is OFM's on-going emphasis?

3. SAAM Chapter 20 is referenced in item 7 on the annual Financial Disclosure Certification
 - › We are responsible for and have established and maintained an effective system of internal controls as prescribed by SAAM Chapter 20.
 - › Our agency's system of internal controls incorporates adequate procedures and controls to
 - safeguard our assets,
 - check the accuracy and reliability of our accounting data,
 - promote operational efficiency, and
 - encourage adherence to policies for accounting and financial controls.
 - › If there are significant deficiencies in internal control, a summary of the deficiencies and corrective action is attached to this certification.

What is OFM's on-going emphasis?

4. Be aware that internal controls related to fraud are referenced in item 8 on the annual Financial Disclosure Certification.
 - › We are responsible for designing and implementing programs and controls to prevent and detect fraud.
 - › We have disclosed to the auditors all known instances and allegations of fraud or suspected fraud involving management and employees who have significant roles in internal control.
 - › We have also disclosed known instances and allegations of fraud or suspected fraud involving others where the fraud could have a material effect on the financial statements.

What is OFM's on-going emphasis?

We have not yet determined what the waiver process will look like for small agencies for whom it may not add value to have an internal control officer.

We do not foresee waivers for all risk assessment and monitoring activity.

What's next?

- » In addition to the policy update, we plan to expand our resource website to include various helps.
- » Watch for an effective date in the next *Connection*.
- » Questions?
 - › Contact Kim or your accounting consultant.