



Washington State Auditor's Office

Independence • Respect • Integrity

State Audit Update

Financial Management Advisory Council

May 26, 2016

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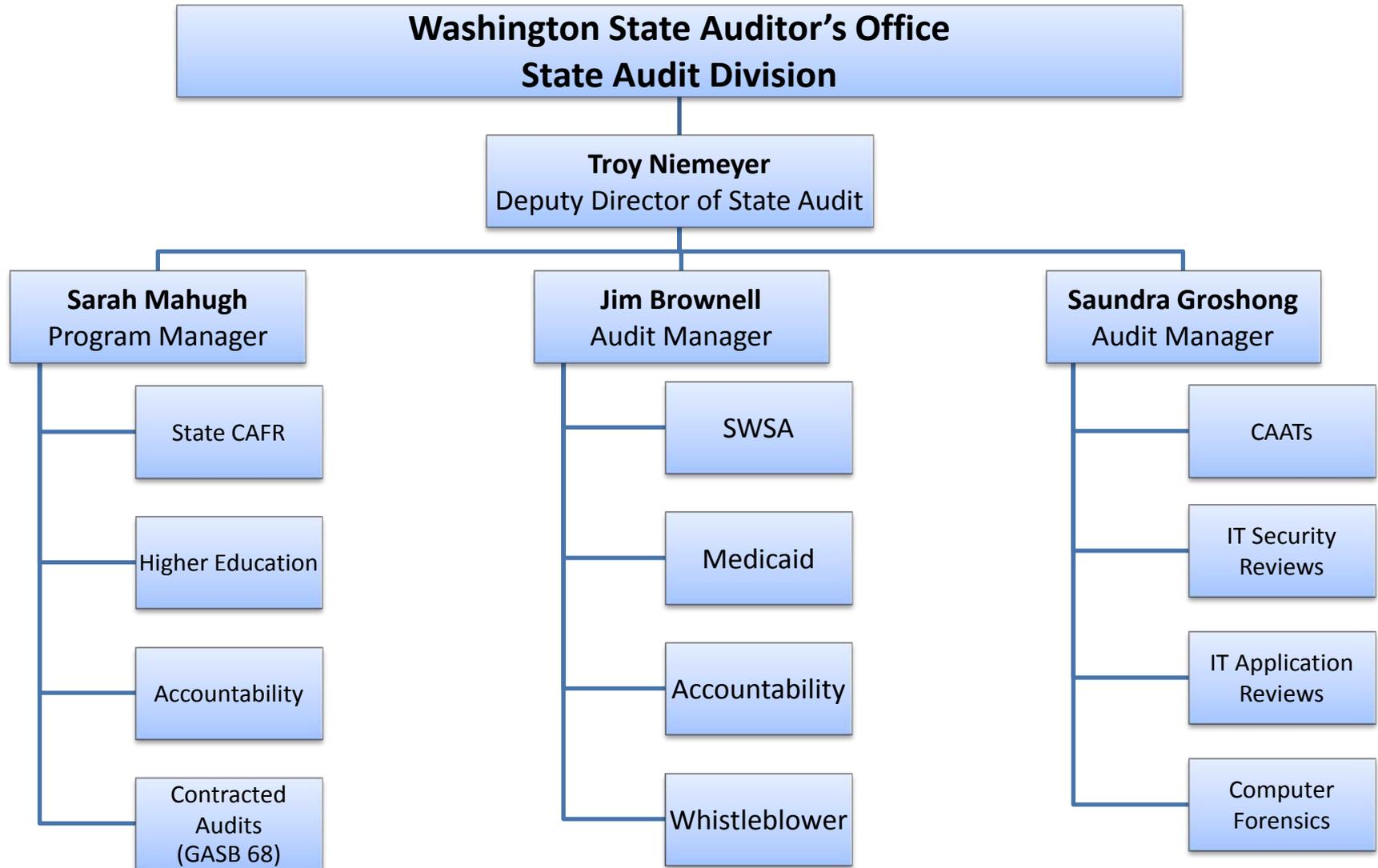
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Topics for discussion

- Current organizational structure
- Statewide single audit (SWSA)
- Whistleblower program and fraud
- Comprehensive annual financial report (CAFR)
- Stewardship Awards
- Contracted Financial Audits
- Accountability audits
- Contracted audits
- Future audit work plan

Current organizational structure



Statewide Single Audit

Overview

- The Single Audit is an independent audit of systems and internal controls over federally funded programs the state has designed to ensure compliance with federal regulations.
- The FY15 audit was conducted in accordance with the provisions of the federal Office of Management and Budget's Circular A-133 and U.S. Government Auditing Standards.
- The state spent over \$17 billion in cash and other federal assistance in fiscal year 2015.

Audit coverage and reporting

- We audited a combined 31 major and type B programs.
 - Major programs > \$30 million
 - Type B programs – selected based on risk
- Performed audit work at over 20 state agencies (including universities and community colleges).
- The Single Audit report for the state of Washington is published by OFM:
 - The 2015 report was released in late March.
 - A summary report will be published on our website in June.

Statewide Single Audit – Five year history

SWSA findings and questioned costs - 2011 to 2015

Audit year	Total federal assistance spent	Programs audited	Audit findings	Known and likely questioned costs
2015	\$17,030,229,853	31	56	\$142,222,871
2014	\$15,730,569,572	32	55	\$3,625,781
2013	\$14,892,685,569	31	45	\$4,275,906
2012	\$15,764,520,777	30	63	\$3,950,901
2011	\$17,308,755,010	32	51	\$3,511,932

Statewide Single Audit

Audit Results

- We reported 56 audit findings
 - Single audit findings report material weaknesses and significant deficiencies in internal controls, material non-compliance and questioned costs that exceed \$10,000 (under A-133).
 - For the first time we issued an adverse opinion on a major federal program due to significant questioned costs and material non-compliance in multiple areas.
 - We issued 24 findings related to the Medicaid program.
 - The significant increase in questioned costs from the prior year occurred mostly because we expanded our use of statistical sampling for some programs.

Statewide Single Audit – New guidance

New uniform guidance (2 CFR) for Single Audits

- This affects federal awards issued on or after December 26, 2014.
- Was used to plan our Single Audit for state fiscal year 2016.
- Supersedes many OMB Circulars including A-133 and A-87.
- Some notable changes are:
 - The audit threshold has been increased from \$500,000 to \$750,000.
 - The questioned cost threshold has been increased from \$10,000 to \$25,000.

Statewide Single Audit – New guidance

More notable changes:

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

Whistleblower Program

- Our Office is responsible for investigating reports of improper governmental action made by state employees.
- The following must be true in order for us to open an investigation:
 - The whistleblower must be a current state employee.
 - The complaint must include a specific subject or subjects.
 - The asserted improper action must be a violation of state law or rule.
 - The asserted improper action must have occurred within the past year.
- Complaints can be submitted anonymously:



Whistleblower Program

- The program is staffed by three full-time whistleblower investigators and a lead investigator (supervisor).
- In calendar year 2015, our Office:
 - Received 207 whistleblower complaints
 - Initiated investigations into 39 of the complaints
 - Published 32 reports – 12 resulted in reasonable cause findings
 - In some instances we made recommendations on how agencies could improve their internal controls.
- Other notes:
 - We continued to decrease the average time of investigations (220 days).
 - Made IT improvements to standardize workpapers and better track the status of investigations.



Whistleblower Program

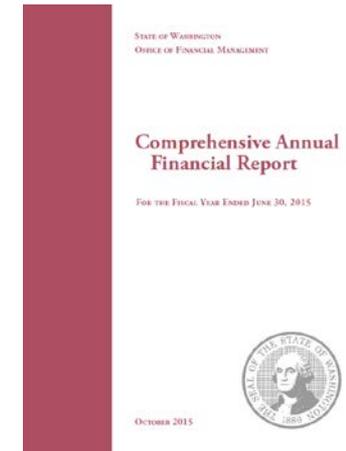
- Common investigative findings:
 - Personal use of state resources
 - More than de minimus in nature (brief and infrequent)
 - Computer use
 - Time and effort
 - Non-compliance with contracting laws and required policies
 - Gross mismanagement

Fraud

- State law requires state agencies and local governments to immediately report known or suspected losses of public funds and illegal activity to our Office.
- We triage the reports and determine whether or not to open investigations.
- We have seen a recent up-tick in loss reports.
 - Theft of client funds
 - Payroll
 - Purchase card use

Overview

- Managed by Team Financial Audit
 - ❑ We perform an independent audit of the CAFR in accordance with Generally Accepted Governmental Auditing Standards.
 - ❑ This is SAO's second largest audit
 - ❑ Over 10,800 hours
 - ❑ 45 staff from nine different audit teams assist to meet the October deadline. Over 7 supervisors assist to review this audit at year end.



The Audit Outcome of the CAFR can affect our State's credit and bond rating

Bond ratings

On June 30, 2015, the state's general obligation debt was rated Aa1 by Moody's Investors Service, AA+ by Standard & Poor's Ratings Services and AA+ by Fitch Ratings. These ratings remain unchanged from 2011. Bond ratings are an important measure of the state's economic strength and accountability. They determine how much interest the state pays when it borrows money. Washington is considered to have good bond ratings. Standard & Poor's described the state's long term outlook as "stable," reflecting its view that the state's liquidity, financial trends and strengthening economy point to an improving financial position. The credit-rating service also considers the state's strong financial-management policies and institutions in its projection.

Audit coverage and reporting

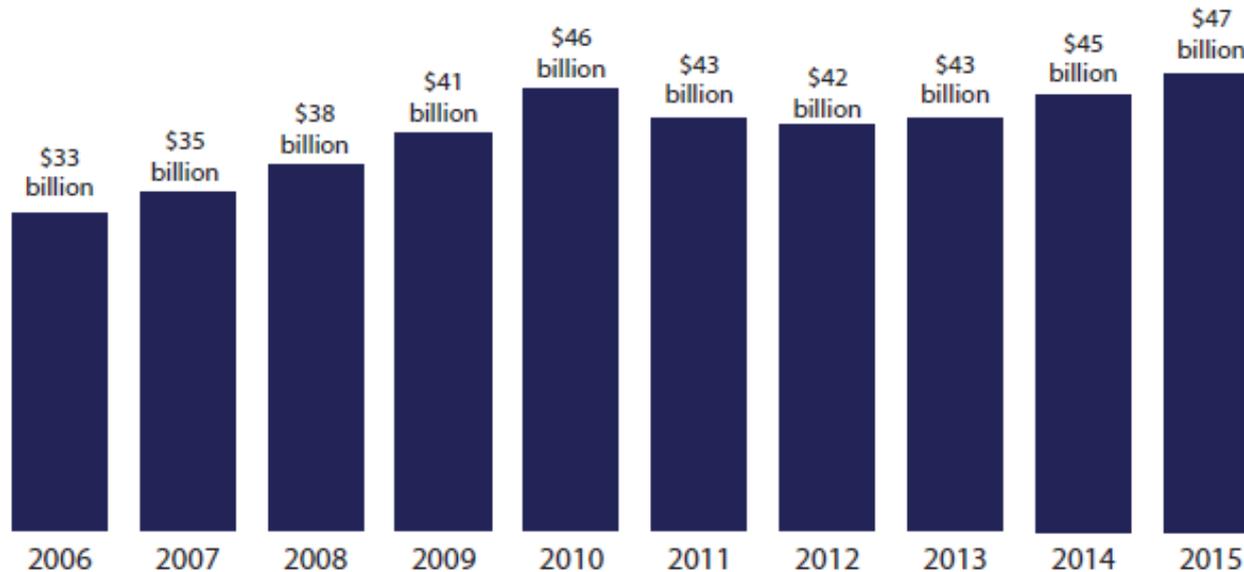
- Audited 14 agencies with 174 account balances material to state's basic financial statements.
- Audit reports:
 - Financial statement opinion released on October 30, 2015.
 - Currently, the second fastest state CAFR opinion in the Nation.
 - Report on internal controls over financial reporting and compliance and other matters was published in the Single Audit Report.
 - CAFR Summary Report

State CAFR 2015

■ CAFR Summary Report

Exhibit 2 – Total primary government expenses for the past 10 fiscal years: 2006-2015

For fiscal years ending June 30



Source: Office of Financial Management.

<http://www.sao.wa.gov/resources/Pages/AnnualReports.aspx#.Vy0TFPIUWAg>

Significant risks

- GASB 68 Accounting and financial reporting for pensions
- Employment Security Department's Next Generation Tax System (NGTS)
- Management override of controls

Audit results

- Our 2015 audit resulted in a clean unmodified audit opinion.
- We identified two significant deficiencies in internal controls that were reported as audit findings.
 - The State's internal controls over Medicaid payments processed by ProviderOne are inadequate to ensure those payments are properly processed and recorded.
 - The State should improve internal controls over the processing and recording of Unemployment Insurance premium payment and wage information to ensure accurate reporting.

Stewardship Awards

- Stewardship Awards



Western Washington University

Contracted Financial Audits

Financial Audits

- In 2015, we performed 37 financial audits for state agencies, universities, and community & technical colleges.
- We identified five audit findings at five different organizations which identified areas where they needed to improve their internal controls to ensure accurate financial reporting.
 - A majority of the issues were related to a lack of accurate tracking and reporting in the capital assets balances.
 - The final review of financial figures was not effective in detecting errors.

Accountability audits

Overview

- What is an accountability audit?
 - Accountability audits assess whether agencies have adequate internal controls in place to safeguard public resources and comply with legal requirements. We do not examine every transaction, activity or area. Instead, our audits focus on identifying and examining those activities or areas that pose the highest risk of noncompliance, abuse or misuse.

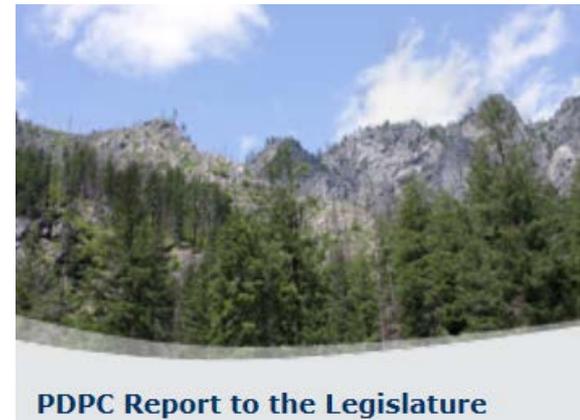


Accountability audit risks

Lack of internal controls over:

❑ Local Funds

- By definition, local funds are funds that are not held by the State Treasurer. They can be in any other banking institution that meets the state's depository requirements. To check if the institution is Public Deposit Protection Commission (PDPC) compliant use this site:
<http://www.tre.wa.gov/investors/pdpc.shtml>
- RCW 43.09.420
- Risks typically selected for audit include:
 - SAAM 80.30.88
 - Reconciliation to AFRS
 - Monthly bank reconciliations
 - Eligibility of Investments (SAAM 85.52)



Common accountability issues

Lack of adequate internal controls over:

❑ Purchase Cards

- Used to purchase unallowable items, such as gifts and alcohol.
- User agreements not completed.
- Statements not reconciled with supporting documentation

❑ Travel

- Missing support for prior authorization from the agency head (SAAM 10.10.50)
- Missing support for attendance, vendor billing, etc. (SAAM 10.80.55)

Common accountability issues

❑ **Contracts**

- Advertisements and winning bidders not posted to WEBS.
- Total payments exceed the maximum contract value.

❑ **Vendor payments**

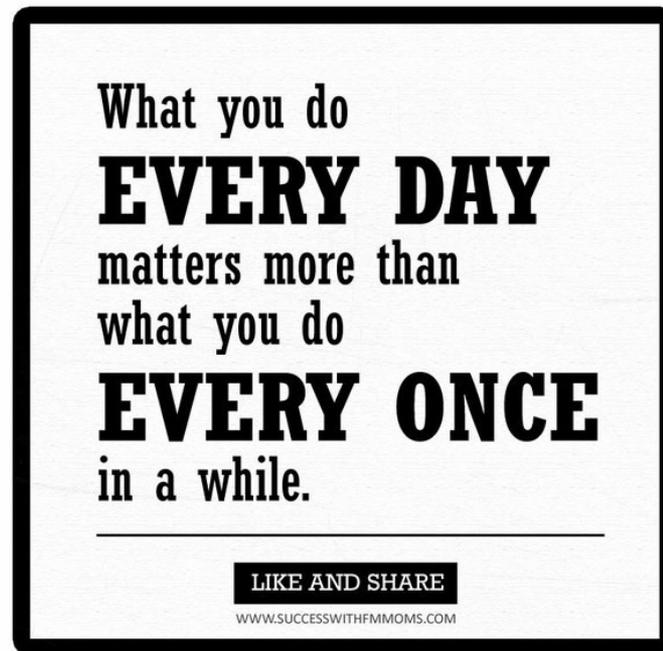
- Missing or inadequate support for payments.
- Unallowable per the SAAM.

❑ **Cash receipting**

- Lack of monitoring at decentralized receipting locations.
- Cash handling duties were not adequately segregated.

Accountability audits

- In 2015, we performed 43 individual accountability audits for state agencies, which includes institutions of higher education.
 - 7 audit findings



Future audit work plan

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

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