



## Chapter 20 - Fiscal Responsibilities and Accounting Principles

Chapter, Topic	Title	Page Number
20.10	Fiscal Roles and Responsibilities	<a href="#">12</a>
20.20	Accounting Principles	<a href="#">18</a>
20.30	Audit Resolution	<a href="#">30</a>



## Topic 10 Fiscal Roles and Responsibilities

Chapter, Topic, Section	Title	Effective Date	Page Number
20.10.100	Overview		<a href="#">12</a>
20.10.110	Roles and Responsibilities		<a href="#">12</a>
20.10.120	Office of Financial Management		<a href="#">13</a>
20.10.130	Joint Legislative Audit and Review Committee		<a href="#">14</a>
20.10.140	Legislative Evaluation and Accountability Program Committee		<a href="#">15</a>
20.10.150	Administering Agency		<a href="#">15</a>
20.10.160	Office of the State Auditor		<a href="#">16</a>
20.10.170	Office of the State Treasurer		<a href="#">16</a>

---

### 20.10.100 Overview

---

The state of Washington, through statutory authority, gives fiscal responsibilities to certain state agencies. These agencies are authorized to establish policies and procedures that encompass all state agencies. The agencies are also given specific responsibilities to carry out the individual areas each agency oversees. Each of these agencies is discussed in the following sections. In addition, the roles and responsibilities related to individual agencies are also included in this chapter.

---

### 20.10.110 Roles and Responsibilities

---

The Office of Financial Management has primary responsibility for setting and supervising fiscal policies, procedures, and directives. Additional state agencies with significant fiscal roles and responsibilities include:

- Office of the State Treasurer to receive, maintain, and disburse all public monies of the state.
- Office of the State Auditor to conduct periodic post-audits of state agencies.
- Joint Legislative Audit and Review Committee to examine whether appropriations are being expended for the purposes and within the statutory restrictions of the Legislature.



- Legislative Evaluation and Accountability Program Committee to conduct analysis and monitor state agency expenditures, budgets, and related fiscal matters for the Legislature.
- Administering Agencies to provide general oversight of financial accounting records at the Fund level.

---

## 20.10.120 Office of Financial Management

---

The Office of Financial Management (OFM) acts on behalf of the Governor in the capacity of the state's accounting and budgeting agent in carrying out the provisions of the Budget and Accounting Act, [Chapter 43.88 RCW](#). As such, all policies, procedures, and directives issued by OFM are binding on all state agencies unless specifically exempted by [RCW 43.88.240](#).

OFM has the statutory authority to devise, supervise, and maintain a modern and complete accounting system for each agency to the end that all revenues, expenditures/expenses, receipts, disbursements, resources, and obligations of the state are properly and systematically accounted for.

In carrying out this responsibility, OFM:

- a. Maintains central financial accounting and reporting systems.
- b. Engages in oversight activities on all agency accounting and reporting systems. OFM also requires that any changes to existing and all new agency accounting and/or reporting systems that materially impact the accounting methods or practices of the agency have the approval of OFM prior to implementation. Refer to [Section 80.30.88](#).
- c. Prescribes specific accounting procedures to be followed by agencies in accounting for the state's resources.
- d. Maintains the central records reflecting the financial status of the state taken as a whole at the level deemed necessary for central financial management.
- e. Adopts and periodically updates the Washington Administrative and Accounting Manual that prescribes and requires the maintenance of uniform systems of accounting and reporting for agencies.
- f. Advises and assists agency accounting and administrative personnel in specific accounting and reporting problems and recommends system revisions and improvements which make it possible to exercise effective control over assets, liabilities, revenues, and expenditures/expenses.
- g. Prescribes and requires the maintenance of budgetary accounting procedures to produce current and accurate management information for effective budgetary control.

OFM has the statutory responsibility to:

- a. Publish, within six months of the end of the fiscal year, an annual financial report that encompasses all funds and account groups of the state ([RCW 43.88.027](#)).



- b. Provide all agencies with a complete set of instructions for preparing and submitting biennial budget requests and statements of proposed expenditures. Additionally, OFM is to monitor agency expenditures against the approved statement of proposed expenditures and provide budget status information periodically to the Legislature and its committees ([RCW 43.88.030](#)).
- c. Develop and maintain a system of internal control 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 ([RCW 43.88.160](#)).
- d. Cause corrective action(s) to be taken by agencies on specific recommendations or exceptions contained in the reports of the State Auditor regarding specific expenditures or other practices related to an agency's financial transactions (i.e., audit findings and questioned costs). See [Section 20.30.200 - Responsibilities](#) for more details about this responsibility.
- e. Prepare and publish the annual state of Washington Audit Resolution Report by December 31 ([RCW 43.88.160](#)). Refer to [Topic 20.30 - Audit Resolution](#) for more details.
- f. Approve the use of electronic and other technological means to transfer both funds and information whenever economically feasible, to eliminate paper documentation whenever possible, and to provide greater fiscal responsibility ([RCW 43.41.180](#)).

---

## 20.10.130 Joint Legislative Audit and Review Committee

---

[Chapter 44.28 RCW](#) gives the Joint Legislative Audit and Review Committee the statutory authority and responsibility to:

- Make examinations and reports concerning whether or not appropriations are being expended for the purposes and within the statutory restrictions of the Legislature; and concerning the organization and operation of procedures necessary or desirable to promote economy, efficiency, and effectiveness in state government, its boards, committees, commissions, institutions, and other state agencies; and to make recommendations and reports to the Legislature.
- Make such other studies and examinations of economy, efficiency, and effectiveness of state government and its state agencies as it may find advisable, and to hear complaints, hold hearings, gather information, and make findings of fact with respect thereto.
- Conduct program and fiscal reviews of any state agency or program scheduled for termination under the process provided under [Chapter 43.131 RCW](#).
- Perform other legislative staff studies of state government or the use of state funds.
- Conduct performance audits in accordance with the work plan it adopts.
- Receive a copy of each report of examination or audit issued by the state auditor for examinations or audits that were conducted at its request and make recommendations as it deems appropriate as a separate addendum to the report or audit.



- Develop internal tracking procedures that will allow the Legislature to measure the effectiveness of performance audits it conducts including, where appropriate, measurements of cost-savings and increases in efficiency and effectiveness in how state agencies deliver their services.

For more information refer to the [Joint Legislative Audit and Review Committee website](#).

---

## **20.10.140 Legislative Evaluation and Accountability Program Committee**

---

[Chapter 44.48 RCW](#) gives the Legislative Evaluation and Accountability Program Committee the statutory authority and responsibility to provide and maintain, for the Legislature, an information system for in-depth analysis and monitoring of state agency expenditures, budgets, and related fiscal matters.

For more information refer to the [Legislative Evaluation and Accountability Program Committee website](#).

---

## **20.10.150 Administering Agency**

---

**Administering agencies** are designated by the Office of Financial Management (OFM) to provide general oversight of financial accounting records at the fund level. The administering agency for each fund is listed in [Section 80.20.120?](#) ([refers to the list of fund and account codes](#)). Administering agencies are responsible for:

- Reviewing the Ledger Account 11060 - Cash in Treasury account, for the funds that they administer for reasonableness as compared to cash allotments. Special attention should be given to potential cash deficits and unusual or irregular cash activity.
- Cash deficits are prohibited per [RCW 43.88.260](#), unless an exception applies. If the administering agency projects a potential cash or fund balance deficit, they should immediately contact their assigned OFM Statewide Accountant and OFM Budget Analyst.
- Reviewing the reasonableness of the asset, liability, and equity balances of the funds that they administer. Refer to [Topic 250.XX.XXX - Adjustment and Reconciliation Activity Subsection 90.20.70.b #7](#).
- If an administering agency determines that adjustments are required, they should coordinate with the operating agency and the Office of the State Treasurer as appropriate. If assistance is needed, the administering agency should contact their assigned OFM Statewide Accountant.



---

## 20.10.160 Office of the State Auditor

---

[Chapter 43.88 RCW](#) gives the State Auditor the statutory authority and responsibility to:

- Conduct periodic post-audits of state agencies covering compliance with fiscal and legal requirements.
- Conduct special examinations when warranted by questionable practices or circumstances.
- Report to the Legislature on an annual basis concerning the significant findings contained in post-audits of state agencies.
- Provide information to the Legislature, whenever required, upon any subject relating to the financial affairs of the state.
- Perform or participate in performance verifications only as expressly authorized by the Legislature in the omnibus biennial appropriations acts.

For more information refer to the [Office of the State Auditor website](#).

---

## 20.10.170 Office of the State Treasurer

---

The statutory authority and responsibility given to the Office of the State Treasurer (OST) is found in [Chapter 43.08 RCW](#) and [Chapter 43.88 RCW](#) and includes responsibilities to:

- Receive, keep, and disburse all public funds of the state not expressly required by law to be received, kept, and disbursed by some other persons: PROVIDED, That this subsection shall not apply to those public funds of the institutions of higher learning which are not subject to appropriation [RCW 43.88.160(5)(a)].
- Receive, disburse, or transfer public monies under the State Treasurer's supervision or custody [RCW 43.88.160(5)(b)].
- Maintain current and correct account of all monies received and disbursed by the State Treasurer, classified by fund [RCW 43.88.160(5)(c)].
- Take such actions as are necessary to ensure the effective cash management of public funds (RCW 43.08.015).
- Coordinate agencies' acceptance and use of credit cards and other payment methods as authorized by law [RCW 43.88.160(5)(d)].
- Perform such other duties as may be required by law or by regulations issued pursuant to RCW 43.88.160.
- Represent the state in all contractual relationships with financial institutions ([RCW 43.08.015](#)), which include the following duties:



- Negotiate master contracts with financial institutions, including but not limited to, contracts for treasury and treasury trust accounts, contracts for services available from local banks, contracts for electronic transfer of funds, including credit cards and debit cards, automated clearing house (ACH) transfers, wire transfers, and contracts for lockbox services. Certain responsibilities may be delegated to agencies with OFM's concurrence. An agency delegated any of these responsibilities should use its best efforts to minimize the financial impact of the contract to the state agency, the taxpayers, and the public who uses its services. Refer to [Section 40.10.50](#).
- Pay, at its discretion, for purchased banking services for treasury and treasury trust accounts from the investment income accounts. OST's reimbursement for purchased banking services is generally limited to amounts above an agency's funding for the activity.
- Advise agencies of new cash management techniques, practices, procedures, and other efficient methods of collecting and disbursing state money to ensure maximum return on state investments.
- Assist agencies by increasing their knowledge of applicable depository and investment statutes.
- Advise agencies of required language that must be included in any Request for Proposal (RFP) and/or agreement/contract that has either an electronic funds settlement component or involves a vendor who holds funds for a period of time before remitting them to the state. This language must be included to mitigate the risk of loss of funds to the state.

The OST has the following responsibilities related to the Funds Deposit Policy:

- [RCW 43.88.160](#) states, "It shall be unlawful for the treasurer to disburse public funds in the treasury except upon forms or by alternative means duly prescribed by the director of financial management."
- [RCW 39.58.080](#) states, "Except for funds deposited pursuant to a fiscal agency contract with the state fiscal agent or its correspondent bank, funds deposited pursuant to a custodial bank contract with the state's custodial bank, and funds deposited pursuant to a local government multistate joint self-insurance program as provided in [RCW 48.62.081](#), no public funds shall be deposited in demand or investment deposits except in a public depository located in this state or as otherwise expressly permitted by statute: PROVIDED, That the commission or the chair upon delegation by the commission, upon good cause shown, may authorize, for such time and upon such terms and conditions as the commission or chair deem appropriate, a treasurer to maintain a demand deposit account with a banking institution located outside the state of Washington solely for the purpose of transmitting money received to public depositories in the state of Washington for deposit."

For more information refer to [Office of the State Treasurer website](#).





---

[Chapter 43.19 RCW](#) directs the Department of Enterprise Services(DES) to provide products and services to support state agencies.

**Need to add specific fiscal roles and responsibilities.**

[Enterprise Procurement Policies](#)

**Anything else we should include?**

DES provides centralized business services to state government agencies; to other public entities such as cities and counties; to tribal governments; and to Washington residents.

For more information refer to the [Department of Enterprise Services website](#).

---

---

**Need to add specific fiscal roles and responsibilities.**

Should we include WTS?

- Oversight of IT systems, including financial systems
- IT spending tracking, monitoring and reporting
- Anything else?

For more information refer to the [Washington Technology Solutions website](#).

## Topic 20 Accounting Principles





# Washington Administrative and Accounting Manual

Chapter, Topic, Section	Title	Effective Date	Page Number
20.20.100	Overview		<a href="#">19</a>
20.20.110	Accounting Principles		<a href="#">20</a>
20.20.120	Fund Accounting		<a href="#">20</a>
20.20.130	Reporting Entity		<a href="#">22</a>
20.20.140	Measurement Focus and Basis of Accounting		<a href="#">23</a>
20.20.150	GAAP Budgetary Requirements		<a href="#">25</a>
20.20.160	Fund Balance/Net Position		<a href="#">25</a>
20.20.170	Reports		<a href="#">26</a>
20.20.180	Annual Comprehensive Financial Report		<a href="#">26</a>
20.20.190	Stand-Alone Financial Reports		<a href="#">29</a>

---

## 20.20.100 Overview

---

In accordance with [RCW 43.88.037](#), the Office of Financial Management adopts generally accepted accounting principles (GAAP) as applicable to state governments. Generally accepted accounting principles (GAAP) are uniform minimum standards of and guidelines to financial accounting and reporting. GAAP establishes appropriate measurement and classification criteria for financial reporting. Adherence to GAAP provides a reasonable degree of comparability among the financial reports of state and local governmental units.

The hierarchy of GAAP governs what constitutes GAAP for state governments, including government-owned colleges and universities and health care providers. It establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. The Governmental Accounting Standards Board (GASB) established the following hierarchy of authoritative GAAP for state and local governments:

- GASB Statements (Category A).
- GASB Technical Bulletins; GASB Implementation Guides; and literature of the American Institute of Certified Public Accountants (AICPA) cleared by the GASB (Category B).

If the accounting treatment for a transaction or other event is not specified by a pronouncement in Category A, a governmental entity should consider whether the accounting treatment is specified by a source in Category B.

If the accounting treatment for a transaction or other event is not specified in either Category A or B, a government generally should first consider accounting principles for similar



transactions covered in the above categories and then may consider other nonauthoritative accounting literature that does not conflict or contradict authoritative GAAP.

Nonauthoritative accounting literature include:

- GASB Concept Statements.
- Pronouncements and literature of the Financial Accounting Standards Board, Federal Accounting Standards Advisory Board, International Public Sector Accounting Standards Board, International Accounting Standards Board and AICPA literature not cleared by the GASB.
- Practices that are widely recognized and prevalent in state and local government.
- Literature of other professional associations or regulatory agencies; and
- Accounting textbooks, handbooks, and articles.

The significant accounting and reporting policies of the state of Washington are in conformance with GAAP as prescribed by GASB.

---

## **20.20.110 Accounting Principles**

---

The basic principles governing the state's accounting and reporting activities are required by [RCW 43.88.037](#) to conform with generally accepted accounting principles (GAAP).

These principles, included in the sections below, cover the following topics:

- Fund Accounting
- The Reporting Entity
- Measurement Focus and Basis of Accounting
- GAAP Budgetary Requirements
- Fund Balance/Net Position
- Annual Comprehensive Financial Report
- Stand Alone Financial Reports

---

## **20.20.120 Fund Accounting**

---

Among the basic principles of governmental generally accepted accounting principles (GAAP) is fund accounting. Because of the diverse nature of governmental operations and the numerous legal and fiscal constraints under which those operations must be conducted, it is



impossible to record all governmental financial transactions and balances in a single accounting entity. Therefore, unlike a private business which is accounted for as a single entity, a governmental unit is accounted for through separate funds, each of which is a fiscal and accounting entity with a self-balancing set of accounts.

In accordance with GAAP, the state defines a fund/account as a fiscal and accounting entity with a self-balancing set of accounts used by agencies to record transactions. Fund/account accounting is designed to demonstrate legal compliance and fiscal accountability by segregating transactions related to certain government functions or activities.

Funds are categorized by type to indicate both the sources of the fund's financial resources and the nature of activities financed. There are three broad categories of funds used in governmental accounting.

**Governmental funds** are used to account for most typical governmental functions. The acquisition, use, and balances of the state's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds), are accounted for through governmental funds. There are five types of governmental funds:

- **General Fund** - used to account for all financial resources of the state not required to be accounted for in some other fund. Includes both the Basic Account and Administrative Accounts.
- **Special Revenue Funds** - used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.
- **Debt Service Funds** - used to account for the accumulation of resources that are restricted, committed, or assigned for, and the payment of, general long-term debt principal and interest.
- **Capital Projects Funds** - used to account for financial resources that are restricted, committed, or assigned to expenditures for the acquisition and construction of major capital facilities (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).
- **Permanent Funds** - used to account for resources that are restricted to the extent that only earnings, and not principal, may be used for the benefit of the state or its citizenry.

**Proprietary funds** are used to account for a government's ongoing organizations and activities that are similar to businesses found in the private sector. These funds are considered self-supporting in that the services rendered by them are generally financed through user charges or on a cost reimbursement basis. There are two types of proprietary funds:



# Washington Administrative and Accounting Manual

- **Enterprise Funds** - used to account for any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds, in the context of the activity's principal revenue sources, if any one of the following criteria is met:
  - The activity is financed with debt that is secured solely by pledge of the net revenues from fees and charges of the activity,
  - Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues, or
  - The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).
- **Internal Service Funds** - used to account for the provision of goods or services by one department or agency to other departments or agencies of the state, or to other governmental units, on a cost-reimbursement basis. Internal service funds should only be used if the state is the predominant participant in the activity.

**Fiduciary funds** are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, and/or other governmental units. There are four types of fiduciary funds:

- **Pension (and other employee benefit) Trust Funds** - used to report resources that are required to be held in trust by the state for the members and beneficiaries of defined benefit pension plans, defined contribution pension plans, and other employee benefit plans.
- **Investment Trust Funds** - used to report the external portion of the Local Government Investment Pool, which is reported by the state as the sponsoring government.
- **Private-Purpose Trust Funds** - used to report trust arrangements, other than pension and investment trusts, under which principal and income benefit individuals, private organizations, or other governments. The resources held under these arrangements are not available to support the government's own programs.
- **Custodial Funds** - used to account for resources held by the state in a purely custodial capacity for other governments, private organizations or individuals that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds.

---

## 20.20.130 Reporting Entity

---

The financial reporting entity of the state consists of the following.



**Primary government.** The primary government consists of all funds, agencies, departments, and organizations that make up the legal entity of the state.

**Organizations for which the primary government is financially accountable.** Financial accountability exists if a primary government appoints a voting majority of the organization's governing body and is either able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government is also financially accountable if an organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government regardless of whether the organization has:

- A separately elected governing board,
- A governing board appointed by a higher level of government, or
- A jointly appointed board.

An organization is fiscally dependent if it is unable to determine its budget without another government having the substantive authority to approve or modify that budget, levy taxes or set rates or charges without substantive approval by another government, or issue bonded debt without substantive approval by another government. An organization has a financial benefit or burden relationship with the primary government if, for example, any one of these conditions exists:

- The primary government is legally entitled to or can otherwise access the organization's resources.
- The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.
- The primary government is obligated in some manner for the debt of the organization.

**Other organizations.** Other organizations (including component units, joint ventures, jointly governed organizations, and other stand-alone governments) that do not meet the financial accountability criteria may be included in the reporting entity if the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading.

---

## 20.20.140 Measurement Focus and Basis of Accounting

---

**Measurement focus** is concerned with what financial transactions and events will be recognized in the accounting records and reported in the financial statements. Measurement focus is concerned with the inflow and outflow of resources - what is being measured. While



there are a number of measurement focuses, the following two are fundamental to current governmental accounting principles:

- **Flow of economic resources** focus considers all of the assets available to the governmental unit for the purpose of providing goods and services. Under this focus, all assets and liabilities, both current and long-term, are recorded within the fund and depreciation is recorded as a charge to operations.
- **Flow of current financial resources** focus measures the extent to which financial resources obtained during a period are sufficient to cover claims incurred during that period. The emphasis of this focus is on cash and assets that will become cash during or shortly after the current period. Long-term capital assets and long-term obligations are not recorded within a fund under this measurement focus.

**Basis of accounting** refers to when transactions and events will be recognized in the accounting records and presented in the financial statements. Governmental accounting transactions and events are recognized on either the accrual basis or the modified accrual basis.

- **Accrual basis** of accounting records revenues in the period in which they are earned and become measurable; expenses are recorded in the period incurred, if measurable.
- **Modified accrual basis** of accounting recognizes revenues in the period in which they become available and measurable. Revenues are considered available when they will be collected either during the current period or soon enough after the end of the period to pay current year liabilities. Revenues are considered measurable when they are reasonably estimable. Expenditures are generally recognized when the fund liability is incurred, if measurable.

Under GAAP, the measurement focus and basis of accounting applied varies with the fund type category as described below.

- **Governmental funds** focus primarily on the sources, uses, and balance of current financial resources and often have a budgetary orientation. They employ the flow of current financial resources measurement focus and the modified accrual basis of accounting.
  - Revenues are recognized in the accounting period in which they become measurable and available.
  - Expenditures are generally recognized when incurred, if measurable. Exceptions include unmatured interest on general long-term obligations, including leases, and compensated absences, which are recognized when due.
  - Assets and liabilities reported on the financial statements are limited to those representing current available resources or requiring expenditure of said resources.





- **Proprietary funds** focus on the determination of net income, the changes in net position (or cost recovery), financial position, and cash flows. They utilize the flow of economic resources measurement focus and the accrual basis of accounting.
  - Revenues are recognized in the period in which they are earned and become measurable.
  - Expenses are recognized in the period incurred.
  - Assets and liabilities reported represent all of the assets available and all of the liabilities outstanding.
- **Fiduciary funds** focus on net position and changes in net position. Trust funds use the flow of economic resources measurement focus and the accrual basis of accounting. Given that the resources do not belong to the government, but rather to one or more outside parties, there is special criteria for recognizing liabilities in fiduciary funds.

---

## 20.20.150 GAAP Budgetary Requirements

---

Budgeting is recognized in generally accepted accounting principles (GAAP) as being a critical element of governmental planning, control, and evaluation processes. GAAP budgetary requirements include:

- Budget(s) should be adopted by every government,
- The accounting system should provide the basis for appropriate budgetary control, and
- Budgetary comparisons should be included in the appropriate financial statements and schedules for governmental funds for which budgets have been adopted. The budgetary comparison should present both the original and the final appropriated budgets for the period as well as actual inflows, outflows, and balances, stated on the state's budgetary basis.

Governmental fund type accounts are budgeted materially in conformity with GAAP. Certain governmental activities are excluded from budgetary reporting because they are not appropriated. These activities include activities designated as nonappropriated by the Legislature, such as the Higher Education Special Revenue Fund, Higher Education Endowment Fund, federal surplus food commodities, electronic food stamp benefits, lease-to-own agreements, note proceeds, and resources collected and distributed to other governments. The differences between budgetary reporting and GAAP reporting are reconciled and disclosed in the notes to the state's budgetary comparison schedules.

---

## 20.20.160 Fund Balance/Net Position

---





In governmental fund type accounts, the difference between assets, liabilities, deferred inflows of resources, and deferred outflows of resources is called fund balance. Fund balance is classified as [nonspendable](#), [restricted](#), [committed](#), [assigned](#) or [unassigned](#). These classifications reflect the extent to which the state is bound to honor constraints on the purposes for which the amounts can be spent. Adjustments to fund balance are made at the account level to identify the degree of constraint.

In proprietary fund type accounts, the difference between assets, liabilities, deferred inflows of resources, and deferred outflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

For reporting at the government-wide level, the difference between assets, liabilities, deferred inflows of resources, and deferred outflows of resources is presented in the net position format consistent with proprietary funds.

Except under specific circumstances, direct entries to fund balance/net position, other than adjustments to record amounts that are nonspendable, restricted, committed or assigned, are not allowed. Examples of circumstances where direct entries to fund balance/net position are allowed include implementation of new accounting standards and correction of material prior period errors. Refer to [Topic 250.XX - Subsection 90.20.15](#).

---

## 20.20.170 Reports

---

The Annual Comprehensive Financial Report is the annual report published for the state. State agencies can also design and run stand-alone reports to meet operational and other financial needs.

---

## 20.20.180 Annual Comprehensive Financial Report

---

The governor, through the director of the Office of Financial Management (OFM) is required in [RCW 43.88.027](#) to prepare and publish within six months of the end of the fiscal year, as a matter of public record, an annual financial report that encompasses all funds and account groups of the state.

Therefore, OFM annually prepares the Annual Comprehensive Financial Report (ACFR) as the official financial statement for the state of Washington. The ACFR is prepared in accordance with standards issued by the Government Accounting Standards Board (GASB) and is reviewed by the Government Finance Officers' Association.



# Washington Administrative and Accounting Manual

The ACFR is prepared covering all activities of the primary government and providing an overview of its discreetly presented component units. It contains the following sections:

- The **Introductory section** includes:
  - The table of contents
  - The letter of transmittal
- The **Financial section** includes:
  - The independent auditor's report
  - Management's Discussion and Analysis (MD&A)
  - Basic financial statements:
    - Government-wide financial statements
    - Fund financial statements
    - Notes to the financial statements
  - Required supplementary information, other than MD&A, and
  - Combining and individual fund statements and schedules.
- The **Statistical section** includes:
  - Additional financial, economic, and demographic information.

**Management's Discussion & Analysis (MD&A).** The MD&A, which is classified as required supplementary information, is a narrative introduction, overview, and analysis of the state's financial statements. It focuses on the primary government and is objective, easily readable, and based on currently known facts and conditions. The MD&A introduces the basic financial statements describing the statements and their relationship to one another. With emphasis on the current year, it presents condensed comparative data and an analysis of the overall financial position of the state as well as an analysis of significant balances and operations of individual funds. The MD&A presents budget variances, significant capital asset (including infrastructure) and debt activity, and other potentially significant matters.

**Government-wide financial statements.** The state presents two basic government-wide financial statements: the Statement of Net Position and the Statement of Activities. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The government-wide financial statements present information about the overall state. All governmental and business-type activities are included, but fiduciary activities are excluded. Nonfiduciary component units are included.

- **Statement of Net Position (SNP)** - The purpose of the Statement of Net Position is to display the financial position of the primary government and its component units. Governmental and business-type activities of the primary government are displayed in separate columns with a total column presenting a consolidated total (balances between governmental and business-type activities are eliminated). The statement reports all



assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position is displayed in three components:

- **Net Investment in Capital Assets** - The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt should be included in this component of net position.
- **Restricted** - The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Assets are reported as restricted when constraints are placed on asset use either externally, by creditors, grantors, contributors, or imposed by law through constitutional provision or enabling legislation.
- **Unrestricted** - The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.
- **Statement of Activities (SOA)** - The purpose of a statewide Statement of Activities is to identify the extent to which each major state program is supported by general state revenues or is self-financed through fees and intergovernmental aid. For governmental activities, a major program is defined as a function. For business type activities, a major program is an identifiable activity.

**Fund financial statements.** The state also presents the fund financial statements that focus on major individual funds of the state with nonmajor funds aggregated into a single column regardless of fund type. In conjunction with the fund statements, the state presents a summary reconciliation between the fund financial statements and the government-wide financial statements.

At the fund statement level, governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. Proprietary funds use the economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are reported consistent with proprietary funds except for the recognition of certain liabilities of defined benefit pension plans. The state's fund financial statements include:

## Governmental Funds

- Balance Sheet
- Statement of Revenues, Expenditures, and Changes in Fund Balances

## Proprietary Funds



- Statement of Fund Net Position
- Statement of Revenues, Expenses, and Changes in Net Position
- Statement of Cash Flows

## Fiduciary Funds

- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position

---

## **20.20.190 Stand-Alone Financial Reports**

---

A state agency or component unit may prepare and publish separate, stand-alone financial reports as deemed necessary to facilitate management control, legislative oversight, or other purposes. These reports may be prepared annually or at an interim period within the fiscal year. When these reports are prepared in accordance with Generally Accepted Accounting Principles, the relationship between the agency or component unit and the state should be disclosed on the cover of the report as well as in the notes to the financial statements.



## Topic 30 Audit Resolution

Chapter, Topic, Section	Title	Effective Date	Page Number
20.30.100	Overview		<a href="#">30</a>
20.30.110	Responsibilities		<a href="#">30</a>
20.30.120	Corrective Action		<a href="#">31</a>

---

### 20.30.100 Overview

---

As required by [RCW 43.88.160\(6\)](#) and [RCW 43.09.312](#), the state auditor performs post audits of financial transactions of each agency covering compliance with fiscal and legal requirements.

This section establishes statewide policies and procedures for management of findings and audit responses. The requirements come from [RCW 43.88.160\(6\)\(d\)](#).

---

### 20.30.110 Responsibilities

---

The Office of Financial Management (OFM) is responsible for:

- Maintaining a system for tracking findings to provide information on the resolution of all findings contained in audits of state agencies and institutions;
- Causing corrective action to be taken within six months of issuance of the finding;
- Submitting agency responses and plan for remediation for findings of noncompliance with state law to the governor, the state auditor, the Joint Legislative Audit and Review Committee, and the relevant fiscal and policy committees of the Senate and House of Representatives within sixty days of receipt of the finding ([RCW 43.09.312](#));
- Maintaining a system for tracking federal findings as the auditee for the statewide single audit. This responsibility also includes compiling corrective action plans and reporting on status of prior unresolved findings; and
- Preparing and publishing the state of Washington Audit Resolution Report annually by December 31. The report must include actions taken as a result of an audit including, but not limited to, types of personnel actions, costs and types of litigation, and value of recouped goods or services;

State agencies are responsible for:



# Washington Administrative and Accounting Manual

- Submitting corrective action plan information to **OFM** for each finding within 30 days of the issue date. Refer to [Section 20.30.120 - Corrective Action](#) for the format of the information to provide.
- Upon request from **OFM**, providing updates on the current status of corrective actions.
- Upon completion of corrective action related to an audit finding, submitting to OFM, a certification signed by the agency head or assigned designee that the audit resolution process is complete. Refer to [Section 20.30.120 - Corrective Action](#).

---

## 20.30.120 Corrective Action

---

To fulfil the responsibility for implementing the corrective action to an audit finding, the agency completes one of three forms to document the finding(s) and provide details on the corrective action plan. Findings are grouped into three categories and links to templates are provided below:

- [General Findings Corrective Action Plan Template](#)
- [Fraud Findings Corrective Action Plan Template](#)
- [Federal Findings Corrective Action Plan Template](#)

Upon completion of corrective action related to an accountability or financial audit finding, each state agency is required to submit to the **Office of Financial Management (OFM)** Statewide Accounting Division the [Certification of Completion of Corrective Action](#) signed by the agency head or assigned designee that the audit resolution process is complete. It is recommended that agencies discuss the completion of corrective action with their assigned **OFM** Statewide Accountant prior to submitting the certification. Email the completed certification to [OFMAccounting@ofm.wa.gov](mailto:OFMAccounting@ofm.wa.gov).

Federal findings are excluded from the above process. As required by federal regulations, **OFM** publishes the Summary Schedule of Prior Audit Findings as part of the annual Single Audit Report. The schedule reports the status of corrective actions of unresolved prior audit findings, which is determined by the auditor performing the Single Audit.

The certification of completion of corrective action also does not apply to fraud findings. State law ([RCW 43.09.185](#)) requires agencies to notify the State Auditor's Office (SAO) regarding any potential loss of public funds. SAO issues fraud reports which contain the results of the auditors' investigation to determine if a misappropriation has occurred.



DRAFT