

State of Washington
 Status of Audit Resolution
 December 2018

State of Washington

Audit Report	Finding Number	Finding and Corrective Action Status
2017 F	001	<p>Finding: The State should improve internal controls over specific areas of processing, recording, monitoring and reporting of financial activity included in the State’s financial statements.</p> <p>Corrective Action: The Office of Financial Management (OFM), with the collaboration of state agencies, strives for the highest standards in the preparation of the state’s financial statements. OFM has discussed the issues with the agencies included in this finding and provided assistance in developing their respective corrective action plans. Response from each agency is listed below:</p> <p><i>Employment Security Department</i></p> <p>The Department partially agrees with the finding.</p> <p>In 2016, the Department established a Next Generation Tax System (NGTS) Interfaces and Data Quality Assurance project team comprised of representatives from the business and technology sectors to address concerns regarding the NGTS. The project team has been working on improving the system’s internal controls related to processing transactions, reporting, and reconciliations between systems. In addition, the Department contracted with Microsoft to remediate technical issues with the NGTS system.</p> <p><u>System Processing</u></p> <p>The finding incorrectly states adjustments can be entered and processed in NGTS without review and approval of a second person. The Department did have a process in place at the time of audit; however, the process was not documented. Prior to the end of the audit, management had begun documenting the process of reviewing and approving adjustments.</p> <p>The auditors took exception that the Detailed Benefit Charges within NGTS do not consistently match the Summary of Benefit Charges. It is normal business practice to expect varying discrepancies between assessed and paid premium amounts, especially for large employers. When audit testing of a selected sample found a percentage of employer receivable balances at year-end varied from the employer paid amounts recorded in NGTS, it should not be construed as a misstatement on the financial statements.</p> <p><u>System Report Issues</u></p> <p>The Department agrees that some experienced-rated employers with delinquent accounts had at least one rate within the audit period that was incorrect resulting in an immaterial misstatement. However, the Department does not agree with the other system report issues as described in the condition of the finding.</p> <p>As stated in the prior audit finding responses, the Department does not rely on NGTS reports for financial reporting. The auditors have neither communicated to Department management what specific system reports they referred to, nor explained how they were used or their impact on</p>

State of Washington
 Status of Audit Resolution
 December 2018

State of Washington

Audit Report	Finding Number	Finding and Corrective Action Status
2017 F	001 (cont'd)	<p>financial reporting. Based on Generally Accepted Government Auditing Standards, the audit failed to identify any clear logical link of the effect to the system report issues that led to this misstatement.</p> <p><u>Reconciliations</u> The Department agrees that NGTS has not been reconciled to the bank and has subsequently established a monthly reconciliation process between the bank (and other supporting documents) and the NTGS sub ledger. The Department has since enhanced the reconciliation process. As of August 2018, the Department completed all reconciliations with the bank for fiscal year 2018.</p> <p>The Department agrees that there are no reconciliations between systems to ensure information transmitted by interfaces is accurate and complete. However, the auditor did not communicate what constitutes adequate controls over interfaces between internal and external systems.</p> <p>As of September 2018, the Department implemented a file comparison interface that corrected the deficiencies identified in the audit. The Department will continue to identify and implement necessary controls over interfaces to ensure information transmitted is accurate and complete.</p> <p><i>Health Care Authority</i></p> <p>The Authority recognizes the significance and priority of internal controls over recording and reporting financial transactions. Currently, the ProviderOne vendor provides an independent service organization control audit every other calendar year. In 2015, the Authority requested funding from the Legislature to contract for a service organization control audit report on an annual basis so each state fiscal year will be covered. This request was not funded.</p> <p>The estimated additional cost to purchase an annual service organization control audit report is \$470,000. The Authority will re-submit a request for funding to obtain the annual audit report.</p> <p><i>State Board for Community and Technical Colleges</i></p> <p>The Board implemented the PeopleSoft system in 2015 to replace the existing legacy software, and Community Colleges of Spokane (Spokane) and Tacoma Community College (Tacoma) were the first to go live with the new system. Since its implementation, there have been ongoing efforts to improve data accuracy and correct deficiencies. At the time of the 2017 audit, these two colleges were still in the process of identifying and correcting financial records for fiscal year 2016.</p> <p>It is the Board's priority to ensure accurate financial data is interfaced into the Agency Financial and Reporting System (AFRS), the state's accounting system. To address the audit recommendations, the Board has taken the following corrective actions:</p>

State of Washington
 Status of Audit Resolution
 December 2018

State of Washington

Audit Report	Finding Number	Finding and Corrective Action Status
2017 F	001 (cont'd)	<ul style="list-style-type: none"> • The Director of Accounting and Business Services has been leading a support team of up to 10 accounting and project staff dedicated to assist these two colleges in closing fiscal years 2016 and 2017. Since September 2017, the Board has provided assistance both on-site and remotely in reconciling all accounting records. As of June 2018, Tacoma has closed both fiscal years 2016 and 2017 and the financial statements were audited for both years. Tacoma is currently working on closing fiscal year 2018. By November 2018, the Board expects both colleges to fully reconcile their accounts and close all prior fiscal years. • Staff on the support team provides assistance to the colleges in: <ul style="list-style-type: none"> ○ Reviewing, reconciling and making adjustments in all balance sheet general ledgers. Currently, the colleges are reconciling between funds, program indexes and organization indexes. ○ Reconciling cash with the new system. As of June 2018, reconciliation with bank statements was almost complete for both colleges. ○ Monitoring and reconciling data in the Asset Management module of the new system prior to uploading to AFRS to ensure accurate tracking and recording of capital assets and depreciation. Reconciliation of assets is expected to be complete by November 2018. ○ Providing training to college accounting staff in using the new system and implementing internal controls. • Additional technical staff were also assigned to develop customized programs and enhance the Financial Pillar module of the new system to facilitate more efficient account reconciliation and year-end closing process. <p>The Board has developed numerous reports and processes to assist the colleges in reconciling and closing prior fiscal years and will continue to provide support when the needs arise to expand reporting capabilities. The Board anticipates the data clean-up process of the new system be completed by December 2018.</p> <p>Additionally, the Accounting and Business Services Director will continue to monitor and assist the other 32 colleges in their accounting and reporting of financial data.</p> <p><i>Department of Licensing</i></p> <p>To address the audit recommendations, the Department will:</p> <ul style="list-style-type: none"> • Perform monthly monitoring and review, in addition to the monitoring by the Office of Financial Management (OFM). • Provide OFM with updates of material revenue increases and decreases of more than 10 percent as they occur. OFM will work with the Department to determine potential impacts and appropriate actions.

State of Washington
 Status of Audit Resolution
 December 2018

State of Washington

Audit Report	Finding Number	Finding and Corrective Action Status
2017 F	001 (cont'd)	<ul style="list-style-type: none"> • Perform analytical review at year-end to identify and correct accounting errors, and follow up to ensure they are appropriately addressed. <p><i>Office of Financial Management and the Guaranteed Education Tuition Program</i></p> <p>The Office of Financial Management (OFM) prepares the state’s financial statements in accordance with generally accepted accounting principles and recognizes the importance of internal controls over recording and reporting financial transactions.</p> <p>OFM has procedures in place to monitor and identify significant agency activities that may affect the state’s financial reporting, as follows:</p> <ul style="list-style-type: none"> • Perform quarterly and year-end analytical reviews on revenues, in addition to the analytical review by line items performed at year-end. As of January 2018, an analytical review by fund is also performed at mid fiscal year. These analytical reviews are used to help detect unusual or questionable transactions. • Monitor and review unusual events or unique program activities related to legislative changes or other mandates, and assess the overall statewide impact. • Perform necessary accounting research for all special and unique transactions and work with responsible agencies to ensure the transactions are properly accounted for and correctly reported in the Agency Financial Reporting System (AFRS), the state’s accounting system. When interpretation of standards are not definitive, OFM will seek guidance from the Governmental Accounting Standards Board. • Perform monthly monitoring of agencies’ financial data by running reports from AFRS to identify incorrect transactions and questionable balances. • Require agencies to complete year-end disclosure forms to collect vital information which have significant impact on the state’s financial reporting. Agency chief financial officers are also required to certify the accuracy and completeness of their financial data. • Maintain ongoing communication with agencies to emphasize the need to contact OFM for guidance regarding reporting unique accounting activities. • Conduct meetings with all agencies prior to fiscal year-end close to provide important reminders and review outstanding issues. • Continue to provide ongoing training classes to all state agencies on various topics related to the processing and reporting of financial activities. <p>As of March 2018, OFM procured a financial reporting program for preparing the state’s Comprehensive Annual Financial Report. The new program will improve efficiency and accuracy, and allow OFM to dedicate more resources at year-end for review.</p>

**State of Washington
 Status of Audit Resolution
 December 2018**

State of Washington

Audit Report	Finding Number	Finding and Corrective Action Status
2017 F	001 (cont'd)	<p>OFM will continue to work with the Employment Security Department, Department of Licensing, Health Care Authority, and the State Board for Community and Technical Colleges to strengthen their internal controls over processing and reporting of financial activities.</p> <p>The conditions in this finding were previously reported in findings 2016-001 and 2015-002.</p> <p>Completion Date: Corrective action is expected to be complete by December 2018</p> <p>Contact: Brian Tinney Statewide Accounting Assistant Director PO Box 43127 Olympia, WA 98504-3127 (360) 725-0171 brian.tinney@ofm.wa.gov</p>