

**STATE OF WASHINGTON OFFICE OF FINANCIAL MANAGEMENT**

Agreed-Upon Procedures

June 30, 2015

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## Independent Accountant's Report on Applying Agreed-Upon Procedures

### State of Washington Office of Financial Management

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, 2015. 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, 2015.

Procedure 1: Determined compliance with the Washington State Administrative and Accounting Manual (SAAM) Chapter 20.15.50 - Annual Requirements for Agencies.

- a. Reviewed support from SAO for adequate written documentation of activities conducted in connection with the following:
  - i. Periodic risk assessments;
  - ii. Review of internal control activities;
  - iii. Follow-up actions; and
  - iv. Financial Disclosure Certification.



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Results: We reviewed the 2013 and 2014 Annual Reports on Risk Assessments from Barb Hinton (Deputy Director of Quality Assurance) to Troy Kelley (State Auditor) and Doug Cochran (Chief of Staff). 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 2014 and 2015. The 2014 Financial State Certificate was signed by Doug Cochran (Chief of Staff) and Janel Roper (Financial Services Manager). The 2015 Certificate was signed by Diane Perry (Acting Director of Operations) and Janel Roper (Financial Services Manager).

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

Procedure 2: Determined 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. Reviewed 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.

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 November 5, 2013 through April 30, 2014" performed by Myers and Stauffer LC.

We reviewed the "2014 OCIO IT Security Compliance Reporting Cover Sheet" from Troy Kelley (State Auditor, SAO) to Michael Cockrill (State Chief Information Officer, OCIO), and related "IT Security Non-Compliance / Deviation Form" for the entity, signed by Doug Cochran (Chief of Staff). We reviewed the "2015 OCIO IT Security Reporting Cover Sheet" from Jan Jutte (Acting State Auditor, SAO) to Michael Cockrill (State Chief Information Officer, OCIO).

For the fiscal year ended June 30, 2015, we reviewed the "Washington State Auditor's Office Continuity of Operations (COOP) Plan" dated May 2015. For the fiscal year ended June 30, 2014, we reviewed the "Washington State Auditor's Office Information Technology Disaster Recovery Plan" dated March 2012.

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

- Procedure 3: Determined compliance with RCW 43.09.416, determining the billing rate.
- a. For three travel transactions, three purchase card transactions, and three payroll disbursements, reviewed 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. Recalculated one month's cost allocation of overhead and administrative costs for compliance with the RCW.
  - c. Verified 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. Verified 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 March 2015. 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, 2014 and 2015. The working capital percentage at June 30, 2014 was 6.4%, and it was 16.2% at June 30, 2015. It was unusually high at June 30, 2015 due to unanticipated work performed from January through June 2015. The state billing rate was reduced in January 2016 to reduce the cash 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 2015 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: Sampled 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. For ten selections, tested 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.

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

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

a. For three additions, three disposals, and three existing fixed assets on hand, tested capital asset transactions for compliance with SAAM and SAO policies.

b. For three small and attractive assets, tested for compliance with SAAM and SAO policies.

Results For all selections tested, we reviewed inventory records in the Capital Asset Management System (CAMS) 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. For the selection of three additions, we vouched the recorded cost to the approved invoice, and noted the items were properly capitalized as the cost was over the \$5,000 capitalization threshold. We compared the useful lives against the applicable policies.

For the selection of three existing fixed assets on hand, we ensured they were properly tagged with a SAO property control number, and traced the selections to the physical inventory count performed in June 2014.

For the selection of three disposals, we ensured the items were removed from the active inventory list based on the completion and submission of a Property Disposal Request using the Property Disposal Request System. We noted that for all three selections, there was no record of the sanitizing and secondary verification of sanitization at the time of disposal. Sanitizing includes physical destruction, securely overwriting data, or making data inaccessible. Personnel at the time did not believe there was a requirement to include the asset tag numbers on the Media Disposal Log. Since this time, personnel has been including the tag number on the Media Disposal Log in order to document the sanitizing and secondary verification of sanitization in accordance with SAO policy requirements and OCIO best practices.

We reviewed count sheets retained from the June 24 and 25, 2014 physical inventory counts for the Bellingham, Everett, Port Orchard, Inland NW, Tacoma, Tri-Cities, Vancouver, Wenatchee, Central King County, South King County, and Cascadia locations. We reviewed the Inventory Officer's certification of the reconciliation of the inventory count to CAMS.

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

- Procedure 6: Sampled employee purchase card transactions to determine compliance with the state regulations stated in RCW 41.60, SAAM Chapter 45, and SAO's written policies and procedures.
- a. For fifteen selections, tested employee purchase card transactions for compliance with the RCW, SAAM, and SAO policy.
  - b. Performed data analysis procedures on the population of purchase card transactions as follows:
    - i. Transactions processed on weekends.
    - ii. Duplicate transactions for the same cardholder for the same amount on the same day.
    - iii. Transactions with even \$50 and \$100 increments.
  - c. Provided results of the above data analysis procedures to management of OFM on May 12, 2016.
  - d. Determined 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, tested expenditures for employee awards and recognition for compliance with the RCW, SAAM, and SAO policy.

Results: For the fifteen employee purchase card transaction selections, we reviewed 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 eight different purchase card users. Of these eight purchase card users, we noted that one did not have a signed Purchase Card User Agreement form on file. Upon discussion with management, a form was immediately prepared and signed for the files.

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.

After reviewing the data analysis results, management of OFM requested follow-up procedures on twenty-one 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: Evaluated the adequacy of receivables management; reviewed receivable collection process; assessed documentation of transactions affecting receivables; and sampled past due and uncollectible receivable transactions. Determined compliance with Chapter 85.54 of SAAM and SAO policies.
- a. For five past due receivable balances, tested the receivable collection process for compliance with SAAM and SAO policies.
  - b. For five balances that were written off, tested 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:** Evaluated the adequacy of cash/ACH/IAP receipts management; review collection process; assess documentation of receipt transactions; and sample cash/ACH/IAP receipts transactions. Determined compliance with Chapter 85.54 of SAAM and SAO policies.

a. For ten selections, tested 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.

**Procedure 9:** Evaluated SAO's response to identified deficiencies in the statewide HRMS payroll system.

a. For three employees selected, tested compensation levels, accumulated leave, and validity of employment for compliance with SAO policies.

**Results:** For the three selections, we vouched approved compensation from their personnel files in the Human Resources department to the compensation rates in HRMS. We verified existence of the employees through reviewing their personnel files in the Human Resources department.

For the three selections, we reviewed the HRMS Leave Accrual and Processing policy, and recalculated how much leave time each selection was eligible for during the biennium. We reviewed the Attendance System Change Report from HRMS showing that no manual additions of leave time had been added to HRMS. We vouched the recalculated leave time to leave accrual reports from HRMS for the biennium ended June 30, 2015.

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

- Procedure 10: Evaluated the internal controls around the payroll function to determine compliance with state regulations stated in Chapter 25 of SAAM and SAO policies.
- a. For ten selections, tested payroll disbursements for compliance with SAAM and SAO policies.
  - b. Performed data analysis procedures on the population of payroll transactions.
    - i. Summary of positive deductions.
    - ii. Summary of expense reimbursements - amount and count, if processed through payroll.
  - c. Provided a summary of the results of the above data analysis procedures to management of OFM on May 12, 2016. Item #10a (ii) above was not applicable, as expense reimbursements are not processed through payroll. We verified there were no expense reimbursements processed through payroll by reviewing the payroll transactions report.
  - d. Determined if follow-up procedures are desired by OFM; OFM did not request further follow-up procedures as a result of the data analytics performed over payroll disbursements.

Results: For the ten selections, we verified existence of the employee by review of personnel files in the Human Resources department. Two of the ten selections were paid hourly. For those two selections, we selected a payperiod and vouched the approved timesheet to the payroll report. We recomputed gross pay for all ten selections based on authorized wages from the personnel files, and vouched to the payroll report. We reviewed the agency head's (or authorized designee's) certification of the selected payperiod for all ten selections. For one hourly and one salaried employee, we recomputed Social Security and Medicare deductions for the selected payperiod based on enacted rates.

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.

*Clark Nuber P.S.*

Certified Public Accountants  
June 27, 2016

## **Management's Response to Results of Agreed-Upon Procedures**

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

- While SAO has a process in place to ensure all computer equipment is sanitized prior to disposal, we have further refined our practice to ensure we can trace that back to the asset tag number on the Media Disposal Log.
- Related to the purchase card compliance, we immediately obtained the signed purchase card agreement once it was discovered missing.
- With regard to the Auditing Services Revolving Fund working capital requirement, the SAO plans to propose a legislative change to the language in RCW 43.09.416 during the 2017 Legislative session.

The State Auditor's Office would like to thank the staff at Clark Nuber as well as the Office of Financial Management for their professionalism and for the efficient manner in which this audit was conducted.