



State Audit Division Annual Recap

Financial Management Advisory Council

May 24, 2018

Troy Niemeyer, Assistant Director

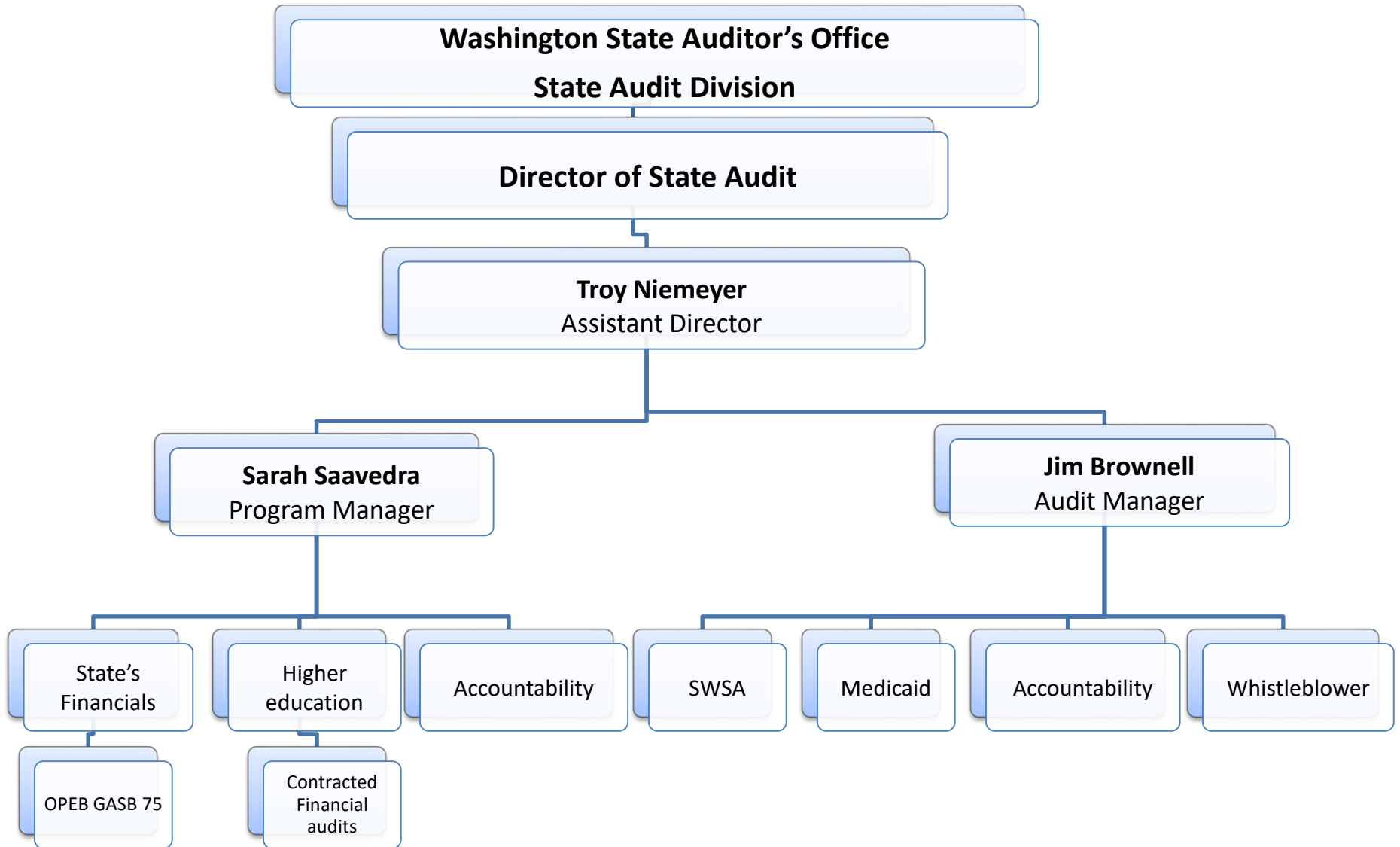
Sarah Saavedra, MBA, CPA, Program Manager

Jim Brownell, Audit Manager

Topics

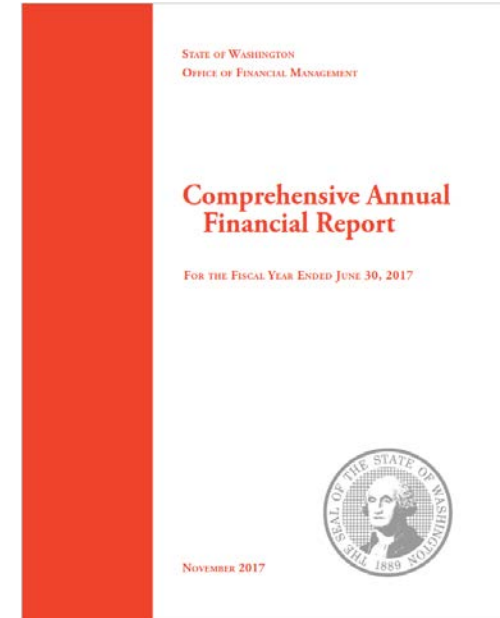
- Division organization
- Results of 2017 CAFR Audit
- Contracted financial audits
- New GASB pronouncements
- Frauds
- Results of 2017 State of Washington Single Audit
- Whistleblowers
- Accountability audits
- Future audit work plan

Division organization



Overview

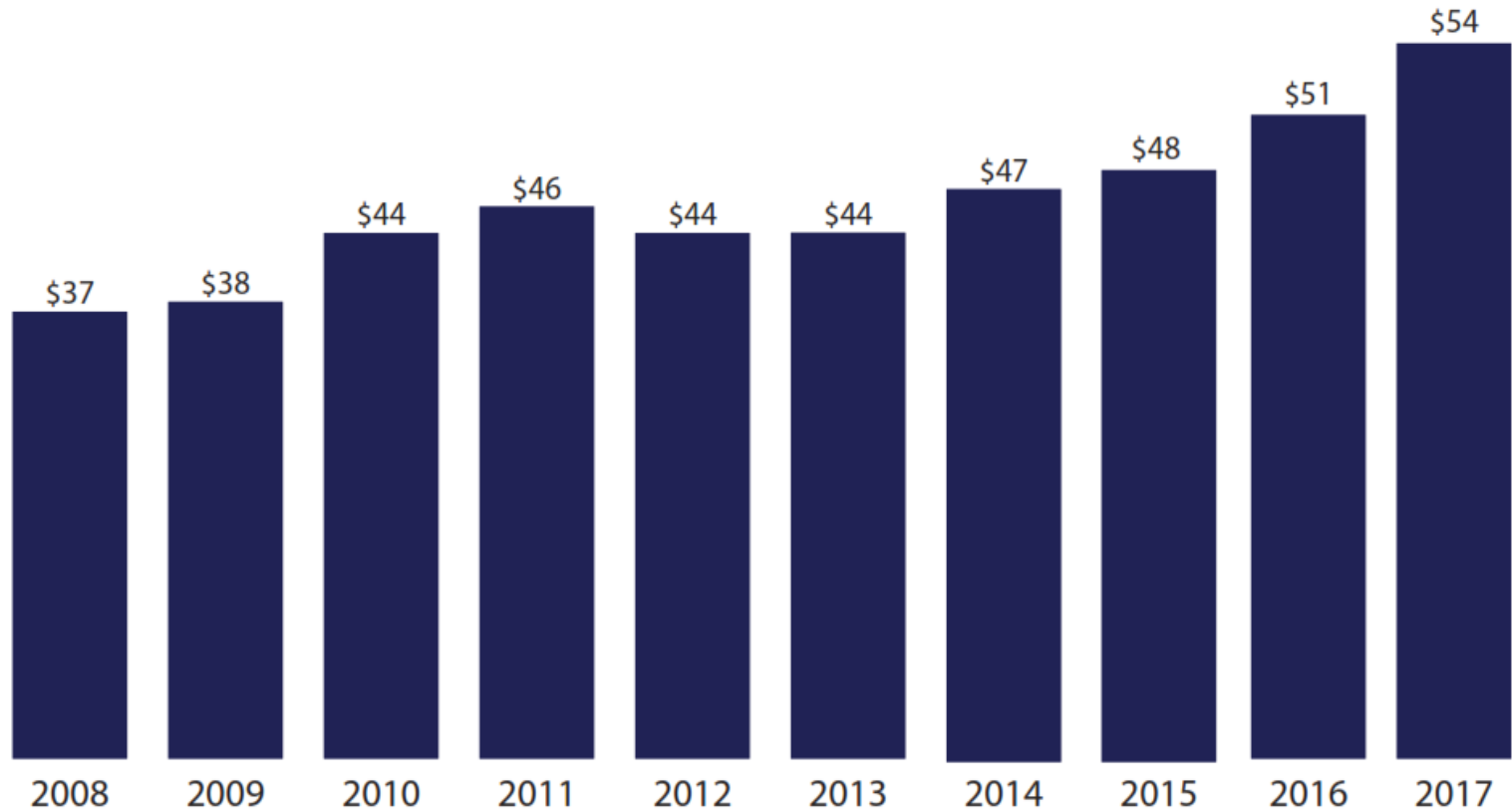
- We perform an independent audit of the State's Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted governmental auditing standards (GAGAS).
- 10,000 hours
- \$54 billion in revenues



State CAFR 2017

Exhibit 1 – Total primary government revenue for the past 10 fiscal years: 2008-2017

For fiscal years ending June 30; Dollars in billions



[Annual Summary: www.sao.wa.gov/state/Pages/default.aspx](http://www.sao.wa.gov/state/Pages/default.aspx)

Audit coverage and reporting

- We audited 16 agencies with 152 account balances material to the state's basic financial statements
- Financial statement opinion released on November 2, 2017
- Remain one of nation's 3 fastest issuers of a state CAFR



The outcome of the CAFR audit affects the State's credit and bond rating

Bond ratings

State's general obligation debt was rated:

- **Aa1** by Moody's Investors Service
- **AA+** by Standard & Poor's Ratings Services
- **AA+** by Fitch Ratings



Timeliness

This year, the State Treasurer went out for a bond right after the CAFR was issued.

Audit results

- Clean (unmodified) audit opinion
- Recommendations for improvement:
 - **NGTS** –Next Generation Tax System’s (NGTS’s)
 - **Service Organization Controls Report (SOC report)** – Provider One
 - **Community College data** – ctcLink and reconciliation differences between AFRS and FMS

State CAFR 2017

- Recommendations for improvement (continued):
 - ❑ **Changes to the Guaranteed Education Tuition (GET) program** – negative revenues reported into AFRS due to legislative changes
 - ❑ **A significant journal voucher was posted twice** – follow up procedures were not performed to ensure that this was correctly posted in the financial statements
 - ❑ **Year-end adjustments** - Many of the required adjustments are not posted to the state's accounting system, but are manually entered into the financial statements. Several year-end adjustments were not posted correctly.

Contracted financial audits

Our Office performed 25 contracted financial statement audits for state agencies, universities and community or technical colleges.

- **3 findings:** Improper implementation of new GASB standards and staff turnover
- **1 finding:** Existing GASB standards were applied incorrectly
- **1 finding:** Statements did not agree to underlying accounting records or documentation

Contracted financial audits

So what can you learn from these financial audits?

- Stay up to date on accounting standards changes
- Ask before posting! (OFM is there to help)
- **Train:** Attend trainings on new GASB standards
- **Resource:** Our Office has produced a “Checklist for Accounting Standards Changes” to help agencies evaluate new GASB standards



You can find the checklist on our website at:

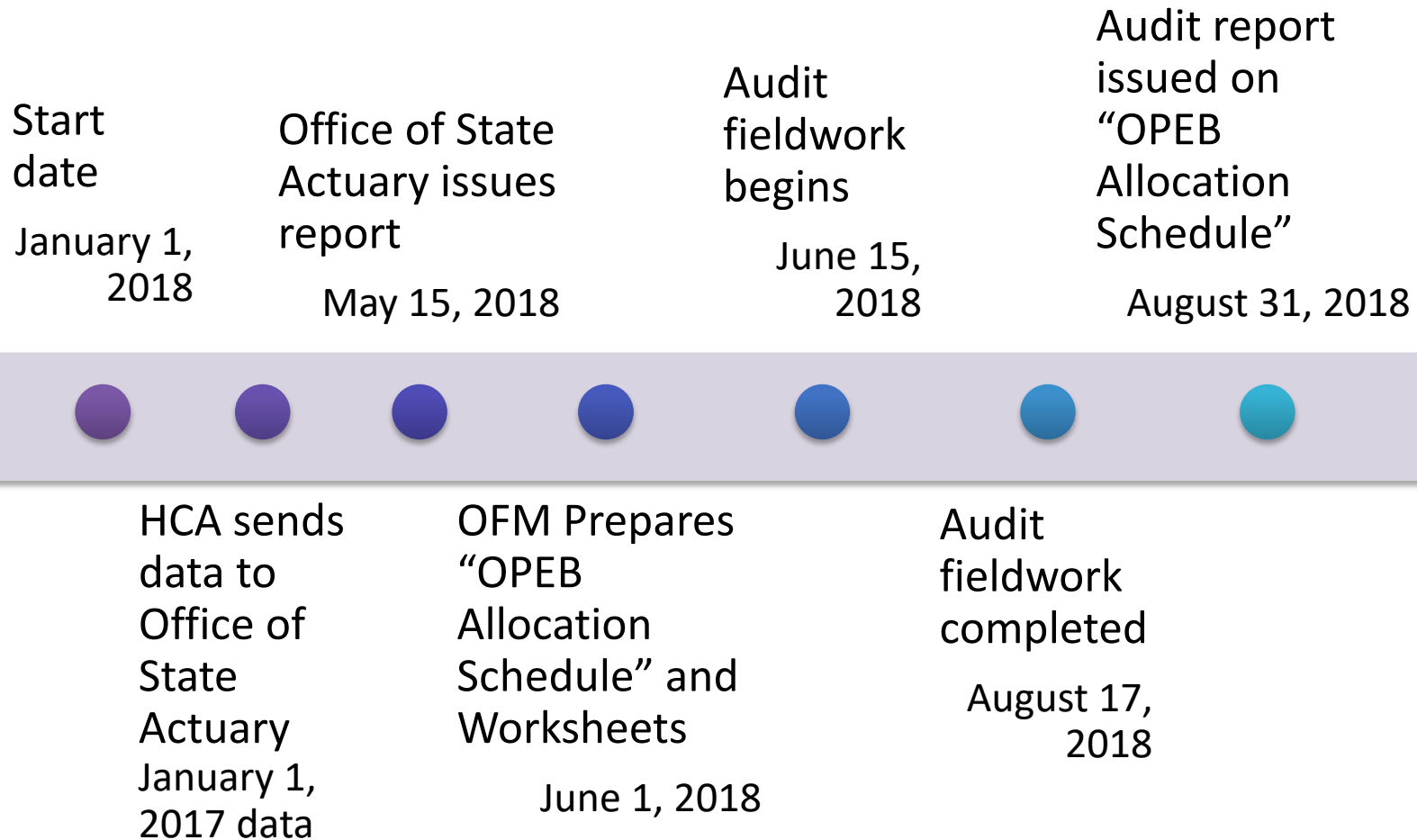
[portal.sao.wa.gov/PerformanceCenter/#/address?mid=6
&rid=18505](http://portal.sao.wa.gov/PerformanceCenter/#/address?mid=6&rid=18505)

New GASB's: GASB 74/75



- Our Office provides information on new GASB's in our Digital Audit Connection blog: auditconnectionwa.org/
- **GASB 74** – Effective for fiscal years after June 30, 2017. Financial reporting requirements for OPEB plans administered through qualifying trusts; replaces **GASB 43**
- **GASB 75** – Accounting and reporting requirements for employers who provide OPEB benefits; replaces **GASB 45**

GASB 75 project timeline



Our Office's role and responsibility

- SAO performs the audit over the OPEB allocation schedule
 - OFM prepares this schedule and it includes all CC's separately
- SAO also audits the underlying census data on the allocation schedule
 - Don't be surprised if we have to contact you this summer for census data information to support our audit. Similar to GASB 68.
- SAO provides the final audit report over the OPEB allocation schedule prepared by OFM
 - Published on our website
 - Contains our opinion on the schedule

OFM's schedule will have each employer listed as well as each employer's proportionate share, net OPEB liability, and deferred outflows and inflows.

Fraud cases

State law (RCW 43.09.185) requires state agencies and local governments to immediately report to our Office known or suspected loss of public funds or assets or other illegal activity.

- We assess the online submissions and determine whether to open investigations
- We continue to see an uptick in loss reports:
 - Payroll misappropriation
 - Purchasing personal items
 - Purchase cards

Fraud cases

Payroll red flags

Falsified wages

- **Is it reasonable that the employee worked this many hours in the week for his or her job duties?**
- **Is the overtime approved? Does it appear unusual?**
 - Recent investigation: Loss of \$18,632 at a state agency where supervisors approved timesheets without internal controls to ensure leave slips were submitted. Employees were overpaid for time they did not work.

Fraud cases

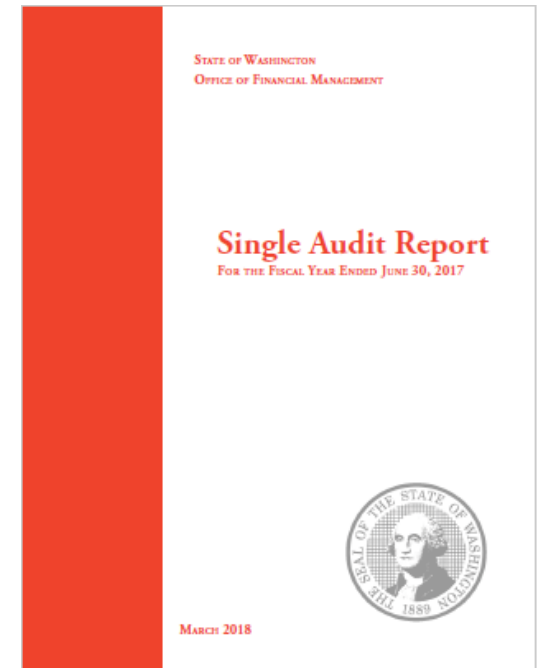
Payment red flags

- **Is a valid receipt attached for purchase card purchases?**
- **Does the receipt look familiar and similar to other receipts from this vendor?**
 - In many frauds, the fraudster makes a fake invoice or receipt, and with improving technology fraudsters can make these look more real than before
- **Do quantities bought with a purchase card make sense?**
- **Does this vendor or contractor exist?**
- **Has anyone verified that the payment has not already been made?**

State of Washington Single Audit

Overview

- Independent audit of systems and internal controls over federally funded programs to ensure compliance with federal regulations
- Audit is conducted to meet the federal Office of Management and Budget's uniform administrative requirements and U.S. government auditing standards
- State spent about \$17.5 billion in federal assistance in fiscal year 2017.



Audit coverage and reporting

- We audited 21 major and Type B programs
 - Major programs > \$30 million
 - Type B programs: Selected based on risk
- Performed audit work at 14 state agencies (including universities and community colleges)
- OFM published the audit report in March 2018
 - Our Office will publish a summary report in June 2018

Audit results

- State agencies resolved 31 previous audit findings
- 52 new audit findings
 - Adverse opinion on a major federal program for the third consecutive year
 - 20 findings related to the Medicaid program
- Estimated improper payments have been increasing because of our expanded use of statistical sampling

Statewide Single Audit: Five-year history

SWSA Findings and Estimated Improper Payments - 2013 to 2017

Audit year	Total federal assistance	Programs audited	Audit findings	Estimated improper payments
2013	\$14,892,685,569	31	45	\$14,799,519
2014	\$15,730,569,572	32	55	\$13,861,873
2015	\$1,703,229,853	31	56	\$142,222,871
2016	\$17,205,753,785	21	50	\$363,488,380
2017	\$17,543,553,513	21	52	\$220,485,802

Whistleblower program

- 3 full-time whistleblower investigators and a lead investigator (supervisor)
- 2017 by the numbers:

242 *complaints received*

38 *complaints investigated*

31 *reports published*

12 *reasonable cause findings*

Whistleblower program

Common investigative findings:

- Personal use of state resources
 - More than de minimis (brief and infrequent) in nature
 - Computer use
 - Not working required hours and failing to submit leave
- Non-compliance with contracting laws and required state policies (SAAM)
- Gross mismanagement
- Gross waste of public funds

Accountability audits

Accountability audits assess whether agencies have adequate internal controls in place to safeguard public resources and comply with state laws, rules and policies

- In 2018, the Legislature gave our Office an additional \$700,000 to conduct additional accountability audit work
 - This work will be performed between now and June 30, 2019

Accountability audits

State agency accountability audits in 2017

- 45 accountability audits for state agencies, including higher education institutions
- 7 audit findings; the most significant ones are listed in our Annual Report, available on our website:

www.sao.wa.gov/resources/Pages/AnnualReports.aspx



The screenshot shows the website for the Office of the Washington State Auditor, Pat McCarthy. The header includes the state seal and navigation links for 'About Us', 'Local Government', 'State Government', 'Investigations', 'Resources', and 'Search Reports'. A search bar is located in the top right corner. Below the navigation, there are buttons for 'Online Services' and 'Audit Connection'. The main content area features a section titled 'Annual Reports' with a sub-section for 'Annual reports from the State Auditor's Office'. A sidebar on the left lists 'Resources', 'Public Records', 'Annual Reports', and 'Local Government Resources'. The main text under 'Annual Reports' states: 'State Auditor's Office Annual Report. We report annually on the work our Office does. We are required by state law to publish the report by December 31. State Auditor's Office 2016 annual report (pdf, 612 kb)'. A decorative image of colorful streamers is visible on the right side of the page.

Accountability audits

Area	Improvement area
Purchase cards	<ul style="list-style-type: none">• Used to purchase unallowable items• Lack of supporting documentation (business purpose)• Lack of pre-approval
Payroll	<ul style="list-style-type: none">• Payroll increase not properly approved or supported
Leases	<ul style="list-style-type: none">• Compliance with lease terms not adequately monitored

Accountability audits

Area	Improvement area
Contracts	<ul style="list-style-type: none">• Advertisements and winning bidders not posted to WEBS• Payments made without valid contracts in place
Vendor payments	<ul style="list-style-type: none">• Missing or inadequate support for payments• Unallowable costs for the program or SAAM policies• Lack of documentation to ensure gift cards issued were used for allowable purposes
Cash receipting	<ul style="list-style-type: none">• Cash handling procedures not developed or followed• Cash handling duties not adequately segregated• Lack of controls to ensure fees collected were complete• Billing rate plans lacked policies and OFM approval

Future audit work plan

- Our Office plans to conduct accountability audits of all state agencies at least every four years
- This summer, we will be developing our 2019-2021 accountability audit workplan
- Agencies are selected for accountability audits based on a risk assessment that includes many factors, such as:
 - Size and complexity of agency
 - Prior audit issues
 - Significant legislative changes
 - Hotline or whistleblower complaints, and prior fraud reports

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