

2022 Office of the Washington State Auditor Annual FMAC Update

Jim Brownell

*Assistant Director of State Audit and Special
Investigations*

Scott Bills

Audit Manager, Financial Audit

Cavan Busch

Audit Manager, Single Audit

Steve Wendling

ACFR Specialist

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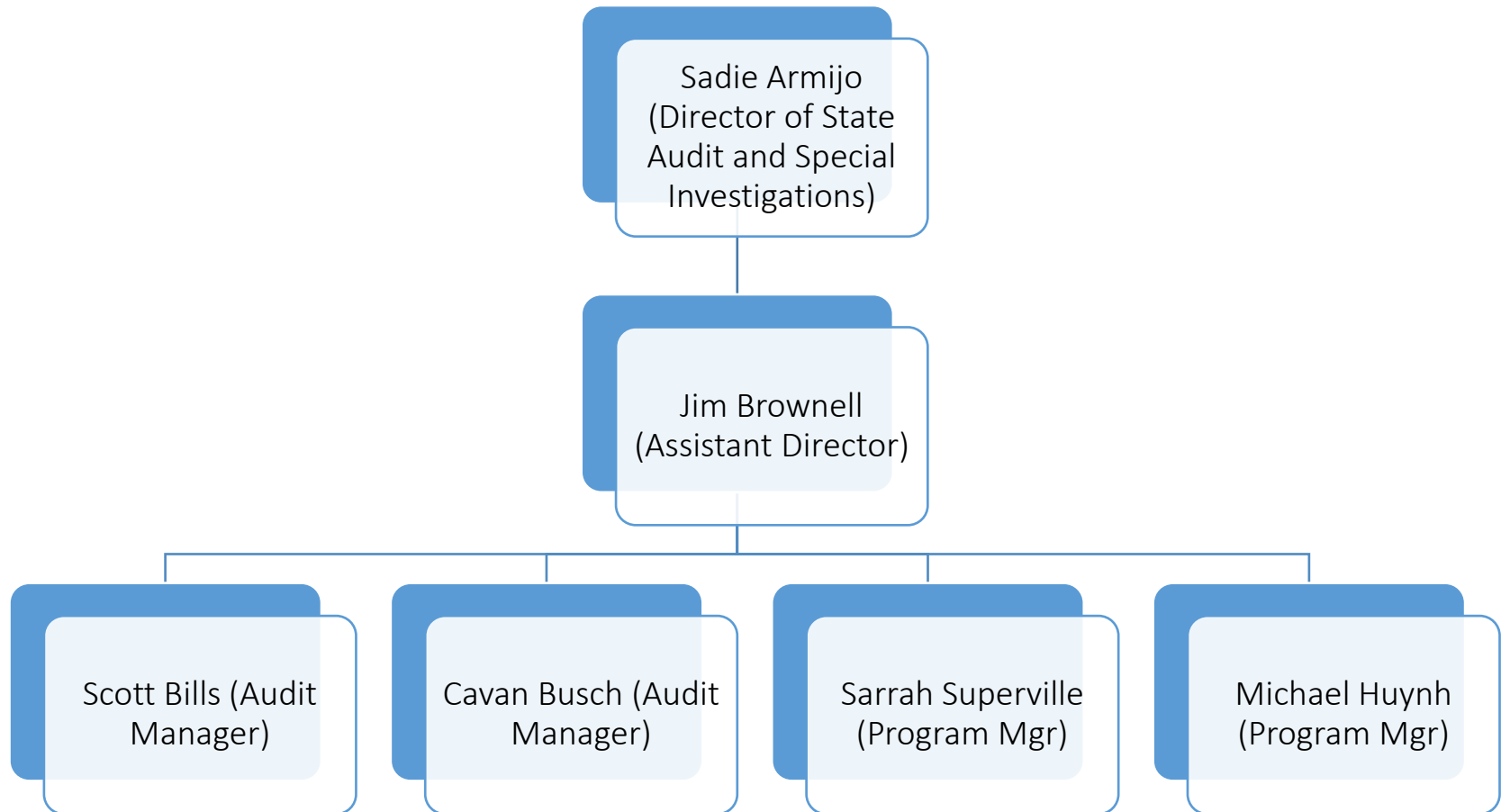


Meeting Agenda

- SAO State Division Organization
- ACFR
 - Fiscal year 2021 audit recap
 - Fiscal year 2022 areas of emphasis
- Single Audit
 - Fiscal year 2020 audit recap
 - Fiscal year 2021 status
 - Fiscal year 2022 planning
- Accountability Audits
- Special Investigations
- Data sharing agreements
- Resources for governments



SAO State Division Organization



ACFR Audit Overview

- This is SAO's second largest audit.
- Around 9,000 hours.
- 32 staff members worked on this audit.
- Audited 14 agencies with 191 account balances material to the state's basic financial statements
- Historically, one of the nation's fastest issuers of a state ACFR, this year we issued our financial statement opinion on December 21, 2021



Annual Comprehensive Financial Report

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

State of Washington
Office of Financial Management
December 2021



Areas of Emphasis



Health Insurance

- The Health Care Authority began administering school employees insurance benefits.
- This was a new major fund for FY21.

Unemployment

- We followed up on internal control failures that led to last years large imposter fraud.
- We performed extensive testing of UI benefit payments with a focus on Pandemic Unemployment Assistance (PUA) claim payments.

Fiduciary Activities

- We performed tests of the state's implementation of GASB 84.
- We performed tests of fiduciary fund reclassifications and revisions to the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position.

Audit Results



Unmodified Opinion Issued

- Opinion issued in accordance with U.S. GAAP
- Audit conducted in accordance with *Government Auditing Standards*

Internal Control and Compliance over Financial Reporting

- We identified deficiencies that we consider to be material weaknesses.
- We noted no instances of noncompliance that were material to the financial statements of the State

Finding



The State lacked adequate internal controls over financial reporting for ensuring accurate recording and monitoring of financial activity in its financial statements.

- The **State Board for Community and Technical Colleges** did not complete a timely and accurate reconciliation of college financial data with the amounts recorded in the State's accounting system before the State closed its books. We found numerous, unexplained variances between consolidated college financial data and the amounts recorded in the State's accounting system.
- The **Health Care Authority** relies on internal controls that the vendor performs, but it has not obtained a service organization control audit report (also called a SOC 1 report) for the ProviderOne system for fiscal year 2021. This could lead to inaccurate financial reporting in the state's General Fund and Misuse, loss or misappropriation, inaccurate payments, and unauthorized software changes to the ProviderOne system.

Management Letter



- The **Employment Security Department** distributed about 12 million Pandemic Unemployment Assistance (PUA) benefit payments totaling about \$3.3 billion. The PUA program temporarily expanded unemployment eligibility to people who would not have otherwise qualified. The Department did not consistently require documentation of wages for PUA claims. Without having this requirement in place, the Department was unable to verify claimants' wages and employment status to ensure they met eligibility requirements.
- The **Health Care Authority** is responsible for administering the Public and School Employees Benefits Board programs. HCA uses a computer application called PAY1 to administer insurance benefits. HCA lacked adequate monitoring and detective controls in place to ensure PAY1 accounts receivable and revenue transactions were accurately posted in AFRS.

Financial Highlights



Unemployment
Rate
5.2%

- The June 2021 unemployment rate fell from the 9.8% unemployment rate of a year earlier as the economy began to reopen.

Unemployment
Trust Fund
\$2.003 Billion

- The State's trust fund cash balance fell 32.6% from last year's balance of \$2.972 billion, however it is still one of the nation's largest.

Financial Highlights



Workers' Compensation Program Deficit \$12.87 Billion

- Program's deficit at end of fiscal year 2021, an increase of \$802.8 million.
- The worsening deficit was caused mainly by lower premiums and assessments revenue and lower investment income.

Workers' Compensation Liability for Future Supplemental COLA's \$19.05 Billion

- These COLAs are provided to injured workers and their dependents who receive disability payments. By statute the state cannot set aside money to pay for these future benefits. This a key component of the programs deficit and may necessitate future premium increases or revamped benefits.

Financial Highlights



Operating
Grants and
Contributions
\$34.46 Billion

- Grew by \$11.15 billion or 48% in fiscal year 2021 compared to fiscal year 2020. Much of the increase was attributable to federal stimulus funds received in response to COVID-19 pandemic. This money helped fund increased human services expenditures and unemployment benefit payments but this level of federal funding is unlikely to continue in the future.

Rainy Day Fund
Balance \$19
Million

- In fiscal year 2021 the legislature transferred nearly all of the rainy day fund to the general fund to pay for increased human services expenditures associated with the Covid 19 pandemic.
- Washington had one of the smallest rainy day funds in the nation at June 30, 2021.

Financial Highlights



State Pension Plan's Funded Percentage 96.3%

- Collectively the pension plans administered by the state are relatively healthy.
- The unfunded liability for the PERS1 pension plan is \$1.5 billion.
- Washington has the 4th best funded ratio in the nation.

Post-Employment Benefits Unfunded Liability \$6.1 Billion

- The state administers a post-employment benefit plan of subsidized medical, dental, life and long-term disability insurance to employees who elect to continue coverage. The plan operates on a pay-as-you-go basis and does not accumulate resources for future payments.

Financial Highlights



General Obligation Debt \$20.7 Billion

- State's total general obligation debt (up 2.86% from June 30, 2020)

Debt Burden

- According to Fitch Ratings, Washington's combined burden of debt plus pensions is low as a percentage of personal income but above the median for U.S. states.
- The debt owed by the state for every adult and child who resides in Washington is \$3,686.
- Ratio of debt to personal income 5.4%

Financial Highlights

Bond Ratings

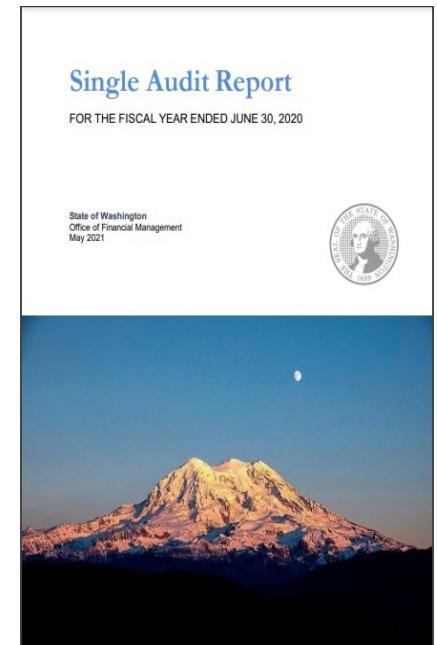
- Moody's Investors Service Aaa
- Standard & Poor's Ratings Services AA+
- Fitch Ratings AA+



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 \$26 billion in federal money in fiscal year 2020, a 44% increase over 2019, and almost \$37 billion in fiscal year 2021.



SWSA 2020 Recap

Audit scope and coverage

- Between March 1 and June 30, 2020, state agencies spent \$7.2 billion in COVID-19 related funding
- We audited 27 major programs
- 24 type A programs > \$38.9 million
- 3 type B programs: Selected based on risk

- We performed audit work at 16 state agencies (including universities and community colleges)

SWSA 2020 Recap

Audit results and reporting

- 63 findings were issued with \$359 million in known questioned costs
- The most common types of findings were
 - Insufficient monitoring of subrecipients
 - Improper or unsupported payments
 - Not meeting special program provisions (Special Tests and Provisions)
 - Reports were not accurate, complete and adequately supported
- Office of Financial Management (OFM) published the audit report in May 2021
- Our Office published a summary report that is available at sao.wa.gov

History of Audit Findings and Questions Costs

| SWSA Findings and Estimated Improper Payments - 2014 to 2020 | | | | |
|---|---------------------------------|-------------------------|-----------------------|------------------------------------|
| Audit year | Total federal assistance | Programs audited | Audit findings | Estimated improper payments |
| 2014 | \$15,730,569,572 | 32 | 55 | \$13,861,873 |
| 2015 | \$17,030,229,853 | 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 |
| 2018 | \$17,688,565,290 | 24 | 61 | \$526,083,080 |
| 2019 | \$17,959,238,413 | 21 | 69 | \$832,897,475 |
| 2020 | \$25,926,145,740 | 27 | 63 | \$1,002,941,633 |
| 2021 | \$36,846,877,973 | 25 | TBD | TBD |

SWSA 2021 Status Report

Timelines and significant changes in guidance for 2021

- OMB issued a 6 month reporting extension for the 2021 audit
- OMB did not issue the compliance supplement until August 13, 2021
 - Addendum 1 was published on December 3, 2021
 - Addendum 2 published January 19, 2022
- Eight programs receiving COVID-19 funding were designated as higher risk programs – essentially mandating they must be audited if they are type A programs
- The Federal Funding Accountability and Transparency Act (FFATA) reporting requirement was required to be audited for the first time since the fiscal year 2014 audit

SWSA 2021 Status Report

Audit coverage and reporting

- We are auditing 25 major programs
- 24 type A programs > \$55.27 million
- 1 type B program: Selected based on risk
- We are performing audit work at 14 state agencies
(including universities)
- The report will likely be issued in July or early August

SWSA 2021 Status Report

Audit issue themes

- Commonly identified audit issues for 2021 include
 - Insufficient monitoring of subrecipients
 - Improper or unsupported payments
 - Not meeting special program provisions (Special Tests and Provisions)
 - Reports were not accurate, complete and adequately supported – including FFATA reporting
 - Level of Effort and Earmarking

SWSA 2022 Planning Underway

- OMB did not issue an extension for the fiscal year 2022 audit
 - Report due date is March 31, 2023
- The 2022 Compliance Supplement was published May 12th
- Ten programs that received COVID-19 funding have been designated as higher risk programs
- A significant decrease in federal funds is expected, which will lead to a lower Type A threshold
 - We expect to be required to audit over 30 major programs.

SWSA 2022 Planning Underway, cont.

- In order to accommodate agencies and move back to the standard timing for the single audit, the team cut all accountability audits scheduled for Spring 2022.
- How can agencies best prepare for an audit?
 - Have grant awards and expenditure and revenue coding readily available for planning requests
 - Be prepared to provide key internal controls over federal compliance areas in writing
 - Read the compliance supplement for your grant(s) so you know what areas are applicable and will likely be audited

| Audit area | Areas for agency improvement |
|--|--|
| Vendor payments and use of agency credit cards | <ul style="list-style-type: none"> • Purchase of unallowable items • Lack of supporting documentation • Missing required pre-approvals • Missing card user agreement forms |
| Payroll | <ul style="list-style-type: none"> • Payroll increases not properly approved or supported • Required authorization/approval for overtime or extra pay not documented |
| Non-compliance with SAAM | <ul style="list-style-type: none"> • Required annual agency risk assessment not performed or provided to agency head • SAAM 20.15 |

| Audit area | Areas for agency improvement |
|-----------------------------|--|
| Procurement and contracting | <ul style="list-style-type: none"> • Payments made to vendors before contracts are fully executed • No competitive solicitation for contracts over DES established threshold |
| Travel reimbursements | <ul style="list-style-type: none"> • Lack of documentation/approval for travel exceeding per diem limits |
| Safeguarding of assets | <ul style="list-style-type: none"> • Required inventories not conducted • Agencies not establishing policies over small and attractive assets |

Special Investigations

- Fraud and loss of public funds
- Whistleblower investigations
- Use of deadly force investigation audits



Fraud and loss of public funds

- State law requires agencies to immediately report known or suspected losses of public funds or illegal activity to SAO.
- 2022 Legislature amended the law and gave SAO authority to write policies regarding this requirement.



Fraud Trends

- Cyber security threats
 - Significant increase in illegal activity
 - Email scams
 - Imposter fraud
- Payroll
 - EFT changes without verification
- Time and Effort
 - Employees paid, but not working



State employees

BLOW the **WHISTLE** on **ABUSE**

Report improper actions in state government



State law
protects you
from retaliation

Submit a report at www.sao.wa.gov

Whistleblower Investigations

- Historically had full-time investigators on staff
- Changed our staffing model and now assign cases to assistant state auditors
 - Allows greater flexibility with our staffing resources
- From January 2021 to April 2022:
 - Received over 250 complaints
 - Significant decrease in complaints during the pandemic
 - Number of complaints has begun to increase in 2022
 - Published five whistleblower reports

Common whistleblower 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)



Use of Deadly Force Investigation Audits

- New book of business for the SAO and first of its type in the United States
- State law requires SAO to audit police use of deadly force investigations
 - For all investigations beginning January 2020
 - Audits do not occur until after prosecutors make charging decisions and any appeals have been exhausted through the court(s)



Use of Deadly Force, cont.

- Audit Criteria
 - WAC
 - Best practices for homicide investigations published by the Criminal Justice Training Commission
- Auditees
 - Independent Investigation Teams (IIT)
 - 17 regional teams in WA
- Office of Independent Investigations
 - Eventually will be responsible for these investigations

Use of Deadly Force, cont.

- SAO will publish individual reports that describe whether IITs complied with applicable criteria
- Goal is to make recommendations on how IITs can improve their processes and better comply with applicable regulations and best practices
- First report is expected to be published in September 2022

Data Sharing Agreements

- In 2021, RCW 39.34 was amended to require written data sharing agreements between **ALL** public agencies that share category 3 or higher data
 - Not just for audits
 - Template agreement created by the OCIO
- Since the law passed, we have signed 2,261 agreements with our state and local agency audit clients



Resources for governments

- SAO has established the Center for Government Innovation
- Primary focus is for local governments, but there are resources with state agencies may find useful
- Resource database
 - Various topics on management and accounting practices
 - Cybersecurity
 - Federal grants management

Resources Database



Evaluating Services and Operations



Managing and Improving Performance



Communicating With Citizens



Sign Up for Updates

Search

SEARCH

- ☐ Template/Tool ☐ Toolkit ☐ Guidance ☐ Example
☐ Leading Practice ☐ Training ☐ Case Study ☐ Research/Audit



Template/Tool

Checklist for Preparing Cash Basis Financial Statements

Local government management responsible for financial reporting can use this internal control checklist as an optional tool to help with its year-end process for reviewing financial statements, notes, and supplemental schedules. This checklist can be used as a baseline to develop policies and procedures that address the most common deficiencies found in financial information prepared using the Budgeting, Accounting and Reporting System (BARS) cash basis accounting method. Updated January 2022.

Download

[share this link](#)



Template/Tool

Checklist: Federal grant risk assessment

To help you protect your organization and meet compliance guidelines, this federal grant risk assessment checklist can help you identify, prioritize and mitigate risks to your federal programs. Updated April 2022.

Download

[share this link](#)

Category

- ☐ Evaluating Services and Operations
☐ Managing and Improving Performance
☐ Communicating With Citizens

Topic

- ☐ Budgeting for Outcomes (7)
☐ Citizen Participation (6)
☐ Dashboards and Scorecards (14)
☐ Evaluation (12)
☐ Financial Management (18)
☐ Logic Modeling (5)
☐ Performance Management (13)
☐ Performance Measurement (12)
☐ Plain Talk (4)
☐ Process Improvement/Lean (18)
☐ Reporting to Citizens (4)
☐ Social Media (1)
☐ Staffing Analysis (6)
☐ Strategic Planning (4)



Improve your cybersecurity without breaking your budget

Download

Questions



SAO Contact Information

ACFR Questions

Steve Wendling

Wendlins@sao.wa.gov

(564) 999-0885

Scott Bills

bills@sao.wa.gov

(564) 999-0887

Single Audit Questions

Cavan Busch

Buschc@sao.wa.gov

(564) 999-0786

Special Investigations or General Questions

Jim Brownell

Brownellj@sao.wa.gov

(564) 999-0782

