



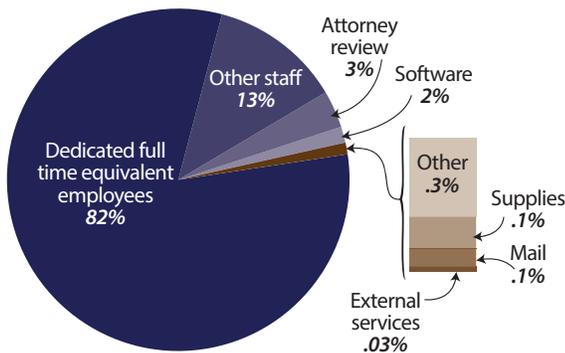
## Study of public records requests now published

For the last year, the State Auditor's Office has been examining the effect public records requests have on the governments that must fulfill them to comply with the Public Records Act of 1973. In the fall of 2015, we sent a detailed survey to every state agency and local government in Washington, and on August 29, 2016, published the results of our work.

### Fulfilling public records requests cost Washington's state and local governments more than \$60 million in the most recent year

Providing residents with broad access to government records does not come without costs. People today make more and increasingly complex requests for records, which absorb a significant amount of government resources. Survey respondents reported spending more than \$60 million to fulfill more than 285,000 public records requests in the most recent year alone. Their greatest expense – more than 90 percent of costs – is the staff time needed to locate, review, redact and prepare public records for release.

Employee time is the greatest expense in fulfilling records requests



Source: Auditor analysis of survey results.  
Notes: Most recent year results shown. Governments that track costs do so mainly for employees they designate to respond to records requests, not for every employee who collects information to satisfy a request. Reporting most recent year results. "Most recent year" may be calendar or fiscal year, and not the same year for all survey respondents.  
493 survey respondents supplied data for this analysis.

Continued on page 6

## Breaking news: Digital Audit Connection

The Audit Connection newsletter may be a great roundup of information from the State Auditor's Office, but it appears just a few times a year. To cover important news our state agencies and local governments can use right away, we are excited to present our new digital Audit Connection.

It will feature many of the stories and updates you see in the newsletter, but it will also feature dynamic data visualizations, video entries, reflections on topics related to audit areas, financial management, Lean, and more. We hope you will find this new way of connecting to the State Auditor's Office both convenient and meaningful.



You can reach our digital Audit Connection at [auditconnectionwa.org/](http://auditconnectionwa.org/).

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# State Auditor's Office Stewardship Awards

This special award recognizes state and local governments for their efforts to serve our state's residents.

## The City of Vancouver

We recognized the City of Vancouver for its commitment to the audit process and maintaining strong internal controls while promoting a culture of accountability for public resources.

*Pictured here (from left to right) are: Councilmember Anne McEnery-Ogle, Deputy Finance Director Natasha Rameras, Accounting Manager Christine Smith, State Auditor's Office Director of Local Audit Kelly Collins, Chief Financial Officer R. Lloyd Tyler and Assistant City Manager Lenda Crawford.*



## The City of Mount Vernon

This award recognized the City of Mount Vernon's culture of accountability to its residents. The City's Finance staff has consistently demonstrated a commitment to maintaining strong internal controls over the financial statement preparation process.

*Pictured here (from left to right) are: Mayor Jill Boudreau, Director of Local Audit Kelly Collins, Senior Accountant Mike Weber, Accountant Rebecca Wade, Finance Director Alicia Huschka and Councilmember Mary Hudson.*



## The Housing Authority of Chelan County and the City of Wenatchee

We recognized the Housing Authority of Chelan County and the City of Wenatchee for the detail and quality of information provided during our audit, which consistently exceeded our expectations and resulted in a more efficient audit process.

*Pictured here (from left to right) are: Accounting Specialist Toni Peterson, Finance Director Kori Riblett, Deputy Director of Local Audit Sadie Armijo, Executive Director Alicia McRae and Board of Commissioners Chair Lisa Romaine.*



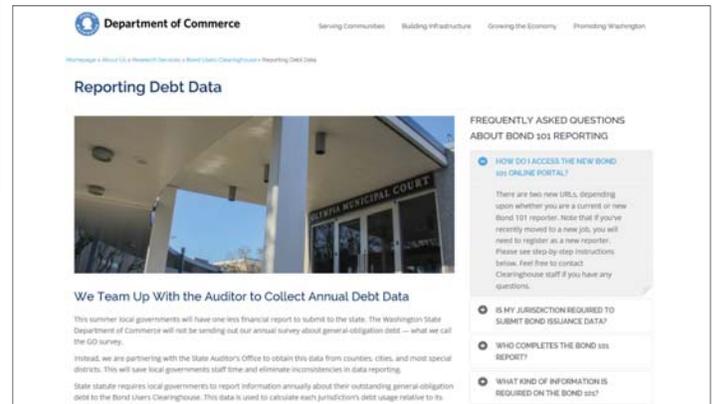
# Leveraging partnerships for better government

At the Washington State Auditor's Office, we have an important goal: Governments work better, cost less and earn greater public trust. We know the audits we conduct and the resources we provide contribute to that goal, but we certainly can't do it alone. That's why we have collaborated with other organizations to help streamline state government processes and to provide much needed resources. Here are some examples of what we're up to and who we're working with.

## Elimination of duplicative state requirements

### Department of Commerce's Annual General Obligation Debt Survey

This summer, local governments will have one less financial report to submit to the state. Commerce will not be sending out its annual survey about general-obligation debt (known as The GO survey). Instead, Commerce partnered with us to obtain this data from information already submitted to us by counties, cities and most special districts. This will save local governments staff time and eliminate inconsistencies in data reporting. State statute requires local governments to report information annually about their outstanding general-obligation debt to the Bond Users Clearinghouse. This data is used to calculate each jurisdiction's debt usage relative to its statutory debt capacity.



### Department of Transportation's Annual Road & Street Report (coming soon)

In the near future, WSDOT expects to eliminate a requirement that cities and counties send in their annual street/road-related expenditures and revenues. We are working with WSDOT, the Washington State Association of Counties, the County Road Administration Board and the Association of Washington Cities to create an interface with our local government annual financial filing system so that WSDOT can obtain this data easily without a separate request.

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# Prevention and Detection of Credit and Procurement Card Fraud

Credit and procurement cards are easy to use, convenient and efficient. As a result, government use of these cards has increased exponentially over the last decade. Unfortunately, there can be a dark side to using cards: they often bypass standard, established payment controls. The combination of high card usage and weak controls is an environment ripe for fraud.

We recently investigated several significant credit and procurement card misappropriations, and have observed several common schemes:

- Personal purchases made on the organization's card
- Purchase and return-for-cash schemes
- Fake vendors used to convert funds to personal use
- Duplicate payments on cards and employee reimbursements

## What are some of the best practices to prevent and detect card fraud?

You can fight card fraud on many fronts, no matter how large or small your organization might be. Here are a few suggestions to help you keep your organization from being a victim of fraud.

- **Policy** — Establish, share and follow a written credit card policy. The policy should consider allowable and prohibited uses, and state that personal use is not allowed. Make it clear what happens if the policy is violated. Require everyone with card responsibilities to periodically review the policy and acknowledge that review with a signature
- **Records** — Require original, itemized receipts. Also, consider who will be responsible for retaining the supporting records: the card holder should not be the one retaining the original records.
- **Banking controls** — Consider working with your financial institution to set monthly limits and prohibit certain vendor types, such as taverns or online clothing stores. Also, ask if supervisors and/or accounts payable can have read-only access into credit card accounts.
- **Reviewing responsibilities** — Ensure everyone in the review process — from cardholder to accounts payable — knows their role and responsibilities. Someone independent, but knowledgeable of entity or department operations, should periodically perform a complete review of all the charges and supporting records.

## Look for these red flags to catch card fraud

- 🔖 Unusual vendors or purchases
- 🔖 Photocopied supporting records (statement and receipts)
- 🔖 Large volume of transactions or high amounts
- 🔖 Purchases with unusual "ship to" addresses
- 🔖 Lack of records/itemized receipts

- **Review for red flags** — Look for unusual vendors or unallowable items, and missing, scanned or photocopied supporting documentation. Examine records for alterations, unusually large volume of transactions, and "ship to" addresses that don't make sense.

If you would like to learn more about this topic, consider attending the "Credit Cards – Fraud Prevention and Detection" class on September 21, 2016, at the Washington Finance Officers Association annual conference. Register at: <https://www.regonline.com/builder/site/tab3.aspx?EventID=1817382>

## Fraud training e-learning



We just released an online fraud training: "Fraud Detection & Deterrence" (part 2 of 2). This training will help teach you to recognize areas at risk for fraud and use internal controls to minimize those risks. This training should be especially helpful to new employees, as well as governing officials. You will find this training on our website at [www.sao.wa.gov/local/Pages/Training.aspx](http://www.sao.wa.gov/local/Pages/Training.aspx)



## Working with OSPI to keep school districts ‘low risk’

Under the new Federal Uniform Guidance, government agencies that do not report financial status using generally accepted accounting principles (GAAP) and are not required by state law to report using a regulatory basis of accounting, no longer qualify as “low risk” for single audit purposes.

As a result, we worked with the Office of Superintendent of Public Instruction (OSPI) to revise the Accounting Manual for Public School Districts, allowing districts that prepare and report with the required F-196 financial statement to qualify as low-risk. This classification can result in lower audit costs for school districts.

We met with the Department of Health and Human Services – Office of Inspector General (OIG) and the Department of Education to address the added language, which reinforces that the F-196 is the financial statement required by state law, and clearly states that districts must prepare and submit financial statements using this other comprehensive basis of accounting (OCBOA).

Both OIG and the Department of Education have reviewed the changes to the Accounting Manual and agree that the revisions address previous concerns regarding the required OCBOA presentation now allowing school districts in Washington State to qualify as “low risk.”

For more information, contact **Cheryl Thresher**, Audit Manager of School Programs, at [Cheryl.Thresher@sao.wa.gov](mailto:Cheryl.Thresher@sao.wa.gov) or (360) 725-5608.

## Audit Billing Rate for 2017

In June, our Office wrote to all local governments to let them know our local government hourly billing rate for 2017 would remain at the current rate of \$93 an hour.

We are committed to evaluating our rate annually and notifying local governments at least six months in advance of the date any changes go into effect. Our goal is to keep rate changes from year to year minimal, and keep our auditing as cost-effective as possible for local government and Washington’s taxpayers.

We will next examine our billing rate after the state’s biennial budget is passed in 2017 and take into account any legislatively mandated cost-of-living wage increases that may be included for the 2017-19 biennium. We will let you know if we need to adjust rates for 2018 as soon as possible thereafter.

## New North King County Audit Team

The State Auditor’s Office is committed to continuous improvement in our audit operations. As part of this effort, we are establishing a new audit team to be located in the north King County area. We believe having an additional audit team in the King-Snohomish metropolitan area will give us the capacity to improve on the quality and timeliness of our audit services.

Effective October 1, 2016, the new North King County audit team will begin operations under the leadership of Wendy Choy as Audit Manager. Wendy was the Audit Manager of Team South King County for the last year. She has demonstrated her dedication to our values, professionalism and commitment to building relationships with staff and local governments throughout her 14-year career with our Office.

Washington State Auditor’s Office Locations statewide



### Other staff changes in our office

**Sandra Groshong** will be joining Team South King County as the new Audit Manager effective October 1. Since starting her career with us on Team Tacoma 16 years ago, Sandra has developed a wide array of audit experience working with local governments in both Pierce and King Counties. Over the last year, as the Audit Manager for our State Technology Audit Team (STAT), Sandra has demonstrated her leadership and team building abilities

**Tara Lindholm** has been selected as the new Audit Manager for Team STAT. Tara joined our Office in 1999, working with the former Team SA, which did state CAFR and SWSA work. This team became Team STAT, working with data to support general and application control reviews, OCIO compliance reviews, security reviews, and computer forensics. She became a Certified Information Systems Auditor (CISA) in 2006, becoming the one of the first people in our Office to earn this certification. She was promoted to Assistant Audit Manager of Team STAT in 2008 and has developed her skills in IT audit and leadership.

# The Lean Academy helps the City of Ridgefield smooth rough waters in its utility billing & receipting process

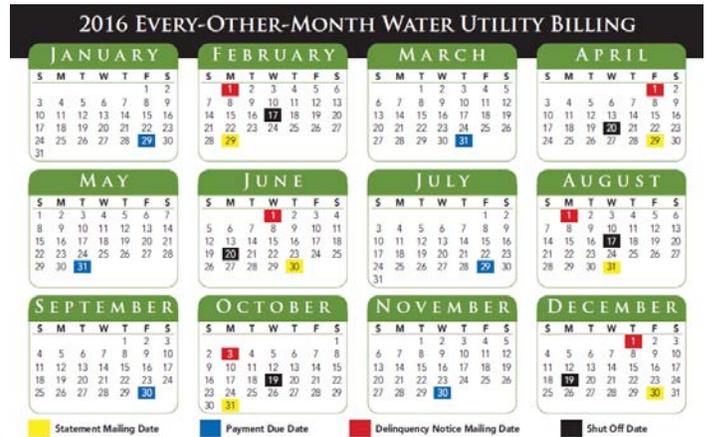
The Local Government Performance Center (LGPC) brought its Lean Academy to Ridgefield in 2015. In case the term is new to you, Lean can be defined as “creating flow through the elimination of waste.” In practical terms, it means continuously improving work processes in a way that all actions have value to the customer, while also considering the needs of stakeholders outside the main process steps. The Lean Academy, a free service provided by LGPC, offers training, guidance and facilitation of Lean methodology. Lean specialist Debra Hentz spent time with the City of Ridgefield, helping them smooth their troubled waters.

Start with a job no one wants to do (turning off a family’s water). Add cross-departmental coordination (between public works in the field and office administrative staff), then mix in customer frustration (fueled by lack of knowledge). Stir it up with some flexible rules (determined by situational decisions) and add a dash of limited staffing (common in a small city where everyone wears multiple hats). Be required to follow that recipe every two months, with no break for holidays or vacation time, and you can see why the City of Ridgefield’s Lean Academy focused on the Utility Billing & Receipting process.

## Keeping the water flowing in a rapidly growing city

Ridgefield is managed by a small administrative and public works staff, but the town has made the Top 10 list for fastest growth rate among cities in Washington. Efficiency is not only desirable, but essential to sustain the city’s services and reputation. Ridgefield’s internal utility billing process was straightforward enough: it begins with meter reading, includes billing user accounts, and ends with receipting of utility payments. Unfortunately, more often than anyone liked, the process also included sending delinquency notices and water shutoff at the property site. Maintaining excellent customer service was the primary goal of the project, but everyone also wanted to improve the efficiency of the process itself.

This was LGPC’s second Lean project in Ridgefield, which meant that the city’s leadership team had hands-on experience with Lean and knew how to form and support the team doing the work (the real subject-matter experts). A small, motivated team of staff from administration and public works spent five days in September 2015 learning Lean methodology, discovering what other members of the team do to complete their portion of the process, and identifying potential steps for improvement. Management approved all 14 proposed changes made by the empowered team and followed up with ongoing support as the team implemented and assessed the new steps.



Some of the changes were simple: using color as a visual cue to help customers notice upcoming deadlines or modifying instructions on a water bill. Other improvements required more significant steps, such as updating the municipal code and creating a new, more informative utility brochure. Throughout the implementation phase of the project, the team maintained both their daily workload and the cooperative relationships created during the September Lean event.

## Better processes lead to improved services and better customer relations

Lean projects rarely roll out every improvement at once. Instead, the city addressed one step at a time, making sure to measure and assess results of each change to ensure it delivered the desired improvement before cementing the new process step in place. Some changes were completed by December 2015; the City Council gave its approvals in February 2016; and the final step in the new process was considered a City standard in May.

At the final wrap-up meeting, everyone shared their favorite result story. One of the most notable ones came from the Finance Director. He said the Lean project far exceeded his goals, having cut the percentage of water shut-offs by more than half in June 2016 from the previous year’s average.

The LGPC Lean team congratulates all the employees at the City of Ridgefield, because it takes a cultural change within an organization to accomplish the Lean process improvement you have made.

## Want to learn more?

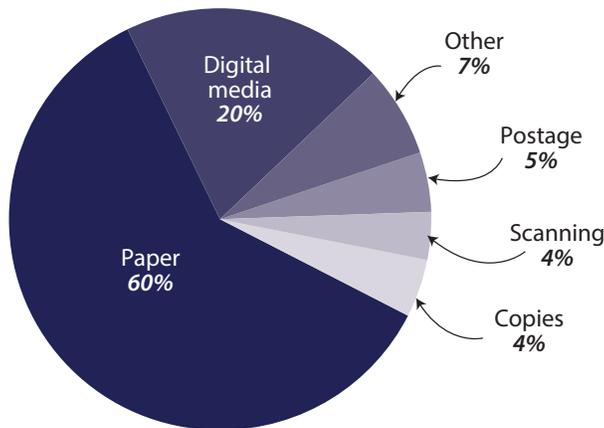
Please contact the Local Government Performance Center at [performance@sao.wa.gov](mailto:performance@sao.wa.gov) to learn more about our resources and how we can be of service to your organization.

## Study of public records requests now published

Continued from page 1

However, survey respondents said they typically recovered less than 1 percent (or \$350,000) of the \$60 million they spent because the law permits them to recover costs only for items such as postage, paper and CDs. Since requesters may be asked to pay for just this small portion of the costs, governments – and ultimately all taxpayers – bear the rest of the expense.

Paper makes up 60% of recovered costs



Survey respondents also told us that they face challenges in understanding and applying changing and complex public records exemptions, which can be difficult for employees without a legal background. Instead, they rely on the help of expensive, yet necessary, legal counsel to ensure they do not release exempt or protected information, or redact that which should be disclosed. Legal advice may also be necessary to avoid or respond to litigation.

### Statewide policy and practical solutions could help governments cope

Our research shows that a combination of statewide policy changes and better information management and disclosure practices are needed to keep pace with changing times and the constant expansion of the information universe. We identified policies used in other states the Legislature can consider to address public records issues here in Washington. We also identified practical solutions that can help state and local governments in their continuous efforts to improve their records management and disclosure processes.

We would like to thank everyone who completed and returned the survey to us. The data you provided helped us understand the current landscape of public records requests and fulfillment, and allowed us to offer abundant information to the Legislature as it considers possible revisions to the Public Records Act.

Read the full report, view informative videos and explore the survey response data on our website at: [www.sao.wa.gov/state/Pages/PA\\_RecordsStudy.aspx](http://www.sao.wa.gov/state/Pages/PA_RecordsStudy.aspx)

### Leading practices to aid public records management and disclosure:

- Communicate with requesters thoughtfully and as needed
- Manage request fulfillment to maximize benefits to requesters and minimize disruptions to critical services
- Disclose information before it is asked for
- Develop a coordinated, agency-wide strategy and institutional culture around records management
- Collect and retain only necessary records
- Organize records for easy search and retrieval
- Adopt strategies and organization-wide policies to accommodate complexity of public records laws
- Reduce the potential for litigation and mitigate its impact

*Leveraging partnerships – Continued from page 2*

### Other partnerships

#### The Municipal Research & Services Center

- Resources
  - Public Records Act/Open Public Meetings Act
  - Find your contracting requirements
  - Utility liens and shutoffs
  - Information security assessment tool
- Studies
  - Public Records Act – published August 29, 2016
  - Solid waste and recycling billing – publish (anticipated) March 2017
- Training – Inspiring a Performance Culture webinars

#### The University of Washington – Tacoma

- Training/Conferences
  - The Next Big Thing
  - For the Love of Cities
  - What Works Cities
  - Lean in Local Government
- Technical Assistance
  - High Performing Organizations – City of Olympia
  - Local Government Lean Community of Practice

We appreciate the contributions and commitment of our partners to making government work better.

## GASB 77: Tax Abatements

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GASB Statement No. 77, Tax Abatement Disclosures (download at [www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176160042391](http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176160042391)), is effective for years ending December 31, 2016, and after. This statement is unusual in that it affects note disclosures only, not the face of the financial statements. It requires disclosing information about your tax abatement agreements and also those by other governments that affect your tax revenues.

### What is a tax abatement?

Governments offer various programs to lower taxes, such as tax exemptions, deductions, rebates and abatements. Under GASB 77, tax abatements have a narrow definition:

*Tax abatement – A reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which:*

- a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and*
- b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.*

This definition does not include programs that reduce the tax liabilities of broad classes of taxpayers (such as senior citizen exemptions) or are not the product of individual agreements with each taxpayer. The program label is not important; it is the substance of the agreement that counts. The key is whether it meets the GASB 77 definition.

The agreement may be in writing, or it may be implicitly understood. But there must be an identifiable agreement between a government and a specific individual or entity.

### What needs to be disclosed?

Paragraphs 7 and 8 of Statement 77 provide a detailed list of the disclosure requirements. You report information about your own agreements separately from the agreements of other governments. Governments are not required to present information if they are legally prohibited from doing so, but that fact must be disclosed.

### How do I identify other governments' tax abatements that affect me?

Identifying your abatements and calculating their effect on your tax revenues seems challenging enough. But you also need to identify agreements entered into by other governments and their effect on your tax revenues. Information-sharing is critical in implementing this new standard. Communicate now with governments that are able to abate your taxes and establish a timeline to ensure they will provide everything you need to prepare these new note disclosures for your 2016 financial statements.

## Building permit fees:

### *Make sure your city or county complies with state law*

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The State Building Code Council (SBCC) was created to advise the Legislature on building code issues and to develop the building codes used in Washington. These codes help ensure buildings and facilities built in the state are safe and healthy for occupants, accessible to persons with disabilities and the elderly, and energy efficient.

The SBCC is funded by fees levied on every building permit issued by a county or a city, plus an additional surcharge for each residential unit in a multi-unit building. The fees (\$4.50 per permit, \$2.00 per unit) are established by RCW 19.27.085, which requires cities and counties to give the money collected to the state Treasurer quarterly.

We tested building permit fee revenue reports for the state fiscal year ended June 30, 2015, compared them to prior years, and noted some cities were not making their payments to the Treasurer as required.

To help cities comply with the law, we recommend they compare the number of building permits issued to the building fees paid to the state Treasurer for accuracy.

For more information, contact Jim Griggs, Special Projects, at [James.Griggs@sao.wa.gov](mailto:James.Griggs@sao.wa.gov) or (253) 372-6250, ext. 115, or Tim Nogler, Managing Director of State Building Code Council, at [Tim.Nogler@des.wa.gov](mailto:Tim.Nogler@des.wa.gov) or (360) 407-9277.

## Resources for suppliers of drinking water

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Are you providing drinking water to the public? Is your entity struggling financially? Does your system need important repairs or replacements that it can't afford? We recently learned that the Department of Health, Office of Drinking Water (ODW), has resources for you! The ODW can assist with low interest loans, loans with forgiveness provisions, grants, rate studies, asset management program assistance and more.

Its goal is to work with you to protect the health of your consumers by ensuring safe and reliable drinking water. A significant part of reliable drinking water is financial sustainability and they are available to help you improve your financial position.

Here is a link to the Office of Drinking Water web page: [www.doh.wa.gov/CommunityandEnvironment/DrinkingWater](http://www.doh.wa.gov/CommunityandEnvironment/DrinkingWater)

You can also contact Arlene Hyatt at [Arlene.Hyatt@doh.wa.gov](mailto:Arlene.Hyatt@doh.wa.gov) or (360) 236-3131.

## Join us at WFOA in Spokane

The annual Washington Finance Officers Association Conference will be September 20 through 23 in Spokane. As usual, we are coordinating the Accounting, Auditing and Reporting track. Because sessions are so popular, we present them every year: fraud (this year focusing on credit cards); GASB update; and the *SAO Roundtable*, which allows participants to ask questions and voice their concerns.

Special sessions discuss issues related to risk assessment, monitoring controls and internal controls over financial statements preparation. These sessions will provide insights into how auditors evaluate these elements, and offer steps local governments can take to develop practical, effective and valuable processes in these areas.

After the first year of applying the GASB Statement 68, our staff will share the ups and downs of implementing the new pension standard in the *GASB 68 Lessons Learned* presentation. The *Single Audit Update* session will include the recent changes in the new Uniform Guidance that relate to federal grants. And don't miss the two-hour session on cybersecurity.

A session on the *Financial Intelligence Tool and Other Resources for Local Government* will introduce the latest features of FIT and spotlight other available tools from our Office. *How to Prepare for an Audit* will round out our presentations.

In addition to the conference sessions, our Local Government Support staff will provide both cash-basis and GAAP BARS trainings during the pre-conference sessions Tuesday. Also, we will deliver the *Professional Ethics and Regulations in WA State* training required for CPAs.

We hope to see you at the Conference – please visit us at the State Auditor's Office booth!

## BARS Roundtables Are Back

Back by popular demand are our free, three-hour roundtable discussions about our Budget, Accounting and Reporting Systems (BARS). We offered these sessions last year, and more than 400 people attended statewide.

We will discuss progress made on last year's recommendations, upcoming changes in BARS (including online filing), how to use the Financial Intelligence Tool (FIT) and upcoming GASBs, and introduce some new resources available to you. The objective is to listen to your feedback and suggestions, and to make changes that will benefit everyone using the BARS.

**How do I sign up?** Visit our [website](#) for more information and to register for a session near you.

**Schedule of confirmed locations and dates** (more may be added based on demand):

Date	Time	Location
October 4	9 a.m. – noon	Bremerton
October 11	9 a.m. – noon	Olympia
October 17	1 – 4 p.m.	Yakima
October 18	9 a.m. – noon	Wenatchee
October 25	1 – 4 p.m.	Tri-Cities
October 27	1 – 4 p.m.	Seattle
November 15	1 – 4 p.m.	Burlington
November 16	9 a.m. – noon	Renton
November 29	9 a.m. – noon	Tacoma
December 5	1 – 4 p.m.	Vancouver
December 6	1 – 4 p.m.	Colfax
December 7	1 – 4 p.m.	Spokane
December 15	9 a.m. – noon	Everett

Your opinions matter to us.

## New checklist helps you prepare annual cash basis financial statements

The State Auditor's Office has created an easy-to-use *Checklist for Preparing Cash Basis Financial Statements*. The checklist employs a series of questions to deliver useful information and best practices that will help local government staff evaluate and develop control activities to address areas of deficiencies most often found in financial statement preparation. You can find the checklist on our website at: <http://portal.sao.wa.gov/PerformanceCenter/#/address?mid=6&rid=18507>

Also, if you plan to attend the WFOA Annual Conference, check out our session on "Controls over Financial Statement Preparation – What we can do better!" A synopsis of what you'll learn is available on the WFOA Sessions page at:

[www.wfoa.org/resources/sessions](http://www.wfoa.org/resources/sessions)

