



# The Audit Connection

## Auditor's Office launches redesigned website

On January 27, 2014, State Auditor Troy Kelley welcomed visitors to the agency's new website. The website has been thoroughly redesigned and rebuilt to be more attractive, effective and interactive, to better serve the governments the agency audits, its colleagues in the executive and legislative branches and the taxpayers of Washington.



Kelley noted that website clients can continue to use [www.sao.wa.gov](http://www.sao.wa.gov), but all other links on the site have changed. Visitors to the site can find all the information they need under the various tabs for Local Government (online filing, BARS Manual, Performance Center), State Government (including Performance Audit), Investigations (Citizen Hotline, Fraud and Whistleblower programs), About Us (career opportunities, goal statements, contacts), and General Information & Resources (public records requests, media resources, contracting opportunities).

Launch of the redeveloped website went well, with communications and IT staff making minor adjustments to ensure the site's functionality and usability. Once the new site had been up for a week or so, the agency launched an online survey to solicit feedback from users.

The redevelopment project was handled completely in-house, through what Auditor Kelley praised as remarkable cooperation between communications, technical, and audit teams across the agency.

## Auditor's Office Issues Opinion on State's Comprehensive Annual Financial Report

Each year, as required by law, the state publishes its Comprehensive Annual Financial Report, or CAFR, to provide information on the state's financial position. The Auditor's Office performs an independent audit of the CAFR in accordance with Generally Accepted Government Auditing Standards. The audit of the fiscal year 2013 CAFR concluded that the financial statements fairly presented the state's financial position. Because of the complexity and length of this report, the office prepared a CAFR summary, which provides a snapshot of the state's financial position, including revenues and expenditures, cash balances and debt at [www.sao.wa.gov/generalinfo/Documents/2013\\_CAFR\\_Summary\\_Report.pdf](http://www.sao.wa.gov/generalinfo/Documents/2013_CAFR_Summary_Report.pdf)

Although financial challenges remain, the latest report suggests Washington's finances are beginning to stabilize and gradually recover from the effects of the Great Recession. Fiscal year 2013 financial highlights include:

- The General Fund cash balance ended the year with a positive balance. This is a significant turnaround from the prior four years when the General Fund cash balance was negative and resources from other funds were required to cover the negative balance.
- Total revenues were relatively flat.
- Total expenses were 2 percent higher than prior year.
- Washington's general obligation debt outstanding increased 2 percent from the prior year. In addition, Washington's legal capacity to borrow additional funds increased. Standard and Poor's rating agency

*Continued on page 6*

### In this edition

Marking first year under State Auditor Troy Kelley's leadership	2
Training for small local governments	2
Local Government Guidance: Electronic approvals	3
State Auditor's Office sees additional staff changes	4
Special Training Update pull-out pages	5
Dual financial opinions for cash basis local governments	6
Office contacts	7

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# Office marks first year under State Auditor Troy Kelley's leadership

The Washington State Auditor's Office completed the first year under the leadership of the state's 10th State Auditor, Troy Kelley, the first new state auditor in 20 years. The Office is assembling a 2013 annual report to be released this winter.

The year was marked by realignment and role changes in accord with Auditor Kelley's individual philosophy of transparency and a listening, cooperative, relationship-based audit process that encourages improvement. It has been a time of reflection and fine-tuning in a Lean-driven environment focused on making better government the bottom line.

Auditor Kelley led the agency in the development of a new vision – "Government that works for citizens" – as it pursues its mission of holding state and local government accountable for the use of public resources.

To build that vision, the agency has set out to reach strategic goals, including:

- Help governments work better, cost less and deliver higher value
- Work with governments to help them earn greater public trust

It is not enough to simply audit governments, Auditor Kelley insists. The agency needs to use what it learns in audits of local governments to help them improve through the Local Government Performance Center. In audits of state agencies as well, the agency looks for solutions and best practices.

For the Washington State Auditor's Office, better government is the bottom line.

## State Auditor's Office provides training to small local governments

The State Auditor's Office is providing free training on annual report preparation and online filing assistance for small local governments. The 41 four-hour classes, conducted at 34 locations around the state, began on February 10th and will run through April 3rd.

Since the inception of the online filing system in 2010, the Office has been encouraging and working with local governments to file their annual reports as required by RCW 43.09.230. While a large number of local governments are now filing online, this training opportunity targets a specific population of local governments that receive less than \$300,000 in annual revenues.

The training focuses on explaining the reporting requirements and the resources the Office provides via the new website, and walks attendees through and provides assistance for the online filing of their annual reports. By the time this training concludes, 600 small local governments will have taken the class and we should be close to the goal of having nearly all local governments file their annual reports online with the Office. We are already receiving positive feedback from attendees:

*"Thanks for the training. It was definitely worth my time and yours. Now that I know you don't need the signed documents. I won't have to mail the monster annual report package. Yeah!"*

Another District had this to say about the training:

*"This was the first training that I have attended where I did not lose interest or even leave the training early. Thank you for a job well done and thinking of the little districts that don't have much money and/or time for personnel to attend a full day's training.*

*"Good luck in your traveling all over the state to give these trainings."*

For questions regarding the training please contact Duane Walz at [duane.walz@sao.wa.gov](mailto:duane.walz@sao.wa.gov).

## More Timely Audit Reports

In our efforts to deliver audit reports more timely, we are now issuing reports every Thursday in addition to our standard Monday release date.

It's easy to sign up for your own Subscription Services account to receive emails about our reports, and updates to BARS manuals or the Local Government Performance Center. Go to our website at [www.sao.wa.gov](http://www.sao.wa.gov) and click on the Sign In/Sign Up button in the top right-hand corner then follow the guidance to create a new account. You'll need an email address to create an account.

## **Local Government Guidance: Electronic Approvals**

Many state and local governments are using electronic approvals to replace paper-based timesheet systems, travel reimbursements and invoice approvals, to name a few. Also called "Workflow," they permit transactions to move from originator through various approval levels to final approval. This is particularly advantageous if approvers are dispersed geographically and/or approvals are time critical.

Regardless of the method of approval, approvals still have two key elements:

- Who approved it
- What was approved

In the electronic approval process, the user signature or initials are gone. They're replaced by the user's log-on ID attached to the transaction record. A user is held responsible for every transaction with his or her user-ID. As a result, strong user security controls are important to ensure the right person is associated with each transaction. Without these security controls, it is possible for one person to masquerade as another user to initiate the transaction, approve it, or both! Here are some key points to consider when you implement security for electronic approvals:

1. Adopt solid policies over computer use that:
  - a. Require complex passwords of at least eight characters that are regularly changed and difficult to guess.
  - b. Emphasize that passwords should not be disclosed to others by openly communicating them either verbally or visually, through post-it notes on monitors, under the keyboard, in desk drawers etc. Nor should passwords be shared when the approver is absent.
  - c. Require logging off the computer when leaving it unattended.
2. Establish a list of authorized originators and approvers and ensure they are given the appropriate security level in your system, based on their responsibilities. If your system supports it, use predetermined limits with escalation to higher level approvers based on those limits. Make sure to regularly update this security to reflect staffing and responsibility changes.
3. Establish approval processes for handling approvals when an approver is absent. How is the delegation accomplished during the approver's absence and how will the user know what has been approved during their absence?

4. Evaluate higher-level approvers. Can they circumvent the approval functionality by both initiating and approving their own transaction?

5. Evaluate users with the ability, with or without the responsibility, to manage user security. These users can circumvent the user security and perform both initiation and approval. What oversight or monitoring controls are in place?

Your system should capture the employee's user-ID and the system's date/time stamp for all transactions processed. If there are any changes to the approval, it should update both the user ID and the date/time stamp.

### **Corrections**

We all make mistakes. It's important to recognize this fact and make sure you create effective correction processes in the design of your electronic approval system. If you don't, you'll likely find workarounds circumventing and undermining your electronic approval process. Consider:

1. What is the process for correcting a transaction after it has been initiated and before approval? Can an approver change the transaction? If so, is there automated communication of the change to the initiator?
2. What is the process for correcting a transaction after approval? Can an initiator or approver change the transaction after approval? And if so, does it require communication and re-approval of the transaction? If your system prevents corrections, what is the approved process for making the correction?
3. Can anyone other than the initiator and approver(s) modify the transaction? Consider higher level users as well as your IT department. What is the communication and oversight process when changes are made at this level?

### **Audit Trail**

No one wants to be held responsible for a transaction that he or she didn't create or approve. But in a computer system, it's very easy to modify a transaction, and if a strong audit trail isn't in place, it can be very hard to determine what was changed. With an electronic approval process, the source document is in the computer. There's no paper copy to document what the user created or the approver approved. That's why the audit trail is so important. Your audit trail needs to capture exactly what information the initiator submitted and the approver approved and include features that demonstrate those records were not changed after

*Continued on page 4*

## State Auditor's Office sees additional staff changes

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The State Auditor's Office has experienced some additional staff changes.

**Lou Adams** has been promoted to the new Deputy Director of Performance Audit. Lou joined the Office in 1998 and most recently served as a Principal Auditor with the performance audit team. Prior to that, Lou specialized in audits of school districts and managed a team of school program specialists for nine years. Lou is an active member of the Washington Association of School Business Officials and was an Associated Student Body instructor for eight years.

**Sheri Sawyer** is serving as the new Assistant Director of the Local Government Performance Center. Just prior to joining the State Auditor's Office, Sheri spent a year as the Performance Audit Liaison with the Office of the Governor. There she was responsible for ensuring effective coordination of performance audits conducted by the State Auditor's Office of executive branch state agencies. In addition, Sheri spent more than eight years working as a legislative and policy analyst for the Association of Washington Cities.

**Mark Rapozo** has been promoted to Deputy Director of Local Audit. Mark has been with the office since 1983. Mark has held a number of key management positions with the office and most recently was Audit Manager for Team Tacoma, while acting as Program Manager for Special Purpose Districts and Public Ports. In addition, Mark has served as Chairman of the Local Government Records Committee for 10 years.

The new Audit Manager for **Team Tacoma** is **Tammy Bigelow**, who replaces Mark. Tammy has been with State Auditor's Office for 17 years and has worked on state and local audit teams. She started with Team Tacoma in 2005 and was promoted on the team to Assistant Audit Manager in 2006.

**Team Everett** also has a new Audit Manager, **Kristina Baylor**, replacing Casey Dwyer who left the office in January. Kristina has been with the office for about nine years. In October 2008, Kristina accepted a promotion to an Assistant Audit Manager position on Team Bellingham and subsequently transferred to Team Everett to fill a vacant Assistant Audit Manager position in May 2010. Kristina has served as a Fraud Specialist, backup Court Specialist and more recently a Public Facility District Specialist.

The new Audit Manager of **Team School Programs** is **Cheryl Thresher**. Cheryl replaces former Audit Manager

## Electronic Approvals

*Continued from page 3*

the fact. Audit trails vary from system to system but may include things such as automated audit logs, system maintained and controlled date / time stamps and user-ID fields, and read-only access to approved transactions.

### In Summary

Electronic approvals are becoming commonplace in today's accounting systems. They are no different than your traditional approval processes, except the computer is used rather than a paper trail. They facilitate approvals in decentralized organizations and eliminate many of the delays encountered in a traditional paper system.

Because there is no paper trail in the traditional sense, there is increased risk if the system is not managed. This risk can be addressed through thoughtful selection and design of your electronic approval software, ensuring strong user access security, regularly maintaining and updating user origination and approval access, and regular monitoring of reports that track exceptions such as changes after approvals have been made.

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Rick Bonner, who left the office in August of last year. Cheryl has been with SAO since 1998. In September of 2004 Cheryl was promoted to Assistant Audit Manager on the Team and has been responsible for providing the School training around the state to our local audit teams and is one of the School District Specialists for the agency.

The **State Technology Audit Team (STAT)** has a new Audit Manager, **Troy Niemeyer**. Troy has been with the office for almost eight years and has been the manager of both Team Cascadia and most recently the Whistleblower Team. Troy takes over the STAT Manager position for Pete Donnell who is taking on new technology audit training and consulting roles with the office.

**Team Whistleblower** also has a new Audit Manager, **Jim Brownell**. Jim takes over the Whistleblower Manager position for Troy Niemeyer who is now Audit Manager over the State Audit Technology Team (STAT). Jim started with the office in 2004 and was promoted to an assistant audit manager in 2007. Jim has supervised several high-profile state accountability audits for the office, including the Higher Education Procurement Card and Child Care audits.

All are already working in their new roles, so audit clients who work with those teams may contact them with questions. You'll find their contact information on page 7.



# The Audit Connection

*Special pull-out section on upcoming trainings*

## **Offered by the Local Government Performance Center**

The State Auditor's Office has designed the Local Government Performance Center website to help local governments evaluate programs and services, improve results, and communicate with citizens.

We are scheduling classes for the following topics:

- Intro to Lean
- Process Improvement
- Logic Models
- Performance Measure Basics
- Managing with Data
- Evaluating Performance Measures
- Communicating with Data
- Understanding Data
- Strategic Planning

Please contact Sheri Sawyer at 725-9745 or [Sheri.Sawyer@sao.wa.gov](mailto:Sheri.Sawyer@sao.wa.gov) to request information about these and other training opportunities offered by the LGPC. Presenter for the trainings listed below will be Brian Willett of the State Auditor's Office.

### **March 26, 2014 - Logic Models**

Host: Kenmore

Location: Kenmore

### **March 27, 2014 - Intro to Lean**

Host: Tacoma/Pierce Public Health

Location: TBA

### **April 16, 2014 - Performance Measure Basics**

Host: Kenmore

Location: Kenmore

## **Offered by WFOA in partnership with the State Auditor's Office**

The State Auditor's Office partners with the Washington Finance Officers Association to provide professional training that gives budget and finance professionals the opportunity to meet face-to-face, exchange ideas with others, and enhance their knowledge in ways that will assist them in promoting the professional management of government financial resources.

You can register for these courses on WFOA's website at:

[www.mrsc.org/associations/wfoa/register/training](http://www.mrsc.org/associations/wfoa/register/training)

### **Budgeting, Accounting, and Reporting System (BARS)**

April 16, 2014 - Wenatchee, WA

May 7, 2014 - Arlington, WA

### **Cash Basis Accounting & Reporting**

April 22, 2014 - Ellensburg, WA (Fire District Specific)

April 23, 2014 - Lake Stevens, WA (Fire District Specific)

April 29, 2014 - DuPont, WA

May 1, 2014 - Ellensburg, WA

### **Federal Grant Requirements & Management**

Do you accept Federal Funding in your Organization? Did you know that Federal Funds come with "strings attached"? Do you know what those strings are and how to keep them from becoming tangled?

If you are confused, join the WFOA and the State Auditor's Office for clarification. We are offering the "Federal Grants Requirements & Management" class twice this spring in locations around the state. Two more sessions will be held in October, too.

March 20, 2014 - Arlington, WA

March 27, 2014 - Olympia, WA

## Dual Financial Opinions for Cash Basis Local Governments

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Two changes will affect the look of future State Auditor's Office audit reports on financial statements for entities reporting on a cash basis. Both changes are required by standards used in the United States for audits of governmental entities. Our auditors are required to follow these standards when auditing and issuing reports on these entities' financial statements.

Local governments may prepare financial statements using the cash basis method of accounting, which is allowed by the State Auditor's Office in the Budgeting, Accounting and Reporting System Manual (BARS), and in accounting manuals published jointly by our Office and the Superintendent of Public Instruction for school and educational service districts. Our audit reports will continue to have a standard paragraph issuing an opinion on those financial statements.

In addition to this opinion, standards issued by the American Institute of Certified Public Accountants (AICPA) require the State Auditor's Office to formally acknowledge when government entities do not prepare their financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

As a result, beginning with audits of fiscal year 2013, reports for entities using a non-GAAP accounting method will include a second opinion. This additional opinion will be on the fair presentation of the statements in

accordance with GAAP requirements. If the statements are not prepared using GAAP, the Auditor's Office will issue an adverse or qualified opinion stating that fact, unless we can determine the financial accounting and statement presentation is not materially different from GAAP reporting. Again, the language related to the GAAP requirements included in the audit report is required by the AICPA and should not be interpreted to mean the amounts presented in financial statements are incorrect or misstated for the basis of accounting used.

Each section of the audit report also will now have clarifying headings. These headings identify the purpose of each section, with the goal of making the report easier to understand for the user.

The State Auditor's Office has contacted bond-rating agencies and noted they were not concerned that these reporting changes would affect bond ratings. In addition, our Office has contacted key media outlets to ensure that these changes to our reports will be interpreted appropriately. Please feel free to contact the manager of your local audit team if you have any questions regarding the report format changes. In addition, Deputy Director of Communications Thomas Shapley (360-902-0367) can assist you if you receive questions from the public and news media.

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### Opinion on the CAFR

*Continued from page 1*

- has described Washington's state's credit rating as "stable" and Washington continues to have good bond ratings.
- The Workers' Compensation Program reported a large increase in claims costs payable this year. Much of the Program's unfunded liability (\$11 billion) was for supplemental pension cost-of-living increases. An independent actuarial firm reported further rate increases may be necessary over the next five year to reduce the risk of insolvency and build the contingency reserves to target levels.
  - The unemployment compensation system reported operating income this year, largely due to an improving employment situation.
  - Washington's Budget Stabilization Account (rainy day fund) balance grew significantly from prior years.
  - Washington's open retirement plans are fully funded, however two of the state's closed pension plans, PERS 1 for retired state employees and TRS 1 for retired teachers, have large unfunded liabilities.
  - Washington's post-employment benefit plan of subsidized medical, dental, life, and long-term disability insurance to employees who elect to continue coverage had a significant unfunded liability at year end.
  - Assets in the Guaranteed Education Tuition Program fell short of obligations for future payments.
  - Washington's Risk Management Fund has set aside only a small portion of cash and investments necessary to pay for future estimated claims for tort claims, judgments and settlements against the state.
  - Federal grant money from the American Recovery and Reinvestment Act is diminishing, however the state has agreed to maintain certain programs even after federal funding for the programs has ended.

## Kelly Collins joins leadership team

Kelly Collins joins the State Auditor's leadership team as the new Director of Local Audit. Kelly has been with the Auditor's Office for 21 years, the past six serving as Deputy Director of State and Local Audit.

She started her career with the office as a local government auditor and has moved with great success through the organization, serving as an audit manager

and program manager before becoming deputy director. A Certified Public Accountant, she serves on the board of the Washington State Committee of Certified Public Accountants (WSCPA). Kelly replaces Chuck Pfeil, who is now the Director of Performance and State Audit.

Since becoming State Auditor, Troy Kelley has worked to move the organization to a lean executive group with audit divisions that are relatively seamless. This appointment is another step down that path.

## Contact information for the State Auditor's Office

**Main office in Olympia** [www.sao.wa.gov](http://www.sao.wa.gov) **360-902-0360**

**State Auditor Troy Kelley** [troy.kelley@sao.wa.gov](mailto:troy.kelley@sao.wa.gov) **360-902-0360**

### Leadership team

Doug Cochran, Chief of Staff [doug.cochran@sao.wa.gov](mailto:doug.cochran@sao.wa.gov) 360-902-0090

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### Local audit managers

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### Administrative services

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