

STATE OF WASHINGTON, OFFICE OF FINANCIAL MANAGEMENT

Agreed-Upon Procedures

For the Biennium Ended June 30, 2021

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Independent Accountant's Report on Applying Agreed-Upon Procedures

State of Washington, Office of Financial Management Olympia, Washington

We have performed the procedures enumerated below on the Washington State Auditors' Office's (SAO) compliance with certain requirements, as described below, for the biennium ended June 30, 2021. SAO's management is responsible for its compliance with certain requirements, as described below, for the biennium ended June 30, 2021.

The State of Washington, Office of Financial Management (OFM) has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of assisting OFM with its oversight of SAO's operations for the biennium ended June 30, 2021. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and the associated findings are as follows:

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, 2021.



T: 425-454-4919
T: 800-504-8747
F: 425-454-4620

10900 NE 4th St
Suite 1400
Bellevue WA
98004

clarknuber.com



- Procedure 1: Determine compliance with the Washington State Administrative and Accounting Manual (SAAM) Chapter 20.15.50 - Annual Requirements for Agencies.
- a. Review support from SAO for adequate written documentation of activities conducted in connection with the following:
 - i. Periodic risk assessment and internal control monitoring;
 - ii. Written Annual Assurance by the Internal Control Officer; and
 - iii. Required Annual Certification by the agency head and CFO as evidenced by signing the Financial Disclosure Certification form.

Results: We reviewed the fiscal years 2020 and 2021 Annual Reports on Risk Assessments from Scott Woelfle (Director for Quality Assurance and Innovation) to Pat McCarthy (State Auditor). 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 2020 and 2021. Both forms were signed by Pat McCarthy (State Auditor) and Janel Roper (Chief Financial Officer, Director of Administrative Services).

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

- Procedure 2: Determine 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. Review 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 Security and Disaster Recovery/Business Resumption Plans was conducted;
 - Select three employees and review their system access to ensure it was appropriate for their current job description; and
 - Select three former employees and verify their system access had been revoked upon their exit from the agency.



Results: We reviewed evidence that agreed-upon procedures over assessing compliance with OCIO Standard No. 141.10 were performed by the State IT Audit Division for the period November 2019 through November 2020, with a report date of December 31, 2020.

We reviewed the "2021 Annual Certification Attestation" form and the "2020 Annual Certification Attestation" form, both signed by Pat McCarthy (State Auditor) and Matt Welling (CIO).

For the biennium June 30, 2021, we reviewed the "Washington State Auditor's Office Continuity of Operations (COOP) Plan" reports dated June 2020 and June 2021.

We verified that the three selected employees had appropriate system access for their job description. We verified that for one of three selected former employees, their system access was revoked on the same day as their termination. We verified that for one of the three selected former employees, their system access was revoked within 24 days of their termination, noting that this employee had passed away unexpectedly. The additional time was needed to retrieve files from their laptop. For one of the three selected former employees, we verified that final closeout was completed 63 days after their termination. This includes retrieving data from the employee's laptop and other closeout procedures. There was no evidence available to indicate if the employee's system access was revoked earlier than 63 days.

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

- Procedure 3:** Determine compliance with RCW 43.09.416, determining the billing rate.
- a. For three travel transactions, three purchase card transactions, and three payroll disbursements, review 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. Recalculate one month's cost allocation of overhead and administrative costs for compliance with the RCW.
 - c. Verify compliance with the requirement that the billing rate be established based on costs incurred in the prior biennium and anticipated costs in the new biennium by reviewing SAO's process and documentation.
 - d. Verify compliance with the requirement that working capital shall not exceed 5% of auditing services revolving account appropriation.

Results: For the nine 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 2021. SAO allocates overhead, administrative and shared costs based on direct service hours associated with providing services 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 for 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, did not exceed the 5% maximum at June 30, 2020 and 2021. The working capital percentage at June 30, 2020 was 0.1%. The working capital percentage at June 30, 2021 was 4.5%.

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 arises, 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. Local billing rates were adjusted to \$110/hour in January 2019, up from \$95/hour, and adjusted to \$113/hour in January 2020, increasing it based on higher overhead costs per hour worked. State billing rates were adjusted to \$110/hour in August 2019. We obtained the cash flow analyses for each rate change and verified the new bill rates were appropriately established based on costs incurred in the prior biennium and anticipated costs in the new biennium.

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

- Procedure 4: Sample employee travel transactions to determine compliance with the state travel regulations stated in RCW 43.03, SAAM Chapters 10 and 85.32, and SAO's written policies and procedures.
- a. For ten selections, test employee travel transactions for compliance with the RCW, SAAM, and SAO policy.
 - b. Perform data analysis procedures on the population of travel transactions as follows:
 - i. Sum payments to each employee by dollar amount;
 - ii. Look for employees with P.O. box addresses; and
 - iii. Identify employees with the same address or that are listed more than once in the vendor master file.
 - c. Provide results of the above data analysis procedures to management of OFM.
 - d. Determine if follow-up procedures are desired by OFM. See the Results section below for description of the follow-up procedures performed.



Results: For the ten selected travel transactions, we verified that the 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 were noted as a result of applying the agreed-upon procedures.

We provided results of the above data analysis procedures to management of OFM on April 21, 2022. After reviewing the data analysis results, management of OFM requested follow-up procedures on five of the disbursements. For these items, in accordance with OFM's request, we reviewed the Travel Expense Voucher and underlying receipts for proper approval and business purpose of the expense.

No exceptions were noted as a result of applying the follow-up procedures.

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

- a. For six small and attractive assets, test for compliance with SAAM and SAO policies.

Results: For the six selections tested, we reviewed inventory records for small and attractive assets, and ensured the proper detail was included in accordance with SAAM and SAO policies, such as acquisition date, location code, quantity, useful life, and others.

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

Procedure 6: Sample employee purchase card transactions to determine compliance with the state regulations stated in RCW 39.26.090, SAAM Chapter 40, DES's Purchase Card Policy, and SAO's written policies and procedures.

- a. For fifteen selections, test employee purchase card transactions for compliance with the RCW, SAAM, DES, and SAO policies.
- b. Perform data analysis procedures on the population of purchase card transactions as follows:
 - i. Look for transactions processed on weekends;
 - ii. Sum purchases by credit card holder and sort from highest to lowest;
 - iii. Sum purchases by vendor and sort from highest to lowest; and
 - iv. Sort the listing by merchant category code.



- c. Provide results of the above data analysis procedures to management of OFM.
- d. Determine if follow-up procedures are desired by OFM. See the Results section below for a description of the follow-up procedures performed.

Results:

For the fifteen selected employee purchase card transactions, we requested 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 ten different purchase card users. Of these ten purchase card users, we noted that one did not have a signed Purchase Card User Agreement form on file for the period of the selected purchase; rather, we noted the date of signature on the Card User Agreement form was fourteen days after the date of purchase.

We ensured that all 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, except for the one user with a form on file subsequent to the date of purchase as noted above. 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.

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

We provided results of the above data analysis procedures to management of OFM on April 27, 2022. After reviewing the data analysis results, management of OFM did not request further follow-up procedures.

No exceptions were noted as a result of applying the follow-up procedures.

Procedure 7:

Evaluate the adequacy of receivables management; review receivable collection process; assess documentation of transactions affecting receivables; and sample past due and uncollectible receivable transactions. Determine compliance with Chapter 85.54 of SAAM and SAO policies.

- a. For five past due receivable balances, test the receivable collection process for compliance with SAAM and SAO policies.
- b. For five balances that were written off, test 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 were noted as a result of applying the agreed-upon procedures.

Procedure 8: Evaluate the adequacy of cash/ACH/IAP receipts management; review collection process; assess documentation of receipt transactions; and sample cash/ACH/IAP receipts transactions. Determine compliance with Chapter 85.50 and 85.54 of SAAM, and SAO policies.

a. For ten selections, test 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 were noted as a result of applying the agreed-upon procedures.

Procedure 9: Evaluate the adequacy of payroll management; review the payroll process; and sample payroll transactions. Determine compliance with SAAM Chapter 25 and SAO policies.

a. For ten selections, test payroll disbursements for compliance with SAAM and SAO policies.

b. Perform data analysis procedures on the population of payroll transactions as follows:

- i. Sum the total of positive deductions (amounts added to paychecks); and
- ii. Sum the total of expense reimbursements, by amount and count, if processed through payroll.

c. Provide the results of the above data analysis procedures.

d. Determine if follow up procedures are desired by OFM. See the Results section below for a description of the follow-up procedures performed.



Results: For the ten selections tested, we verified existence of the employee by review of personnel files retained in the Human Resources department. One of the ten selections was paid hourly. For that selection, we vouched the approved timesheet to the payroll report for the selected pay period. We recomputed gross pay for all 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 payroll for all selections. For one hourly and one salaried employee, we recomputed Social Security and Medicare deductions for the selected pay period based on enacted rates.

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

We provided results of the above data analysis procedures to management of OFM on June 19, 2022. After reviewing the data analysis results, management of OFM did not request follow-up procedures.

No other exceptions were noted as a result of applying the follow-up procedures.

We were engaged by the State of Washington Office of Financial Management to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute for Certified Public Accountants (AICPA). We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on SAO's compliance with certain requirements as enumerated above for the biennium ended June 30, 2021. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of SAO and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

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
July 14, 2022



We agree with the accountant's results.

The exceptions are being addressed as follows:

Procedure 2: The State Auditor's Office concurs with this result. When an employee separates, employee equipment is returned on the last day of employment and SAO Information Services staff disables the user account at 6 pm the day of their separation. While we are confident that process is routinely followed, we were not able to provide documentation to confirm that the individual account included in the testing was disabled.

Procedure 6: The State Auditor's Office concurs with this result. SAO will continue to ensure that training is provided to all purchase card users and that user agreements are obtained prior to use of or approval of purchase card transactions.

The State Auditor's Office appreciates the agreed-upon procedures that Clark Nuber has performed related to our internal operations. We value the audit process and the reported results.