



# Office of the Washington State Auditor

Pat McCarthy

## Entrance Conference: Columbia County

The Office of the Washington State Auditor's vision is increased trust in government. Our mission is to provide citizens with independent and transparent examinations of how state and local governments use public funds, and develop strategies that make government more efficient and effective.

The purpose of this meeting is to share our planned audit scope so that we are focused on the areas of highest risk. We value and appreciate your input.

### Audit Scope

Based on our planning, we will perform the following audits:

#### **Accountability audit for January 1, 2017 through December 31, 2017**

We will examine the management, use and safeguarding of public resources to ensure there is protection from misuse and misappropriation. In addition, we will evaluate whether there is reasonable assurance for adherence to applicable state laws, regulations and policies and procedures.

We plan to evaluate the following areas:

- State Grants
- General Disbursements
- Payroll Disbursements
- Property Room
- Credit Cards
- Assessor Revaluation Schedule
- Self-Insurance: Unemployment

#### **Financial statement audit for January 1, 2017 through December 31, 2017**

The purpose of our financial statement audit is to provide an opinion on whether your financial statements are presented fairly, in all material respects, in accordance with the applicable reporting framework. The audit does not attempt to confirm the accuracy of every amount, but does search for errors large enough to affect the conclusions and decisions of a financial statement user.

#### **Federal grant compliance audit for January 1, 2017 through December 31, 2017**

An audit is required pursuant to the federal Single Audit Act of 1984 when a local government spends \$750,000 or more annually in federal financial assistance. Our objective is to determine whether there is compliance with federal requirements that could have a direct and material effect on a major federal program and to report on noncompliance.

We plan to test the following federal program:

- Highway Planning and Construction, CFDA 20.205

Federal requirements stipulate the submission of these audit reports, along with the Data Collection Form, to the federal clearinghouse within 30 days after receipt of the report or nine months after the end of the audit period, whichever is earlier.

## **Engagement Letter**

We have provided an engagement letter that confirms both management and auditor responsibilities, and other engagement terms and limitations. Additionally the letter identifies the cost of the audit, estimated timeline for completion and expected communications.

## **Levels of Reporting**

### **Findings**

Findings formally address issues in an audit report. Findings report significant deficiencies and material weaknesses in internal controls; misappropriation; and material abuse or non-compliance with laws, regulations or policies. You will be given the opportunity to respond to a finding and this response will be published in the audit report.

### **Management Letters**

Management letters communicate control deficiencies, non-compliance or abuse with a less-than-material effect on the financial statements or other issues with significance to the audit objectives. Management letters are referenced, but not included, in the audit report.

### **Exit Items**

Exit items address control deficiencies or non-compliance with laws or regulations that have an insignificant effect on the audit objectives. These issues are informally communicated to management.

## **Important Information**

### **Confidential Information**

Our Office is committed to protecting your confidential or sensitive information. Please notify us when you give us any documents, records, files, or data containing information that is covered by confidentiality or privacy laws.

### **Audit Costs**

The cost of the audit is estimated to be approximately \$26,980 plus travel expenses.

### **Expected Communications**

During the course of the audit, we will communicate with Sharon Richter, Auditor on the audit status, any significant changes in our planned audit scope or schedule and preliminary results or recommendations as they are developed.

Please let us know if, during the audit, any events or concerns come to your attention of which we should be aware. We will expect Sharon to keep us informed of any such matters.

### **Audit Dispute Process**

Please contact the Audit Manager or Assistant Director to discuss any unresolved disagreements or concerns you have during the performance of our audit. At the conclusion of the audit, we will summarize the results at the exit conference. We will also discuss any significant difficulties or disagreements encountered during the audit and their resolution.

### **Loss Reporting**

State agencies and local governments are required to immediately notify our Office in the event of a known or suspected loss of public resources or other illegal activity. These notifications can be made on our website at <http://portal.sao.wa.gov/saoportal/public.aspx/LossReport>.

### **Peer Reviews of the Washington State Auditor's Office**

To ensure that our audits satisfy *Government Auditing Standards*, our Office receives external peer reviews every three years by the National State Auditors Association (NSAA). The most recent peer review results are available online at <http://www.sao.wa.gov/about/Pages/PeerReviews.aspx>. Our Office received a “pass” rating, which is the highest level of assurance that an external review team can give on a system of audit quality control.

### **Emerging Issues**

Some of the emerging issues affecting local governments are the following:

#### **Ensure your bank deposit slips are detailed**

We have learned that not all banking institutions are providing a detailed breakout of cash and checks on bank validated deposit slips. If your banking records do not contain the detailed cash/check composition of your deposit, you will want to take corrective action as soon as possible.

Reconciliation of daily deposits is intended to ensure that all the funds your organization received make it to the bank intact. A proper reconciliation entails someone not involved in receiving the funds comparing a financial system receipting report to the bank validated deposit slips. The reconciliation compares the cash and check amounts listed in the financial system with those listed on the deposit slip. If the amounts do not agree, the independent reviewer should follow up to determine what caused the problem. State and local governments can implement cash receipting controls, such as verifying deposits, to monitor for fraudulent activity and to catch mistakes.

Please take the time to check in with your cash-receipting departments and determine if they are getting detailed, bank validated deposit slips. If your organization is not getting detailed, bank validated deposit slips, contact and work with your bank to start receiving these records.

#### **Financial reporting for investment trust funds**

Current county audits have identified some issues associated with the reporting and disclosure of investment trust funds in the financial statements.

Counties should report an external investment pool or individual investment account as a separate “investment trust fund” and not as an agency fund in the financial statements. For an investment pool, only the external portion would be included in this investment trust fund, while the internal portion belonging to the county and its component units generally would be allocated as assets to those funds and component units.

An *external investment pool* is when a county combines funds with other governments and invests, on behalf of these other governments, in an investment portfolio. An *individual investment account* is when a county acquires specific investments for an individual entity, such as the Local Government Investment Pool (LGIP), and the income from and value changes of these investments affect only the entity for which they are acquired.

The Governmental Accounting Standards Board (GASB) establishes generally accepted accounting principles (GAAP) for U.S. state and local governments. All statements, exposure drafts and other documents for public comment are available from the GASB website, [www.gasb.org](http://www.gasb.org), free of charge.

Here is a summary of current and upcoming accounting and financial reporting standards.

### **GASB Pronouncements Effective for the Reporting Year 2017**

- **Statement No. 74, *Financial Reporting for OPEB Plans***  
This is the financial reporting requirements for OPEB plans. It replaces GASB Statement No. 43 and is comparable to GASB Statement No. 67 for pension plans.
- **Statement No. 80, *Blending Requirements for Certain Component Units***  
This statement, an amendment to Statement No. 14, requires the blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.
- **Statement No. 81, *Irrevocable Split-Interest Agreements***  
This statement provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.
- **Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73***  
This statement addresses certain practice issues that arose with respect to the new pension standards. Specifically, RSI would present “covered payroll,” which is the portion of compensation paid to active employees on which contributions to a pension plan are based. Also, plan member contributions made by the employer on-behalf of plan members would be treated as employee contributions.

### **GASB Pronouncements Effective for the Reporting Year 2018**

- **Statement No. 75, *Accounting and Financial Reporting for OPEB***  
This is the guidance for reporting OPEB by employers. It replaces GASB Statement No. 45 is comparable to GASB Statement No. 68 for pension plans. (See GASB Implementation Guide 2017-3).
- **Statement No. 85, *Omnibus 2017***  
This statement addresses a mix of implementation issues related to blending component units, goodwill, fair value measurement, pensions and OPEB, etc.
- **Statement No. 86, *Certain Debt Extinguishment Issues***  
Main topics are debt extinguishment as the result of placing exclusively the existing resources in trust and accounting for prepaid insurance on refunded debt.

### **GASB Pronouncements Effective for the Reporting Year 2019**

- **Statement No. 83, *Certain Asset Retirement Obligations***

Under this statement, a government that has a legal obligation for future capital asset retirement activities is required to recognize a liability and a corresponding deferred outflow of resources.

- **Statement No. 84, *Fiduciary Activities***

This guidance clarifies what constitutes a fiduciary activity for financial reporting purposes and the fund types to be reported. An implementation guide is expected in Dec 2018.

- **Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements***

This statement provides additional requirements for disclosure in notes to government financial statements related to debt, including direct borrowings and direct placements.

### **GASB Pronouncements Effective for the Reporting Year 2020**

- **Statement No. 87, *Leases***

Scope includes definition of a lease, lease terms, short-term leases, subleases, sale-leaseback. Accounting and reporting for lessee and lessor. An implementation guide is expected in Jan 2019.

- **Statement No. 89, *Accounting for Interest Cost Incurred before the end of a Construction Period***

Suspends paragraphs 5-22 of GASB 62. Do not capitalize interest cost related to capital assets – expense as incurred.

For all statements, earlier application is encouraged.

### **Current GASB Exposure Drafts, Invitations to Comments, etc.**

The GASB recently issued several proposed new standards for public comment. These exposure drafts are not new standards yet, but they will be in the future. The Board encourages any individual or organization to provide written comments about them and instructions are included with each document. The documents can be downloaded free of charge from the GASB website. This is a good opportunity to become involved in the standard setting process.

- ***Revenue and Expense Recognition*** (ITC Apr 2018; PV May 2020)
- ***Financial Reporting Model Improvements – Governmental Funds*** (ITC Mar 2017; PV Sep 2018)
- ***Accounting and Financial Reporting for Majority Interests – an amendment of GASB Statement 14*** (ED Jan 2018; standard Aug 2018)
- ***Implementation Guide 2018 Update*** (ED Nov 2017)
- ***Conduit Debt*** (ED Jul 2018)
- ***IT Arrangements, Cloud Computing*** (ED Apr 2019)

### **Working Together to Improve Government**

#### **Audit Survey**

When your report is released, you will receive an audit survey from us. We value your opinions on our audit

services and hope you provide us feedback.

### **Local Government Support Team**

This team provides support services to local governments through technical assistance, comparative statistics, training, and tools to help prevent and detect a loss of public funds. Our website and client portal offers many resources, including a client Help Desk that answers auditing and accounting questions. Additionally this team assists with the online filing of your financial statements.

### **Performance Center**

The Performance Center is a resource for local governments that need to solve problems, reduce costs, and improve the value of their services to citizens. The Center offers training and tools to help local governments improve performance and effectiveness.

### **Audit Team Qualifications**

**Kelly Collins, CPA, Director of Local Audit** – Kelly has been with the Washington State Auditor’s Office since 1992. In her role, she oversees the audit teams which perform the audits for over 2,200 local governments. She serves on the Washington Finance Officers Association Board and is a member of the Washington Society of Certified Public Accountants’ Government Auditing and Accounting Committee. Phone: (360) 902-0091 or [Kelly.Collins@sao.wa.gov](mailto:Kelly.Collins@sao.wa.gov)

**Tina Watkins, CPA, Assistant Director of Local Audit** – Tina has been with the Washington State Auditor’s Office since 1994. In her role as Assistant Director, she assists with statewide oversight and management of all the audits for local government. She served as an Audit Manager for six years prior to becoming an Assistant Director of Local Audit. Phone: (360) 260-6408 Ext. 106 or [Tina.Watkins@sao.wa.gov](mailto:Tina.Watkins@sao.wa.gov)

**Ginny Waltman, Program/Audit Manager** – Ginny Waltman has been with the Office of the Washington State Auditor since 1998. Ginny has been with Team Tri-Cities since starting her career with the Office. Ginny became an Assistant Audit Manager in 2000 and has been the Audit Manager since 2013. Ginny is the Office’s Program Manager for Conservation Districts. Previously, Ginny worked as a Controller in a long-term care facility for seven years. Phone: (509) 734-7104 or [Ginny.Waltman@sao.wa.gov](mailto:Ginny.Waltman@sao.wa.gov)

**Debbie O’Leary, Assistant Audit Manager** – Debbie O’Leary has been with the Office of the Washington State Auditor since 2014. Debbie has been with Team Tri-Cities since starting her career with the Office. Debbie has been the Audit Lead for various audit types and is the Team’s Lead Fraud Specialist. Debbie became an Assistant Audit Manager in 2018. Phone: (509) 734-7104 or [Deborah.Oleary@sao.wa.gov](mailto:Deborah.Oleary@sao.wa.gov)

**Megan Rixin, Audit Lead** – Megan Rixin has been with the State Auditor’s Office since 2017. Phone: (509) 527-4175 or [Megan.Rixin@sao.wa.gov](mailto:Megan.Rixin@sao.wa.gov)