State of Washington

General

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Name: State of Washington
Group: Financial Audit
Type: S1-Agency, Commission, or Board
Location: State
Scope: Not Applicable

Team

Lead: Rajpreet maynock
Manager: Steven Wendling

Procedures

D.1.PRG - Taxes Receivables (Net of Allowance)

Procedure Step: Summary & Conclusion
Prepared By: BFW, 10/12/2023
Reviewed By: SLB, 10/17/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
The results of substantive tests do not indicate a need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
The quality and quantity of evidence obtained was sufficient and appropriate.

D.1.PRG - Taxes Receivables (Net of Allowance)

Procedure Step: Understanding of Line Item
Prepared By: MRF, 5/4/2023
Reviewed By: SLB, 9/22/2023

Record of Work Done:

(1) Prior Audit Exceptions:
There were no prior year audit exceptions for this balance.

(2) Composition & Change Analysis:
Line Item Leadsheet: [Line Item Lead Sheet].

We met with Ayano Faasuamalie (Revenue and Financial Reporting Coordinator) and Sandi Fairchild (CFO) on April 24th, 2023 to gain an understanding of taxes receivable, and again on May 10th.

The Taxes Receivable (Net of Allowance) balance is the result of debit entries for year-end accruals and deferred inflows of resources (non-current) and is comprised primarily of the following taxes:

- Property taxes - collected by the counties, then counties submit to DOR
  - We performed a review of property tax as part of our deferred inflows understanding at [Deferred Inflows of Resources]. We consider property tax receivables to be low risk and determined the deferred inflows testing alone provides sufficient coverage over the property tax receivable balance.
- Retail sales taxes - administered and collected by DOR

- Business and Occupation taxes - administered and collected by DOR

Balance Calculations -
Receivable balances are determined using the Automated Tax and Licensing Administration System (ATLAS). Ayano Faasumalie explained the types of receivables and calculation related to allowance for uncollectibles remains the same since the implementation of ATLAS in FY19. See the table below:

Receivable Type	**Allowance Methodology - (uses historic data)**
Return Receivables	Accounts in deferred status (actual amounts)
Estimated Returns	Discount rate applied to locked returns; collection rate applied to unlocked returns to determine accrued revenue versus unavailable revenue
Audit Receivables	Uncollectible allowance rate applied at FYE, determined from real time adjustments to audit receivables during FY
Lien Receivables	Lien accounts in deferred status (actual amounts) plus additional allowance rate applied at FYE

To determine how to apply the uncollectible rate to the different receivable types, DOR analyzes how much was moved into Deferred Status for each receivable type during the fiscal year. Based on this analysis performed by DOR, it was determined that return receivables and estimated receivables in deferred status do not need the uncollectible rate applied to them. Only the actual balance due amounts on the taxpayer accounts that are in Deferred Status for each of those receivable types will be recorded in Allowance for Uncollectibles.

It was also determined that lien receivables have a higher percentage of accounts that moved into Deferred status; therefore, DOR applies a 5 year average of a lien uncollectible rate to the lien receivables. The amount recorded into allowance for uncollectibles for the liens receivables is the uncollectible rate multiplied by the lien receivable balance and any taxpayers' accounts in deferred status. Additionally, an analysis of audit receivables was performed to determine what real dollar adjustments had been made to audit receivables for the year and an uncollectible rate was determined and applied for those accounts. The total adjustments and write-offs for audit receivables are divided by the beginning balance for audit receivables to determine the uncollectible rate to be applied. During testing, we will review the methodology that DOR uses to estimate uncollectible taxes for the allowance for uncollectibles amount.

Changes Noted by DOR -
The 2021 Washington State Legislature passed ESSB 5096 (RCW 82.87) which created a 7% tax on the sale or exchange of long-term capital assets such as stocks, bonds, business interests, or other investments and tangible assets. The Washington State Supreme Court ruled that the

excise tax on capital gains is constitutional and valid. The tax took effect starting January 1, 2022. The Department of Revenue started collecting the tax on April 18, 2023. Sandi Fairchild explained there were $839 million in capital gains collected, from 5,000 total tax filings (3,000 resulted in payments). The majority is from a few individuals that owed very large balances and they did pay when it was due. As on April 24th, there was $493,000 in receivables. We determined that this amount of capital gain tax receivable is not material.

We requested Internal Audit's risk assessment related to revenues and receivables from Sandi Fairchild, Chief Financial Officer, to identify any significant changes to note for the taxes receivable balance. During our review, we did not note any significant changes in the composition or reporting of the taxes receivable balance. We inquired with Ayano who stated processes have remained the same for identifying and reporting taxes receivable. **No significant changes or risks identified.**

(3) Updates to Material Account Matrix:
We identified no changes that need to be made to the Material Account Matrix.

D.1.PRG - Taxes Receivables (Net of Allowance)

Procedure Step: Controls - ATLAS
Prepared By: MRF, 6/8/2023
Reviewed By: SLB, 10/17/2023

Record of Work Done:

Internal controls in the Automated Tax and Licensing Administration System (ATLAS) address the following balance(s):

- **Taxes Receivable (Net of Allowance)** - General Fund
- **Taxes Receivable (Net of Allowance)** - Government Activities

For the following assertions:

- **Existence -** There is a risk that design defects or program change errors in the ATLAS system exist and will not be detected and corrected due to inadequate testing.
- **Valuation -** There is a risk that changes to the methodology for establishing the allowance for uncollectible taxes will result in valuation errors.
- **Completeness -** There is a risk that taxes receivable could be incomplete due to an incorrect year end accrual and receivable posting.

State of Washington

Gain an Understanding of Internal Controls
We met with Ayano Faasuamalie, Revenue & Financial Reporting Coordinator, in Business & Financial Services (B&FS) and Sandi Fairchild, CFO, on April 24th, 2023 to gain an understanding of taxes receivable. We also met with Andrew Arnold, Fiscal Analyst 5, on May 3rd, 2023 to gain additional understanding of taxes receivable, and again with Ayano on May 10th, 2023.

Background:
Automated Tax and Licensing Administration System (ATLAS):
Implemented on March 19, 2018, ATLAS replaced all of the Department's legacy systems specific to taxpayer administration including the receivables system, TARIS. ATLAS is driven by the taxpayer return, which the majority of taxpayers file on-line through MYDOR, part of the State's SecureAccess Washington (SAW) single sign-on application gateway. This was created by the Washington State Department of Information Services (which in 2011 became part of Department of Enterprise Services) to simplify access to a list of government services accessible via the Internet. ATLAS's automated tax return form is hard coded with the appropriate codes for each of the tax types so the fund, tax revenue source, general ledger codes, etc. is properly recorded. Active taxpayers are required to submit returns either monthly, quarterly, or annually as determined by Taxpayer Account Administration Division.

The following are the four different types of receivables identified within ATLAS:

- **Return Receivables:** Tax returns submitted by taxpayers without payment or with partial payment leaving a balance due. ATLAS automatically records a return receivable (balance due) in the taxpayer's account the next day after the due date.
- **Audit Receivables:** Based on an assessment from an auditor. When the auditor identifies an adjustment is needed, a tax return in the system is posted to the taxpayer's account and becomes a receivable the next day.
- **Estimated Return Receivables:** Results from estimated tax returns for businesses that have failed to file a tax return on time. The system identifies an account that was expected to file a tax return and was not filed by the due date. ATLAS will automatically create a return, which estimates the amount of tax due based on up to 4 years prior filing history from the taxpayer's account or industry standards if the taxpayer does not have 4 years of history. This amount is multiplied by the hard coded tax rates in ATLAS to determine the amount due. The estimated return is posted to the taxpayer's account in ATLAS. The system will automatically put a CAS - HOLD (called "locked") on the estimated return so that the taxpayer will not be able to view the estimated amount. Locked returns are not recorded as a receivable until a Compliance Agent has reviewed the estimated return for reasonableness (or the business has paid the balance). Since the Agent is familiar with the taxpayer, the Agent may make adjustments to the estimated amount if deemed necessary. Changes are reviewed by a Supervisor. Once the Compliance Agent's review is completed, they will release/unlock the Hold and the estimated return amount will then be recorded as a receivable (and viewable by the taxpayer in their account).
- **Lien Receivables:** These were called Warrants, which result from Return, Estimated Returns, and Audit receivables that have had unsuccessful collection efforts. A taxpayer's delinquent account goes through a compliance assessment. All receivable types

(Audit, Estimated, & Returns) for that taxpayer are assumed into one lien receivable. The lien (warrant) is filed in district court as a lien against the taxpayer's business. Once the lien is filed, it is in effect for 10 years, or until the outstanding balance is paid in full and DOR takes the lien off the property.

Calculation and Identification of Excise Tax Receivable:
The monthly process of recording taxes receivable begins with tax returns that are overdue or underpaid. When a tax return is entered into ATLAS, the system will automatically review the tax return, looking for variances using built-in parameters for calculations and logic statements in order to flag errors or high risk items, including returns that do not have a payment or the payment does not match the return amount. Work items are created for returns that do not automatically post to a taxpayer's account in ATLAS until it is reviewed by a Taxpayer Account Administration (TAA) Examiner. If there is a balance due on the return, ATLAS will automatically create a receivable including penalties and interest based on the due date, which is automatically posted by ATLAS in the taxpayer account **(Key Control #1 – Automated – Completeness/Valuation)**. If a tax return was not filed by the due date, ATLAS will automatically create an estimated tax return one week after the due date based on the account's reporting history, (or with specific amounts based on reporting frequency if the taxpayer has no past reporting), then multiply those amounts by the hard coded tax rates. Accounts in locked status are not posted until reviewed for reasonableness by Compliance Agents.

Calculations of Rates and Adjustments
The process of determining the fiscal year-end taxes receivable balance includes the application of a discount rate, uncollectible rate, and accounts in deferred status to provide a reasonable estimate of the taxes receivable balance that will be collected. Therefore, Taxes Receivable is recorded in the financial statements net of the following three different types of adjustments:

1. Discount Rates: Discounts are an estimated amount that is based on the assumption that receivables have been overstated. The discount rate reduces the receivable amount but is not recorded in the Allowance for Uncollectible. Currently, the only receivable type considered by DOR to be overstated is the locked estimated return receivables and will have a discount rate applied to those receivables. DOR decided to discount the locked estimated returns because ATLAS because in some instances a business may have closed or have had no activity during the period.

DOR performs an analysis to determine how much of the locked estimated returns at fiscal year end (FYE) were actual receivables. To calculate the discount rate, the actual receivables is divided by the total locked estimated returns at FYE. The remaining locked returns as of FYE have not been reviewed and are therefore, still locked at the end of the fiscal year. Also, additional estimated returns were generated by ATLAS during the current fiscal year. The discount rate is manually applied to the balance of the locked estimated returns when a Journal Voucher (JV) is created to record the Taxes Receivables for FYE estimated return receivables.

For all other receivable types (Audit, Returns, and Liens) it was decided the other receivable types' balances are not overstated and are actual receivables; therefore, a discount rate is not applied.

2. Uncollectible Rates: DOR changed this methodology based on a discussion with OFM in FY19 and the process has remained the same since then. DOR's analysis showed that a low percentage of accounts were put into deferred status during FY19; therefore, the uncollectible rates are not applied to return receivables or estimated return receivables. For these receivable types, only taxpayer accounts in deferred status would be recorded into Allowance for Uncollectible, see below in #3. For lien receivables, taxpayer accounts in deferred status and estimated uncollectible amount are recorded in Allowance for Uncollectible. Audit receivables have an estimated uncollectible amount recorded in Allowance for Uncollectible based on an uncollectible rate.

3. Accounts in Deferred Status: Compliance is responsible for collecting the receivables from all revenue sources. When Compliance has exhausted their collection efforts, or it is not cost effective to continue, the account is put into deferred (or uncollectible) status. DOR analyzed how much was moved into Deferred Status for each receivable type during the year. Based on this analysis, it was decided that due to the low percentage of accounts moved into deferred status for return receivables and estimated receivables, they will not have an uncollectible rate applied to them. Only the actual balance due amounts on the taxpayer accounts that are in Deferred Status for each of those receivable types will be recorded in Allowance for Uncollectible.

It was determined that Lien Receivables have a higher percentage of accounts that moved into Deferred status in the fiscal year; therefore, DOR applied a 5 year average of a lien uncollectible rate to the Lien receivables. The amount recorded into Allowance for Uncollectible for the Liens receivables is the uncollectible rate multiplied by the lien receivable balance and any taxpayers' accounts in deferred status. Additionally, an analysis of audit receivables was performed for FY19 to determine what real dollar adjustments had been made to audit receivables for the year and an uncollectible rate was determined and applied for those accounts. The total adjustments and write-offs during the fiscal year for audit receivables was divided by the beginning balance for audit receivables to determine the uncollectible rate to be applied. Ayano explained that DOR has maintained this process since the analysis performed in FY19.

Business & Financial Services recalculates rates and tests the rates (discount, collection and uncollectible) for accuracy.

<u>How transactions are recorded in AFRS:</u>

Monthly Journal Entries

On the last business day of the month, ATLAS automatically prepares Journal Vouchers (JV) by revenue source and receivable type to record the taxes receivable, accrued revenue, unavailable revenue, and the allowance for uncollectible as well as interest and penalties **(Key Control #2 - Automated – Existence)**. Depending on the type of receivable, the allowance for uncollectible is calculated differently based on the analysis above. See summary of analysis in the table below:

Receivable Type	**Allowance Methodology**
Return Receivables	Reduced by Accounts in Deferred Status (Actual Amounts)
Estimated Returns	Discount Rate is applied to locked returns; collection rate applied

	to unlocked returns to determine accrued revenue versus unavailable revenue
Audit Receivables	Reduced by Uncollectible Allowance rate applied at FYE, determined from real time adjustments to audit receivables during FY
Lien Receivables	Reduced by Lien accounts in deferred status (Actual amounts) plus additional allowance rate applied at FYE

After ATLAS prepares the JV, Revenue Accounting has 6 business days to review the JV before it is automatically released by ATLAS into AFRS to record the JV; this happens in ATLAS on the 6th business day. On the 7th business day of the following month, Revenue Accounting can see the JV in AFRS. ATLAS is able to separate out taxes receivable that relate to the dedicated funds and enter the taxes receivables directly into these funds instead of into Fund 001 - General Fund. The JV is recorded as a monthly balance, therefore ATLAS generates reversal JVs for the prior month's tax receivable JV amounts.

Year End Gross Receipts Journal Entry
This same process is performed at fiscal year-end (FYE) to record accrued and unavailable revenues except for the Gross Receivables. To record the Gross Receivables at FYE, for monthly filers, excise tax returns for June activity are due July 25th and for quarterly filers, tax returns for the 4th fiscal quarter (April, May, and June) are due July 31st. In August, the ATLAS "gross receipts" report, which is programmed to pull all gross receipts for the period July 1 - August 15, is downloaded to Excel and compared to the gross receipts from the prior five years to ensure completeness. A manual JV is then prepared to make an entry into AFRS to record the last month and quarter of the fiscal year's returns received after June 30th as a receivable and accrued revenue for the FYE. This is done manually outside of ATLAS **(Key Control #3 - Manual - Existence/Completeness)**.

<u>Monthly ATLAS to AFRS reconciliation:</u>
At the end of each month, a reconciliation is performed by Revenue Accounting between ATLAS and AFRS to ensure all of the monthly revenue activity has been properly posted to AFRS. Andrew Arnold, Revenue Accounting Supervisor, runs a customized webi report for taxes received during the month recorded in AFRS. Revenue Accounting will also run a monthly revenue activity report that includes receivables and revenues from all taxes. Most tax revenues are from ATLAS with the exception of property tax in Property Tax Receivable System (PTRS) and taxes recorded in the Cash Receipts Reporting System. Revenue Accounting uses an Excel worksheet to reconcile reports from Webi and ATLAS **(Key Control #4 - Manual - Existence/Completeness).**

To specifically review receivable and allowance for uncollectible balances, Alison Walker, one of Ayano's employees from the Financial Reporting & Systems Support team, pulls a monthly ATLAS report (by receivable type) into a spreadsheet and compares the Discounted receivables balance month-to-month and the Uncollectibles month to month comparison to prior months in the same FY for anomalies **(Key Control 5 -**

Existence/Valuation). The comparison is done to ensure the allowance methodology described above is applied consistently. Any anomalies are investigated, and explanations are provided at the bottom of the worksheet with links to the source of the anomaly for easy investigation. There is no minimum threshold for an anomaly investigation.

Write Offs:
By statute RCW 82.32.340, tax debt is never "forgiven" until it is legally written off. The process is as follows:

The uncollectible write-off can be performed at any time by the Warrant Team Tax Administration Manager. The Adjustments report is generated in ATLAS. The report is generally ran twice a year.

The 12 year write-off report selection criteria (bill due transaction is 12 years or older with open balance):
1. No active liens. If there is a linked liability (TFAAs and successorships) or multiple taxpayers in a lien, the write off process evaluates each taxpayer separately.
2. The collection has to be in deferred stage (linked collections w/o deferred stages are excluded)
3. No payments within the last 2 years
4. No taxpayers with open adjustment requests

A Prevent Write Off indicator is placed on the account if the taxpayer is paying restitution. The Warrant Team TAM and ETE3s review the report and can Reject pending write-off adjustments if it is determined that an account should be removed from the list.

The Warrant TAM runs the 12 year write off request job stream in the production environment. This happens on a Friday, so the report will appear in the staging environment on Monday. After the report is reviewed by the TAM and the Warrant Team ETE3s, a 12 year write off approval job is completed in Staging. The Warrant TAM will then run a discrepancy report between the original request and approved request. This report is called Adjustments – Differences. After the report is reviewed and the write off report is adjusted; the Warrant TAM will run the 12 year write off approval job stream in Production. This will post and approve all the pending transactions based on the indicators and changes made in the real production environment.

Key controls are as follows:

- **Key Control #1 – Automated – Completeness/Valuation –** ATLAS will automatically create a receivable including penalties and interest based on the due date, which is automatically posted by ATLAS in the taxpayer account. If a tax return was not filed by the due date, the day after the due date ATLAS will automatically create an estimated tax return based on the account's reporting history and tax rates.
- **Key Control #2 – Automated – Existence –** On the last business day of the month, ATLAS automatically prepares Journal Vouchers (JV) by revenue source and receivable type to record the taxes receivable, accrued revenue, unavailable revenue, and the allowance for uncollectible.

- **Key Control #3 - Manual - Existence/Completeness -** The ATLAS "gross receipts" report is programmed to pull all gross receipts (for receivable reporting) for the period July 1- August 15 is downloaded to Excel and compared to the gross receipts, by tax type, from the prior five years to ensure completeness. A manual JV is prepared using ATLAS reports to record accrued revenue and receivables into AFRS at FYE for June monthly tax returns and 2nd quarter 2021 quarterly returns.
- **Key Control #4 - Manual - Existence/Completeness -** At the end of each month, Revenue Accounting runs a revenue activity report (MRA) from ATLAS and downloads AFRS revenue and receivable data from Enterprise Reporting into Excel. A reconciliation is then performed between ATLAS and AFRS to ensure the reported revenue and receivable amounts are accurate and complete.
- **Key Control #5 - Manual - Existence/Valuation -** Financial Reporting & Systems Support pulls monthly ATLAS report (by receivable type) into a spreadsheet and compares prior months (in same FY) reviewing for anomalies in the receivables and allowance calculations.

Noted Weaknesses are as follows:

- None

D.1.PRG - Taxes Receivables (Net of Allowance)

Procedure Step:	Key Control #1 (Automated)
Prepared By:	MRF, 6/6/2023
Reviewed By:	SLB, 10/17/2023

Record of Work Done:

Taxes Receivable (Net of Allowance) - ATLAS

Key Controls #1 as follows for the ATLAS:

- **Key Control #1 – Automated – Completeness/Valuation** - ATLAS will automatically create a receivable including penalties and interest based on the due date, which is automatically posted by ATLAS in the taxpayer account. If a tax return was not filed by the due date, the day after the due date ATLAS will automatically create an estimated tax return based on the account's reporting history and tax rates.

The understanding for this system is documented above in the "Controls - ATLAS" step, see [Controls - ATLAS].

1. Confirmation and Testing of Key Automated Control:
We met with Ayano Faasuamalie, Revenue and Financial Reporting Coordinator, on April 24th, 2023 via TEAMS to discuss the process of ATLAS automatically creating a receivable for submitted returns and estimated returns.

Return Receivable
We performed a walk through of an account in ATLAS with a submitted return with Ayano. She pulled up the tax return for taxpayer UBI No. 604-067-538, a monthly filer, for the period of December 2022. The return was due Feb 25, 2023, (January filling period) however the taxpayer did not file until March and DOR did not receive payment until April. Based on information submitted in the return, ATLAS calculated the following taxes:

- Business & Occupation Tax - 234.70 (.004710 tax rate for retailing, .015000 tax rate for Service and other activities)
- Retail Sales and Use Tax - 379.07 (.015000 tax rate)
- Local City and/or County Sales Tax - 215.78 (.065000 tax rate)
- Litter Tax 0.17 (0.000150 tax rate)

This resulted in a total tax balance of $739.72. However, because the filer was late, ATLAS automatically calculated a delinquency fee of $66.57, and interest of $3.47 and $0.06, leading to a new total due of $809.82.

We verified the tax rates used to calculate the above taxes using the DOR website:

- Business & occupation tax classifications | Washington Department of Revenue
- Location Kirkland Q3/22 Alpha LSU Flyer (wa.gov)

We determined the total amount of taxes due were correctly calculated.

Ayano showed us the receivable was posted in March in ATLAS for the balance due of $809.82. The receivable was posted in the Receivable Accumulation General Ledger (GL) in ATLAS by revenue source until month end. If a payment or adjustment is made on the return, it will be subtracted out of the Accumulated Receivable GL. At the end of the month, the balance in the Accumulation GL is moved into the Receivables GL automatically by ATLAS.

Noted Weaknesses are as follows:

- None.

2. Preliminary Control Risk Assessment
Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be

effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW – Test General Controls:
Not applicable - we are not planning to rely on automated controls and therefore do not need to test general controls; control risk will be assessed at maximum.

D.1.PRG - Taxes Receivables (Net of Allowance)

Procedure Step: Key Control #2 (Automated)
Prepared By: MRF, 5/4/2023
Reviewed By: SLB, 10/17/2023

Record of Work Done:

Taxes Receivable (Net of Allowance) - ATLAS

Key Controls #2 as follows for the ATLAS:

- **Key Control #2 – Automated – Existence –** On the last business day of the month, ATLAS automatically prepares Journal Vouchers (JV) by revenue source and receivable type to record the taxes receivable, accrued revenue, unavailable revenue, and the allowance for uncollectible.

The understanding for this system is documented above in the "Controls - ATLAS" step, see [Controls - ATLAS].

1. Confirmation and Testing of Key Automated Control:
We met with Ayano Faasumalie, Revenue and Financial Reporting Coordinator, on April 24th, 2023 via TEAMS to discuss the process of ATLAS automatically creating a receivable for balance dues and estimated returns.

On the last business day of the month from the Receivables GL, ATLAS automatically prepares a Journal Voucher (JV) by Revenue Source and Receivable type to record receivables into AFRS. Ayano showed us the month end batch JV #271240 created in ATLAS to record the return receivables as of 03/31/2023, in the amount of $47,452,854.18 and the uncollectible amount of $2,200,468.94 based on the deferred returns. Revenue Accounting reviews the JV the next business day morning for release in AFRS.

Noted Weaknesses are as follows:

- None.

2. Preliminary Control Risk Assessment

Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW – Test General Controls:

Not applicable - we are not planning to rely on automated controls and therefore do not need to test general controls; control risk will be assessed at maximum.

D.1.PRG - Taxes Receivables (Net of Allowance)

Procedure Step:	Key Control #3 (Manual)
Prepared By:	BFW, 9/27/2023
Reviewed By:	SLB, 10/17/2023

Record of Work Done:

Key Control #3 - Manual - Existence/Completeness - The ATLAS "gross receipts" report is programmed to pull all gross receipts (for receivable reporting) for the period July 1- August 15 is downloaded to Excel and compared to the gross receipts, by tax type, from the prior five years to ensure completeness. A manual JV is prepared using ATLAS reports to record accrued revenue and receivables into AFRS at FYE.

The understanding for this system is documented above in the "Controls - ATLAS" step.

1. Confirmation of Key Manual Control:

We confirmed the key control as part of our understanding of retail sales and use taxes and B&O. See confirmation at [Key Control 3 (Manual)]. ***No issues noted.***

Noted Weaknesses are as follows:

- None.

2. Preliminary Control Risk Assessment

Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test of Key Manual Control:

Not applicable - we are not planning to rely on controls and therefore do not need to test controls; control risk will be assessed at maximum.

D.1.PRG - Taxes Receivables (Net of Allowance)

Procedure Step:	Key Control #4 (Manual)
Prepared By:	MRF, 6/6/2023
Reviewed By:	SLB, 9/22/2023

Record of Work Done:

Key Control #4 - Manual - Existence/Completeness for ATLAS - At the end of each month, Revenue accounting runs a monthly revenue activity report (MRA) from ATLAS and AFRS revenue report from Enterprise Reporting System. A reconciliation is then performed between ATLAS and AFRS to ensure the reported revenue and receivables amounts are accurate and complete.

The understanding for this system is documented above in the "Controls - ATLAS" step at [Controls - ATLAS]. D.1.PRG

1. Confirmation of Key Manual Control:

We confirmed this control as part of our review of controls related to retail sales and use taxes and B&O taxes at [Key Control 5 (Manual)]. ***No issues noted.***

Noted Weaknesses are as follows:

- None

2. Preliminary Control Risk Assessment
Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test of Key Manual Control:
Not applicable - we are not planning to rely on controls and therefore do not need to test controls; control risk will be assessed at maximum.

D.1.PRG - Taxes Receivables (Net of Allowance)

Procedure Step: Key Control #5 (Manual)

Prepared By: MRF, 6/8/2023

Reviewed By: SLB, 10/17/2023

Record of Work Done:

Key Control #5 - Manual - Existence/Valuation - Financial Reporting & Systems Support pulls monthly ATLAS report (by receivable type) into a spreadsheet and compares prior months (in same FY) reviewing for anomalies in the receivables and allowance calculations.

The understanding for this system is documented above in the "Controls - ATLAS" step at [Controls - ATLAS].

1. Confirmation of Key Manual Control:
We discussed with Ayano Faasuamalie, Revenue & Financial Reporting Coordinator in Business & Financial Services on April 24th, 2023 about the receivable type monthly comparison related to allowance for uncollectible accounts. She walked us through the process for running the ATLAS report showing monthly JV excise tax receivables by GL amounts by receivable type (returns, estimated returns, audit, and lien receivables). From the ATLAS transaction tab in the ledger, she is able to export the data in an excel spreadsheet that Allison Walker (one of her staff) uses to

compare monthly balances.

We reviewed the month to month comparison from Ayano on 04/24/23 via Teams. The workbook was titled "Fiscal Year 2023 Excise Taxes Receivables".
It contained the four types of receivables:

- Return Receivables
- Estimated Return Receivables
- Audit Receivables
- Lien Receivables

Each receivable type had each month summarized. For each month, the sheet detailed balance, uncollectibles, net, local tax, FY23 estimated collections, and unavailable revenue. The spreadsheet then calculated the balance of the month to month comparison, then used the balance to calculate the percent change.

Return Receivables July of 2023

Balance	Uncollectibles	Net Receivables	Local Tax Portion	FY 23 Estimated Collection Accrued Revenue	Unavailable Revenue	Discounted Balance Month-to-month comparisons	Uncollectibles Month-to-month comparisons	Uncollectible/Discounted Balance
GL 1311/1312	GL 1341/1342	Net Receivables	GL 5152	GL 3205	GL 5192	%Change/ $Increase (Decrease) from prior month	%Change/ $Increase/(Decrease) from prior month	Uncollectible/Discounted Balance % change
105,230,573.25	(6,320,637.20)	98,09,936.05	(20,682,701.08)	(51,153,269.39)	(27,073,965.58)	-3.2% (3,524,444.65)	0.0% 1,695.04	-6.0%

Allison identified six large anomalies that were listed on the bottom of the worksheet. Each anomaly listed the amount, the source, account number (so it can be investigated in ATLAS), and when the source occurred.
1) $159 million audit receivable posted for Deferral Account 3096-09-001 (WA State Transportation Dept of) for 520 bridge deferral. This amount us included in the monthly Excise Tax Deferrals Long-Term Receivable JVs to be re-classified from short-term to long-term receivable.
2) Large audits issued in July 2022 a.) 603-314-992 for $64.6 million ($49.4 million for audit tax and $15.2 million for P&I) for Q1 2022 period, b)601-170-854 $5.3 million ($3.8M audit tax and $1.5 P&I) for 12/2019 period

3) See #2- Audit on account 603-314-992 Qtr 1,2022 for $74.6 million ($49.4 million for audit tax and $25.2 million for P&I) adjusted down to $0.00 in November 2022.
4) Large audits issued in December 2022 a.) 601-766-299 for $68.1 million ($46.1 M audit tax and $22M P&I) for 12/2019 period, b.) 602-223-102 Use Tax $6.5 M (6.5M audit tax and $165k P&I) for 12/2020 period, and $5.8M ($5.7M audit tax and $147k P&I) for 3/2020 period.
5) Uncollectible write-off was done on 1/26/2023 for a total of $28,543,566.17
6) Multiple large audits in March 2023 - see Large Audits tab

No issues noted

Noted Weaknesses are as follows:

- None

2. Preliminary Control Risk Assessment

Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test of Key Manual Control:

Not applicable - we are not planning to rely on controls and therefore do not need to test controls; control risk will be assessed at maximum.

D.1.PRG - Taxes Receivables (Net of Allowance)

Procedure Step: Risk Assessment
Prepared By: BFW, 10/9/2023
Reviewed By: RKM, 10/10/2023

Record of Work Done:

(1) Inherent Risk (IR):

Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

- **Existence - MAX**
- **Valuation - MAX**
- **Completeness - MAX**

(2) Control Risk (CR):
We assessed control risk as follows for each system and relevant assertion:

- **ATLAS - Existence, Valuation, and Completeness**

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

- **Existence - MAX**
- **Valuation - MAX**
- **Completeness - MAX**

(4) Testing Strategy:
We designed our substantive testing strategy based on our assessment of the risk of material misstatement.

Valuation

- We will recalculate taxes assessed for a sample of registered taxpayers to ensure rates are being applied appropriately and therefore tax revenue and receivables are recorded at proper amounts. We will test these tax rates as part of the tax revenue testing at [Tax Revenue Testing].
- To determine if property tax receivables were valued at proper amounts, we will review the unavailable revenue entry and ensure receivables were reduced by actual collections remitted by the counties. Testing will be performed as part of the deferred inflows of resources testing at [Property Taxes Receivable][Year-End JV Testing].

Existence/Valuation/Completeness

- We will test a sample of sales, use, and business and occupation taxes receivable recorded in ATLAS at FYE to ensure they exist and the value is properly supported by verifying the transactions match corresponding tax returns and were included in an accumulation GL within ATLAS. We will trace the GL amount to a batch posted in AFRS. Additionally, we will verify each batch ties to AFRS.
- We will select a sample of sales, use, and business & occupation accrual transactions from the gross receipts accrual JV and verify that the transactions were recorded for the correct amount and in the proper period. We will test the accrual JV as part of the tax revenue testing at [Accrual JV Testing].

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

D.1.PRG - Taxes Receivables (Net of Allowance)

Procedure Step: Substantive Test

Prepared By: BFW, 10/9/2023

Reviewed By: SLB, 10/17/2023

Record of Work Done:

Taxes Receivable Testing Coverage

To ensure testing provided a sufficient amount of coverage of the taxes receivable balance, we received a breakdown of the taxes receivable balance from Ayano Faasuamalie, Revenue & Financial Reporting Coordinator, and reconciled the breakdown to ACFR balances Taxes Receivable Testing.

We identified the following taxes as the most significant:

- Property Tax - 31.04%
- Gross Receipts - 39.25%
- Sales, Use, and B&O Taxes Receivable - 20.37%

We noted procedures performed as part of our deferred inflows of resources testing at [Property Taxes Receivable][Year-End JV Testing] provided sufficient coverage of property tax receivable and procedures performed as part of our retail sales and use and B&O tax revenues testing at [Accrual JV Testing] provided sufficient coverage over the gross receipts portion of the balance. We also recalculated taxes assessed for a sample of registered taxpayers to ensure rates are being applied appropriately and therefore tax revenue and receivables are recorded at proper amounts. We tested these tax rates as part of the tax revenue testing at [Tax Revenue Testing]. Based on the work performed as part of other steps within the ACFR, we determined testing the Sales, Use, and B&O Taxes Receivable would provide sufficient coverage over the entire taxes receivable balance. In total, the testing procedures noted above cover 90.65% of the taxes receivable balance. See our testing summary and lead sheet reconciliation at [Taxes Receivable Testing].

We obtained a list of all general fund sales, use, and business and occupation (B&O) taxes receivable from ATLAS at June 30, 2023 from Ayano Faasuamalie, Revenue & Financial Reporting Coordinator in Business and Financial Services. The testing population is all of the receivable transactions that make up the FYE 2023 taxes receivable JV pulled from ATLAS. We reconciled the testing population to AFRS entries as part of the spreadsheet at [Taxes Receivable Testing], see tab "Testing Summary". We determined the population to be complete and used the testing population to select samples for the substantive tests to meet the existence/completeness/valuation assertions below, using the same sample for each assertion.

<u>Substantive tests to meet the Existence assertion:</u>
We selected a random sample of 39 transactions from the testing population. To ensure existence for the selected transactions we performed the following substantive tests:

- Receivable ties to supporting documentation (tax return or audit working paper) in ATLAS?
- Documentation (collection notes) supports deferred status in ATLAS?

We met with Ayano Faasuamalie, Revenue & Financial Reporting Coordinator, on October 3, 2023 via TEAMS to review support for the selected transactions within ATLAS. For each selection, we reviewed the revenue tab within the taxpayer's account and tied recorded amounts to tax returns for the applicable filing period. For deferred taxpayers, we reviewed collection notes to ensure the taxpayer's deferred status was supported to be uncollectible. We determined selected transactions existed in the current audit period. ***No issues noted.*** See testing performed at [Taxes Receivable Testing] in the "FS Substantive Sample" tab.

<u>Substantive tests to meet the Completeness assertion:</u>
Using the same random sample of 39 transactions from the testing population as noted above, we performed testing to ensure completeness for the selected transactions we performed the following substantive tests:

- Receivable processed in receivable accumulation in ATLAS?
- Receivable included in June 30 2023 month end batch receivable recorded in AFRS?

We met with Ayano Faasuamalie, Revenue & Financial Reporting Coordinator, on October 3, 2023 via TEAMS to review support for the selected transactions within ATLAS. For each selection, we reviewed the revenue tab within the taxpayer's account and the history sub tab which was navigated to the revenue account spring board page. Within ATLAS, a hyper link for the ATLAS receivable accumulation that the transaction was included in could be followed from there. We traced each taxpayer account to the ATLAS accumulation and further traced the ATLAS accumulation to the year end entry to AFRS using additional hyperlinks to ensure transactions were included as receivables. For selected taxpayers in deferred status, we reviewed the transaction type posted in the year end receivables JV to ensure amounts were properly included as allowance for uncollectible accounts. We determined taxes receivable were complete. ***No issues noted.*** See testing performed at [Taxes Receivable Testing] in the "FS Substantive Sample" tab.

Substantive tests to meet the Valuation assertion:
Using the same random sample of 39 transactions from the testing population as noted above, we performed testing to ensure proper valuation for the selected transactions we performed the following substantive tests:

- Receivable ties to supporting documentation (tax return or audit working paper) in ATLAS?
- Receivable processed in receivable accumulation in ATLAS?
- Documentation (collection notes) supports deferred status in ATLAS?

We met with Ayano Faasuamalie, Revenue & Financial Reporting Coordinator, on October 3, 2023 via TEAMS to review support for the selected transactions within ATLAS. For each selection, we reviewed the revenue tab within the taxpayer's account and tied recorded amounts to tax returns/audit working paper. We ensured deferred status taxpayers were supported by collection notes and traced all selected transactions to the ATLAS accumulation GL and AFRS year end entry to ensure deferred accounts were recorded as uncollectible and the other receivable types were accurately valued within AFRS based on support. We determined receivables and uncollectibles were properly valued. ***No issues noted.*** See testing performed at [Taxes Receivable Testing] in the "FS Substantive Sample" tab.

D.2.PRG - Retail Sales and Use and B&O Taxes

Procedure Step:	Summary & Conclusion
Prepared By:	BFW, 10/5/2023
Reviewed By:	SLB, 10/17/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
The results of substantive tests do not indicate a need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?

The quality and quantity of evidence obtained was sufficient and appropriate.

D.2.PRG - Retail Sales and Use and B&O Taxes

Procedure Step:	Understanding of Line Item
Prepared By:	BFW, 5/26/2023
Reviewed By:	SLB, 9/22/2023

Record of Work Done*:*

(1) Prior Audit Exceptions:
There were no prior year audit exceptions for this balance.

(2) Composition & Change Analysis:
Line Item Leadsheet: [Line Item Lead Sheet]

The Department of Revenue collects and administers a majority of Washington's General Fund-State (GF-S) revenue, accounting for 92% of the total GF-S revenue forecasted for 2021-23 biennium in March 2023. Some of the largest tax sources include:

- Retail sales and use tax
- Business and occupation tax
- Property tax

The state closely monitors DOR revenues, which are significant to the state's budgeting and spending decisions. Because these revenues are connected with business activities (sales and business revenues), the balances for Sales tax, Use Tax and Business & Occupation Tax fluctuate with how the economy in general is doing. The Economic and Revenue Forecast Council provide forecasts of the State's revenues [Publications | Washington State Economic and Revenue Forecast Council], factoring in known changes in the economy, see the March 2023 quarterly forecast at ERFC March 2023.

Based on prior ACFR audit work, it has been found that the Forecast Council is fairly accurate at projecting Retail Sales and Business and Occupation tax receipts. The March 2023 quarterly report summarizes that GF-S revenue collections since the November 2022 forecast are $198.6 million (2.0%) above the forecasted amount. The forecasted increase for the rest of the 2021-23 biennium is $194 million.

Retail Sales and Use Taxes

Retail sales and use taxes (collectively referred to as retail sales tax) is the largest source of general fund revenue ($15.06 billion for FY22 - See lead sheet [Line Item Lead Sheet] sort code "AK") and accounted for approximately 50% of general fund revenues in FY22; excluding Federal Grants-in-Aid. The state's share of retail sales tax is 6.5% of the sales prices. Counties and local jurisdictions impose sales tax percentages on top of the retail sales tax. See our understanding of collections and payments of local tax for other governments at [Tax Collections For Other Governments] and [Payments of Taxes to Other Governments]. Retail sales tax revenue increased from $13.48 billion in FY21 to $15.06 billion in FY22 and is projected to be $15.72 billion in FY23 (per Forecast Council projections, see ERFC table 3.9 - GF-S forecast detail at ERFC March 2023). The revenue source code for retail sales tax is 101/102 and for use tax 110/111.

Business and Occupation Taxes

The Business and Occupation Tax is the second largest source of non-exchange revenue for the general fund ($5.77 billion for FY22 - See lead sheet [Line Item Lead Sheet] sort code "AL") and accounted for approximately 19% of general fund revenues in FY22, excluding Federal Grants-in-Aid. This line item balance is made up of business and occupation tax (Source Code 105) and business and occupation tax credits (Source Code 106), which is tax on the gross receipts of all businesses operating in Washington. Business and occupation tax revenue increased from $5.01 billion in FY21 to $5.77 billion in FY22 and is further projected to increase to be $6.22 billion in FY23 (Per Forecast Council projections, see ERFC table 3.9 - GF-S forecast detail at ERFC March 2023).

Change Analysis:

We obtained the Internal Audit risk assessment for revenues and receivables for FY 2023 from Sandi Fairchild, Chief Financial Officer, and inquired with Ayano Faasumalie, Revenue & Financial Reporting Coordinator, and noted no significant changes to retail sales and use and B&O Taxes.

(3) Updates to Material Account Matrix:

We identified no changes that need to be made to the Material Account Matrix.

D.2.PRG - Retail Sales and Use and B&O Taxes

Procedure Step:	Controls - ATLAS
Prepared By:	BFW, 5/12/2023
Reviewed By:	SLB, 10/17/2023

Record of Work Done:

Internal controls in the Automated Tax and Licensing Administration System (ATLAS) address the following balance(s):

- **Taxes, net of available credits: Sales and Use** - Governmental Activities
- **Retail sales and use taxes** - General Fund
- **Taxes, net of available credits: Business and Occupation** - Governmental Activities
- **Business and Occupation Taxes** - General Fund

For the following assertions:

- **Occurrence -** There is a risk that year-end revenue accrual is overstated. There is a risk that design defects or program change errors in ATLAS exist and will not be detected and corrected due to inadequate testing.
- **Completeness -** There is a risk that tax revenues are not complete. There is a risk that design defects or program change errors in ATLAS exist and will not be detected and corrected due to inadequate testing.
- **Valuation -** There is a risk that tax revenues are not recorded at properly valued amounts. There is a risk that design defects or program change errors in ATLAS exist and will not be detected and corrected due to inadequate testing.

Background

In March 2018, DOR implemented the Automated Tax and Licensing Administration System (ATLAS), which replaced all other systems and streamlined the process for recording tax return payments received into AFRS. Electronic filing (E-file) is the preferred method for tax return filing and the majority of taxpayers are required to file electronically. The payment methods available to taxpayers did not change with the implementation of ATLAS and the payment methods are EFT, E-check, Credit Card, and physical check.

Gain an Understanding of Internal Controls

We met with Ayano Faasumalie, Revenue & Financial Reporting Coordinator, on May 4, 2023 to gain an understanding of controls over retail sales and use and B&O taxes.

Tax Returns

The majority of tax returns are received electronically and filed through the online taxpayer system, My DOR, which is part of the State's Secure Access Washington (SAW) application created by the Washington Technology Solutions (WaTech). Returns filed in My DOR are sent directly into ATLAS, which is coded to automatically calculate taxes due based on the information entered by the taxpayer on the return.

When a taxpayer logs into their My DOR account and selects to file a return, ATLAS automatically calculates taxes due from pre-programmed rates based on return information entered by the taxpayer **(Key Control #1- Automated- Valuation).** When the taxpayer submits the return, taxes due and the payment amount are recorded in the transactions tab of ATLAS. Additionally, information such as the date filed, the date paid, and any changes or adjustments made to the return or the taxpayer’s account will also be recorded in the transactions tab of ATLAS. My DOR and

ATLAS only allow a return to be filed once and ATLAS will create a work item for duplicate return received if the taxpayer attempts to submit a paper return for the same return period received. Logic checks are run when the return is processed. If there is an error, the return is flagged and sent to a work queue for an Examiner to review. Returns flagged for review do not get recorded to the appropriate revenue source until errors are resolved and released from the queue.

<u>How transactions are recorded in AFRS:</u>

Cash Journal Entries

When payments are received via ACH/debit, ACH/credit, wire transfer, and cash/check from field offices, ATLAS automatically generates an A8 cash journal (CJ) to record the cash receipts. For payments received by credit card, lockbox and via mail/FedEx/UPS, a manual CJ is created in ATLAS by Treasury Management in Business & Financial Services (B&FS). Treasury Management staff batch the documents and prepare the deposits assuring they both balance. Once they are entered, the Batch Control System (BCS) compares the total of the individual batches to what was deposited for the day. The A8s are sent to the State Treasurer's Office (OST) for deposit entry into the Treasury Management System and verification that all funds have been received. If the payment amount received by the OST does not match DOR's A8, they will contact DOR and inform them of the out of balance condition. Treasury Management will follow up on the difference by totaling and comparing the documents and payments. The Batch Sheet which contains the batch amount totals, document count, batch date, and batch number is placed on top, and the batch is forwarded to Taxpayer Account Administration (TAA). Treasury Management then reconciles the ATLAS cash journal report totals to the total deposit recorded in the OST's concentration account to ensure they match.

DOR's Revenue Accounting section in B&FS verifies the CJ batches are error free and releases for processing in AFRS at the end of each day. ATLAS initially records the deposit in Fund 01P (Suspense Account) and then distributes from suspense to the proper revenue source codes once the returns and payments are applied to the taxpayers' accounts. If the payment is identified as Excise Tax but not applied to a tax return, the fund is transferred to the general fund Revenue Act revenue source (01-99 – Tax Revenue Suspense). If tax payments are not applied to the taxpayer's account due to mismatched returns or errors that need to be resolved, the funds will remain in the suspense account until issues are resolved by Tax Examiners. Once the payment has been applied to the taxpayer's account, ATLAS will automatically create a journal voucher to move the funds to the appropriate revenue sources **(Key Control #2- Automated- Valuation/Occurrence/Completeness).** Batches are created and transmitted to AFRS in the evening. Revenue Accounting reviews the batch the following day and releases them in AFRS.

One business day after the tax return is due, ATLAS will automatically create a receivable on the taxpayer's account if there is a balance due (no payment or partial payment with a return). If no return has been filed, one week after the due date, ATLAS will automatically estimate the tax amount due based on historical information in the taxpayer's account. Compliance is responsible for collecting the receivables from all revenue sources, which account for a majority of the agency's debt. DOR does not use an external collection agency to aid in the collection process. The Compliance staff does not receipt any payments on the delinquent accounts. Electronic delinquency notices are sent automatically to taxpayers. For monthly and quarterly filers, DOR sends the electronic notice 10 days from the return's statutory due date. For annual filers, DOR sends them 20 days from the return's statutory due date. We gained an understanding of taxes receivable at [<u>Controls - ATLAS</u>].

Gross Receipts Accrual Entry
For monthly filers, excise tax returns for June activity are due July 25th and for quarterly filers, tax returns for the 4th fiscal quarter (April, May, and June) are due July 31st. In August, the ATLAS "gross receipts" report, which is programmed to pull all gross receipts for the period July 1-August 15, is downloaded to Excel and compared to the gross receipts from the prior five years to check that the values seem reasonable. Revenue Accounting will prepare a JV to enter into AFRS to show the June returns received after June 30th as a receivable and accrued revenue for the FYE.

We met with Andrew Arnold, Revenue Accounting Supervisor, on May 4, 2023 to discuss the gross receipts accrual entry. Andrew explained that towards the end of August, he runs the "gross receipts" report from ATLAS for receipts received between July 1 - Aug 15 for the tax filing period of 6/30 and exports the data to Excel. Once the data is exported into Excel, he sorts by fund and revenue source. The data is then automatically pulled into the "taxpayer assessed taxes (tat) worksheet" tab where the gross receipts are summarized by tax type. Andrew then reviews the report for any errors or major changes and compares the amounts to the prior 5 years for reasonableness. Any significant changes are noted and documented at the bottom of the taxpayer assessed taxes report. After reviewing the report, Andrew verifies that the total gross receipts amount on the "taxpayer assessed taxes report" tab matches the total on the "combined gross receipts adj" tab to ensure that the data from the gross receipts report was pulled in correctly. The JV is then created by pulling the data from the "taxpayer assessed taxes report" tab and input into AFRS by a Revenue Accounting Fiscal Analyst and reviewed and released by Andrew. Additionally, Binh Vu, Accounting Manager, reviews all fiscal-year end JVs. A fiscal analyst reviews the AFRS daily transaction report the next business day to ensure that the accruals were recorded in AFRS accurately and occurred in the correct period**(Key Control #3 - Manual- Valuation/Occurrence/Completeness)**.

Reconciliation Process
ATLAS receives a daily reconciliation file from AFRS and performs an automatic reconciliation between the data recorded in AFRS and ATLAS to ensure revenues recorded are accurate and complete **(Key Control #4 -Automated- Valuation/Occurrence/Completeness).** OFM sends an AFRS download into a SFT Folder daily that is picked up by ATLAS. ATLAS then automatically performs a reconciliation between the journal voucher batches in ATLAS from the prior day to the revenues recorded in AFRS. Once the reconciliation is complete, ATLAS will update the batch with the reconciliation date under the "reconciled" column. There have been a few issues where the AFRS file was not received and some batches did not go through the automatic reconciliation. Revenue Accounting reviews each batch in ATLAS for a "reconciliation date" to ensure the reconciliation took place. If the AFRS file is not received, Revenue Accounting will contact OFM for the file. However, if the request is made 10 days or more after the date the batches were processed in AFRS, the AFRS data is no longer available for transmission. If the batch does not go through the automatic reconciliation, Revenue Accounting will perform a manual reconciliation.

At the beginning of the month, Andrew Arnold, Revenue Accounting Supervisor, runs the Revenue GL Monthly Revenue Activity report (MRA) from ATLAS for the previous month. Andrew prints the report from ATLAS and then inputs all of the data into the Monthly Revenue Activity spreadsheet. A reconciliation is then performed between ATLAS and AFRS to ensure the reported amounts are accurate and complete **(Key Control #5 - Manual - Occurrence/Completeness).** Andrew uses a Webi report that runs data based on funds and sources that are applicable to DOR and allows him to link the report directly to the monthly revenue activity spreadsheet. The monthly receivables in ATLAS are reversed out on the Accrued Revenue tab and the new monthly receivable amounts are entered. The receivables are included as part of the monthly activity and netted against cash revenues in the reconciliation of the balance. Andrew maintains a Monthly Revenue Activity spreadsheet to reconcile ATLAS and AFRS using reports from ATLAS and Webi. The spreadsheet is broken down by GL and split into the following tabs:

- **CASH** - Includes GL 4310
- **CASH REVENUE** - Includes GL 3210
- **ACCRUED REVENUE** - Includes GL 3205

Within each tab, the GL data is separated by fund/revenue source. Totals from each tab for the fund/source links to the "Balance" tab on the spreadsheet under the "spreadsheet monthly activity" column. The Webi report is linked directly to the "Balance" tab of the spreadsheet under the "AFRS monthly activity" column.

Once all of the data from both reports has been input into the spreadsheet, Andrew scrolls through the "Balance" tab and checks for any differences between ATLAS and AFRS in the "difference" column. If there is a difference between ATLAS and AFRS, Andrew will highlight the number to be reviewed and researched to determine why there is a difference. In addition to checking for differences for the month, Andrew also compares biennium-to-date balances for ATLAS and AFRS to help check for formula or data errors in the monthly data. Once Andrew has completed the reconciliation and researched any discrepancies or differences, he e-mails relevant parties, including the Economic and Revenue Forecast Council and the Research and Fiscal Analysis Division of DOR, to let them know the report is complete and saved on the J Drive for their forecasts and analysis. In this report, only "Cash", "Accrued revenue", and "Local dist" tabs are viewable. The rest of the back-up tabs are hidden.

Key controls are as follows:

Key Control #1 - (Automated) - Valuation - When a taxpayer logs into their My DOR account and selects to file a return, ATLAS automatically calculates taxes due from pre-programmed rates based on return information entered by the taxpayer.

Key Control #2 - (Automated) - Valuation/Occurrence/Completeness - Once the payment has been applied to the taxpayer's account, ATLAS will automatically create a journal voucher to record the funds to the appropriate revenue source. Batches are created and transmitted to AFRS in the evening. Revenue Accounting reviews the batch the following day and releases in AFRS.

Key Control #3 - (Manual) - Valuation/Occurrence/Completeness - In August, the ATLAS "gross receipts" report, which is programmed to pull all gross receipts for the period July 1-August 15, is downloaded to Excel and compared to the gross receipts from the prior five years to check that the values seem reasonable. Revenue Accounting will reconcile and review the year end JV to enter into AFRS to show the June returns received after June 30th as a receivable and accrued revenue for the FYE.

Key Control #4 - (Automated) - Valuation/Occurrence/Completeness - ATLAS receives a daily reconciliation file from AFRS and performs an automatic reconciliation between the data recorded in AFRS and ATLAS to ensure revenues recorded are accurate and complete.

Key Control #5 - (Manual) - Occurrence/Completeness - At the end of each month, Revenue Accounting runs a monthly revenue activity report (MRA) from ATLAS and AFRS revenue report from Enterprise Reporting System. A reconciliation is then performed between ATLAS and AFRS to ensure the reported amounts are accurate and complete.

Noted Weaknesses are as follows:

- None

D.2.PRG - Retail Sales and Use and B&O Taxes

Procedure Step:	Key Control 1 (Automated)
Prepared By:	BFW, 9/27/2023
Reviewed By:	SHW, 9/28/2023

Record of Work Done*:*

Key Control #1 - (Automated)- Valuation- When a taxpayer logs into their My DOR account and selects to file a return, ATLAS automatically calculates taxes due from pre-programmed rates based on return information entered by the taxpayer.

The understanding for this system is documented above in the "Controls - ATLAS" step.

1. Confirmation and Testing of Key Automated Control:
We confirmed and tested the key automated control as follows, to determine whether the software calculation correctly valued each transaction:

To confirm the automated control, we re-performed the tax calculations for a sample of tax returns at [Tax Revenue Testing]. See "IT Control Testing - Valuation" tab. ***No issues noted.***

Noted Weaknesses are as follows:

- none.

2. Preliminary Control Risk Assessment
Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX- We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW – Test General Controls:
Not applicable - we are not planning to rely on automated controls and therefore do not need to test general controls; control risk will be assessed at maximum.

D.2.PRG - Retail Sales and Use and B&O Taxes

Procedure Step: Key Control 2 (Automated)
Prepared By: BFW, 9/19/2023
Reviewed By: SLB, 10/17/2023

Record of Work Done:

Key Control #2 - (Automated) - Valuation/Occurrence/Completeness - Once the payment has been applied to the taxpayer's account, ATLAS will automatically create a journal voucher to record the funds to the appropriate revenue source. Batches are created and transmitted to AFRS in the evening. Revenue Accounting reviews the batch the following day and releases in AFRS.

The understanding for this system is documented above in the "Controls - ATLAS" step.

1. Confirmation and Testing of Key Automated Control:
We met with Ayano Faasuamalie, Revenue & Financial Reporting Coordinator in Business & Financial Services, on May 4, 2023 via teams to walkthrough the daily JV creation in ATLAS.

We requested Ayano provide the taxpayer account information for Netsapiens, LLC. We noted Netsapiens, LLC filed a monthly tax return for the period of March 2023 on April 21, 2023. Total tax due of $1,161.92 was made up of the following:

- B&O Retailing - $68.13
- Retail Sales - $736.52
- Local Retail Sales - $402.27
- Small Business Tax Credit - ($45.00)

We performed a recalculation of this account as part of testing at [Tax Revenue Testing] and confirmed rates were applied accurately. We reviewed the history tab for the account within ATLAS and noted the return payment was received on 4/21/2023. The following day, 4/22/2023, the daily JV created by ATLAS was prepared and released. JV #140E6051 with a batch total amount of $904,746,649.14 was automatically recorded from ATLAS to AFRS. Revenue Accounting reviewed and released the batch on 4/26/2023. ***No issues noted.***

Noted Weaknesses are as follows:

- none.

2. Preliminary Control Risk Assessment

Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX- We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW – Test General Controls:

Not applicable - we are not planning to rely on automated controls and therefore do not need to test general controls; control risk will be assessed at maximum.

D.2.PRG - Retail Sales and Use and B&O Taxes

Procedure Step:	Key Control 3 (Manual)
Prepared By:	BFW, 9/19/2023
Reviewed By:	SLB, 10/17/2023

Record of Work Done:

Key Control #3 - (Manual) - Valuation/Occurrence/Completeness - The ATLAS "gross receipts" report, which is programmed to pull all gross receipts for the period July 1-August 15, is downloaded to Excel and compared to the gross receipts from the prior five years to ensure completeness. Revenue Accounting will prepare a JV to enter into AFRS to show the June returns received after June 30th as a receivable and accrued revenue for the FYE.

The understanding for this system is documented above in the "Controls - ATLAS" step.

1. Confirmation of Key Manual Control:
We obtained the Gross Receipts 2023 Worksheets from Andrew, which included the gross receipts year-end accrual JV, see [Gross Receipts JV], the gross receipts ATLAS report for filing period 6/30/23, see [Accrual JV Testing] (tab: ATLAS Gross Receipts Adj. 2023), and the taxpayer assessed taxes report, see [Accrual JV Testing] (tab: taxpayer assessed taxes) as well as detailed reports of gross receipts by taxpayer. We reviewed the gross receipts ATLAS report and noted that the amount for Sales tax ($1,362,841,697.40), Use tax ($61,822,960.49) and Business & Occupation (B&O) tax ($569,425,268.53) tied to the taxpayer assessed taxes report. We reviewed the gross receipts year-end JV and tied the Sales, Use, and B&O tax amounts from the taxpayer assessed taxes report to the JV and ensured they occurred in the correct period. We noted that the JV was prepared by Andrew Arnold, Management Analyst, on 08/16/23 and approved by Ayano Faasuamalie, Revenue Accounting Manager, on 08/18/23. **No issues noted.**

Noted Weaknesses are as follows:

- None.

2. Preliminary Control Risk Assessment
Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test of Key Manual Control:
Not applicable - we are not planning to rely on controls and therefore do not need to test controls; control risk will be assessed at maximum.

D.2.PRG - Retail Sales and Use and B&O Taxes

Procedure Step: Key Control 4 (Automated)

State of Washington

Prepared By: BFW, 5/9/2023
Reviewed By: SLB, 10/17/2023

Record of Work Done:

Key Control #4 - (Automated) - Valuation/Occurrence/Completeness - ATLAS receives a daily reconciliation file from AFRS and performs an automatic reconciliation between the data recorded in AFRS and ATLAS to ensure revenues recorded are accurate and complete.

The understanding for this system is documented above in the "Controls - ATLAS" step.

1. Confirmation and Testing of Key Automated Control:
We met with Ayano Faasuamalie, Revenue and Finance Reporting Coordinator, on May 4, 2023, to walkthrough the daily reconciliation between ATLAS and AFRS. We reviewed a taxpayer account as part of our control 2 confirmation that was posted to ATLAS in JV #140E6051 with a batch total of $3,277,872,774. We reviewed the JV within ATLAS and noted the reconciled column showed JV #140E6051 was reconciled to AFRS 4/26/2023.

We also obtained the AFRS Accounting Transaction - Batch Header, which was prepared by Ha Nguyen, Fiscal Analyst. Ha Nguyen compared the item count and total on the batch report to what was downloaded in AFRS to ensure they match and then created the batch header to attach to the batch report for review by Andrew Arnold, Revenue Accounting Supervisor. We noted that Ha Nguyen signed as preparer and Andrew Arnold signed to indicate the batch was approved and released on 04/26/2023. The batch number is 215-217 with a transaction count of 1,124 and batch total of $904,746,649.14. We reviewed the list of JVs included and tied the full batch amount of JV #140E6051 to the batch prepared by Ha. *No issues noted.*

Noted Weaknesses are as follows:

- None

2. Preliminary Control Risk Assessment
Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW – Test General Controls:
Not applicable - we are not planning to rely on automated controls and therefore do not need to test general controls; control risk will be assessed at maximum.

D.2.PRG - Retail Sales and Use and B&O Taxes

Procedure Step: Key Control 5 (Manual)
Prepared By: BFW, 5/9/2023
Reviewed By: SLB, 10/17/2023

Record of Work Done:

Key Control #5 - Manual - Occurrence/Completeness for ATLAS
At the end of each month, Revenue Accounting runs a monthly revenue activity report (MRA) from ATLAS and AFRS revenue report from Enterprise Reporting System. A reconciliation is then performed between ATLAS and AFRS to ensure the reported revenue and receivables amounts are accurate and complete.

The understanding for this system is documented above in the "Controls - ATLAS" step [Controls - ATLAS].

1. Confirmation of Key Manual Control:
We met with Andrew Arnold, Fiscal Analyst 5, on May 3, 2023 via TEAMS to review the month-end reconciliation process performed between ATLAS and AFRS. We obtained the March 2023 Monthly Revenue Activity spreadsheet from Andrew. We reviewed the balances reported for the 1) Retail Sales tax $1,161,983,419 2) Use tax $89,537,445 and 3) Business and Occupation tax $477,388,518 from each GL (Cash, Cash Accrual Revenue, and Accrued Revenue) tabs from the ATLAS data and noted that the totals tied to the total under the "spreadsheet monthly activity" column on the "balance" tab. We also tied amounts included in the balance tab for the 1) Retail Sales tax 2) Use tax and 3) Business and Occupation tax directly to the Webi report without exception. We noted there were no differences noted on the MRA spreadsheet between the ATLAS and AFRS data. ***No issues noted.***
Noted Weaknesses are as follows:

- None

2. Preliminary Control Risk Assessment
Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test of Key Manual Control:
Not applicable - we are not planning to rely on controls and therefore do not need to test controls; control risk will be assessed at maximum.

D.2.PRG - Retail Sales and Use and B&O Taxes

Procedure Step: Risk Assessment
Prepared By: BFW, 5/31/2023
Reviewed By: SLB, 10/17/2023

Record of Work Done:

(1) Inherent Risk (IR):
Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

- **Occurrence - MAX**
- **Completeness - MAX**
- **Valuation - MAX**

(2) Control Risk (CR):
We assessed control risk as follows for each system and relevant assertion:

- **Automated Tax and Licensing Administration System (ATLAS) - MAX - Occurrence, Completeness, and Valuation**

  We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

- **Occurrence - MAX**
- **Completeness - MAX**
- **Valuation - MAX**

(4) Testing Strategy:
We designed our substantive testing strategy based on our assessment of the risk of material misstatement.

- **Occurrence/Completeness/Valuation -** We will perform analytical procedures and follow up on any significant variances.
- **Occurrence/Completeness -** We will select a sample of registered taxpayers, review ATLAS for a filed return, and tie return to AFRS to ensure revenue occurred in the current year and is complete.
- **Occurrence/Completeness -** We will select a sample of sales, use, and business and occupation accrual transactions from the gross receipts accrual JV and verify that the transactions were recorded for the correct period.
- **Valuation -** We will recalculate taxes paid for a sample of registered taxpayers to ensure taxes are recorded at proper values

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

D.2.PRG - Retail Sales and Use and B&O Taxes

Procedure Step:	Substantive Test
Prepared By:	BFW, 10/2/2023
Reviewed By:	SLB, 10/17/2023

Record of Work Done:

Retail Sales and Use and B&O Taxes Testing Coverage
Analytical Procedures[Tax Rev Analytical**]**

State of Washington

We performed an analysis of retail sales and use tax and B&O tax revenues to determine whether the balances were within our expectations. We used data obtained from the Economic and Revenue Forecast Council for June 2023 and reviewed projections compared to actual changes and noted no significant deviations from expectations. Based on the analytical procedure performed, we determined the FY 2023 balances were within our expectations. ***No issues noted.***

Population
To ensure testing provided a sufficient amount of coverage of the retail sales and use and B&O Taxes balance, we obtained our population for selection and broke out the taxes by fund and sources to ensure amounts we tested represented the whole balance. We obtained a query from ATLAS from Ayano Faasuamalie, Revenue & Financial Reporting Coordinator, that included all payments applied to taxpayer accounts for excise taxes for the Fiscal year 2023, excluding those for local tax. We tied the totals directly to the monthly revenue activity (MRA) spreadsheet prepared by Revenue Accounting at DOR and provided by Andrew Arnold, Revenue Accounting Supervisor. We used the MRA spreadsheet to break out each tax type by fund and source and tied amounts to the ACFR line item lead sheet [Line Item Lead Sheet]. See our reconciliation as part of the testing at [Tax Revenue Testing] in tab, "Testing Summary." Amounts tied without exception. We considered the population complete and provided coverage over the whole ACFR balance. ***No issues noted.***

Using the revenue query ran from ATLAS noted above, we selected a random sample of 39 transactions (payments made to a taxpayer account for a single filing period) and used the same sample to ensure amounts reported in AFRS occurred in the current year, are complete, and accurately valued. See more details for each assertion below.

<u>Substantive tests performed to meet the Occurrence assertion:</u>
To ensure reported revenues represent actual amounts relating to the period, we performed the following substantive tests:

- Ensured return was filed for taxpayer
- Ensured tax revenue was recorded to batch processed in ATLAS for the correct period
- Ensured batch total processed in ATLAS ties to batch total recorded in AFRS

We met with Ayano Faasuamalie, Revenue and Financial Reporting Coordinator, on September 19, 2023 to review support for the selected transactions within ATLAS. For each selection, we reviewed the revenue tab within the taxpayer's account and history sub tab to identify the tax return for the correct filing period. Within ATLAS, a hyper link for the ATLAS receivable accumulation that the transaction was included could be followed from there. We traced each taxpayer account to the ATLAS accumulation and matched the batch total in ATLAS to the year end entry to AFRS using additional hyperlinks. Based on the tax type, we ensured the revenue was included in the correct balance. ***No issues noted.*** See testing performed at [Tax Revenue Testing] in the "Tax Revenue Testing" tab.

We also performed testing over the fiscal year end gross receipts accrual JV. See: [Accrual JV Testing]. No issues were noted during testing. We used the gross receipts detail report of taxpayer accounts to test the following:

- Did reported revenues actually occur during the fiscal year?

We selected a sample of 39 random taxpayers to ensure amounts reported in the current year were for revenues collected for the current year. We obtained tax returns and payment history tabs from ATLAS to ensure amounts were paid for taxes due in the current year. All taxpayers had a filing period of 6/30/2023. We determined all reported revenues occurred during the fiscal year. ***No issues noted.***

Substantive tests performed to meet the Completeness assertion:
To determine whether all revenues relating to the period were reported, we performed the following substantive tests:

- Ensured return was filed for taxpayer
- Ensured tax revenue was recorded to batch processed in ATLAS for the correct period
- Ensured batch total processed in ATLAS ties to batch total recorded in AFRS

We met with Ayano Faasuamalie, Revenue and Financial Reporting Coordinator, on September 19, 2023 to review support for the selected transactions within ATLAS. For each selection, we reviewed the revenue tab within the taxpayer's account and history sub tab to identify the tax return for the correct filing period. Within ATLAS, a hyper link for the ATLAS receivable accumulation that the transaction was included could be followed from there. We traced each taxpayer account to the ATLAS accumulation and matched the batch total in ATLAS to the year end entry to AFRS using additional hyperlinks. Based on the tax type, we ensured the revenue was included in the correct balance. ***No issues noted.*** See testing performed at [Tax Revenue Testing] in the "Tax Revenue Testing" tab.

We also performed testing over the fiscal year end gross receipts accrual JV. We reconciled the taxpayer accounts in gross receipts detail reports and the gross receipts revenue allocation work sheets, which allocates the funds held in the suspense account 01-99-020000 to the general fund revenue sources, to the year end accrual JVs for sales, use and business & occupation tax. See reconciliation of gross receipts detail report and the accrual JV as part of the testing at [Accrual JV Testing] in the "JV Accrual Summary" tab.

Amounts tied without exception and we determined the gross receipts recorded for sales, use and B&O taxes from the accrual JVs were complete. We used the gross receipts detail report of taxpayer accounts to test the following:

- Accrual recorded ties to tax return in ATLAS
- Accrual was recorded in the proper period

We selected a sample of 39 random taxpayers to ensure amounts reported in the accrual JV were complete based on tax returns due. We tied all selected accrual transactions to tax returns without exception and noted payments were made in July and August for 2023 taxes due. We determined the accrual JV transactions were complete. ***No issues noted.***

Substantive tests performed to meet the Valuation assertion:
To determine whether tax revenues were reported at properly valued or calculated amounts, we performed the following substantive tests:

- Recalculated retail sales, use, and B&O taxes for the selected taxpayer

During review of controls, we noted ATLAS automatically applies tax rates for retail sales, use, and B&O taxes and automatically calculates taxes due. To test the IT control, we re-performed calculations for a sample of 39 taxpayers as documented at [Tax Revenue Testing] in the "IT Control Testing - Valuation." We noted that all taxes recalculated tied to the taxes owed and paid in ATLAS and determined that revenues were reported at properly valued and calculated amounts. ***No issues noted.***

D.3.PRG - Deferred Inflows of Resources

Procedure Step: Summary & Conclusion
Prepared By: MRF, 9/7/2023
Reviewed By: SLB, 10/17/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
The results of substantive tests do not indicate a need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
The quality and quantity of evidence obtained was sufficient and appropriate.

D.3.PRG - Deferred Inflows of Resources

Procedure Step: Understanding of Line Item
Prepared By: MRF, 6/26/2023
Reviewed By: SLB, 10/17/2023

Record of Work Done:

(1) Prior Audit Exceptions:
N/A - There are no prior year audit exceptions for this balance.

(2) Composition & Change Analysis:
Line Item Leadsheet: [Line Item Lead Sheet].
Deferred Inflows of Resources arise when a potential revenue does not meet both the "measurable" and the "available" criteria for revenue recognition in the current period. "Available" meaning the financial resources would be collectible within the current period or within 60 days. The Deferred Inflows balance is primarily from property taxes which make up approximately 2/3rds with the next largest amount composed of other taxes (about 1/3rd) that will not be collected within 12 months.

Property Tax
Property taxes are levied in December for the following calendar year (See State Levy Calculation notes below). The first half-year collections are due by April 30, and the second half-year collections are due by October 31. Since the state is on a fiscal year ending June 30, the first half-year collections are recognized as revenue if collectible within 60 days of the fiscal year end. The second half-year collections are recognized as receivables offset by deferred inflows. The lien date on property taxes is January 1 of the tax levy year. We will focus our testing on property taxes since it makes up a majority of the balance.

State Levy Calculation
A property tax levy is a tax based on ownership of a piece of real estate. The legislature sets the rates of property tax amounts and DOR is responsible for calculating the amounts, but not setting them.

The end goal of this entire process is for DOR to calculate the amount of property tax levy each county is responsible for. They do this by taking the total dollar amount the entire state must pay and using equalization methods divi the amount between the counties in the fairest manner possible.

Local property is property that is entirely located and operated in the county.
State property is property that is located across state/county borders or operated across state lines such as Alaska Airlines property. State property values exclude any Tribal lands as they do not pay state taxes.

Property tax may also apply to personal property. Most personal property owned by individuals is exempt. For example, household goods and personal effects are not subject to property tax. However, if these items are used in a business, property tax applies. Personal property tax does not apply to business inventories, or intangible property such as copyrights and trademarks.
Personal property is generally subject to the same levy rate as real property. The characteristic that distinguishes real and personal property is

mobility. Real property includes land, structures, improvements to land, and certain equipment affixed to land or structures. Personal property includes machinery, equipment, furniture, and supplies of businesses and farmers. It also includes any improvements made to land leased from the government (leasehold improvements).

There are two parts to the state levy, Part I and Part II. They are basically the same except Part II does not apply to everyone as seniors who meet low-income qualifications (and apply) may be exempt from paying Part II. The applications for exemptions are not due until late December, so the estimated assessed taxable value submitted by the counties in Oct/Nov will change by the time the final numbers are submitted.
In October/November, each of the counties submits the total value of the local and state properties in their counties to DOR. This is known as the "assessed" value.

Washington State is broken into 39 counties. Each of the counties is responsible for determining the assessed value of property in their county, and each county has their own methodology.
Because each county assesses their property differently, the local values can't be used at face value and must be "equalized". This is where the *StateLevy202X* calculation spreadsheet is used to calculate that equalized value.

The total amount due is set by the legislature, not DOR or the counties, although DOR does calculate the value. DOR calculates the total amount due by all 39 counties by taking last year's levy amount, and adding the mandatory increases. These include a base 1% or inflation (whichever is less), new construction value increases and any remaining balances.

The *StateLevy202X* calculation spreadsheet takes the amount due total of all counties, then uses the assessed values reported by each county, and runs the balances through a series of adjustments and calculations. The end result is a total amount due for each county, for parts I and II, that is as equal as is possible based on assessed, real, and market values.

Other Taxes
We discussed the composition of the remaining balance with Ayano Faasuamalie, DOR Revenue & Financial Reporting Coordinator, which is other taxes. She explained the unavailable reported under other taxes are based on receivable tax types from ATLAS. This includes: Return Receivables, Estimated Returns, Audit Receivables, and Lien Receivables. Based on collection rates identified by Revenue Accounting, DOR will determine how much of the receivables will be collected within a year and the remainder would be recorded as unavailable for the current year. We gained an understanding of controls over receivables and collectible/uncollectible rates at [Controls - ATLAS].

We reviewed internal audit risk assessment documents for any significant changes in the processes and composition of the balance and noted no changes. We inquired with Andrew Arnold, Fiscal Analyst 5, of any other changes he identified. He explained that the balance had no significant changes. **No significant changes or risks identified.**

(3) Updates to Material Account Matrix:
We identified no changes that need to be made to the Material Account Matrix.

D.3.PRG - Deferred Inflows of Resources

Procedure Step: Controls - AFRS
Prepared By: MRF, 6/12/2023
Reviewed By: SLB, 10/17/2023

Record of Work Done:

****This section was previously named Unavailable Revenues****

Material Balance(s) and Assertions
Internal controls in AFRS address the following balance(s):
- **Deferred Inflows of Resources** - General Fund

For the following assertions:
- **Classification** - Revenue may be recorded as earned when it is actually unearned (availability criteria is not met).
- **Valuation** - The portion of revenue recorded as unearned may not be properly calculated.

Gain an Understanding of Internal Controls
We identified property tax as the majority of the deferred inflows of resources balance (about two thirds). We met with Mark Studer, Tax Policy Specialist, Research and Fiscal Analysis, on April 24th, 2023 and again on May 9, 2023 to gain an understanding over the property tax certified levy calculation. He explained there are 2 ways for levies to be calculated; rate based or budget based. For fiscal years 2018 through 2021, the agency used rate based levy calculations to determine levy amounts for counties. This change was a direct result of the McCleary ruling which required the State of Washington to fund schools. In a rate based system, the rate is set and multiplied by the assessed values of property to result in the levy amount. For fiscal year 2022 and 2023, the agency returned to the budget based system for both part 1 and part 2 state school levies. In the budget based system, the amount of levy collections is limited and set by the State and allocated to counties based on the market value of all taxable property in the county.

State Property Tax Levy Calculation
Mark explained that levies are increased on an annual basis but are limited by a few things. These increase limits include the following:

- The lesser of 1% or inflation
- The value of new construction multiplied by the prior year rate
- The value of state assessed properties (properties owned by utilities such as airline, railroad, and electric) multiplied by the prior year rate

Research and Fiscal Analysis (RFA) will use the prior year levy limit and add the above increases to result in the current year state levy limit. The new levy limit is the amount used and proportioned to counties.

In October/November, counties submit assessed value reports to DOR which the RFA division inputs in an excel sheet to use in their calculation of the levy rates for the current year. However, DOR does not use the unadjusted assessed values from the county, instead, the property tax division will perform a ratio analysis to identify ratios for each county's real and personal property. These ratios are used to adjust the assessed values to actual (market value) for both local and state assessed properties. RFA divides the current year state levy limit (described above) by the actual value for all counties to determine the new rate to be used for the calculation of levy amounts.

Each year, RFA will have to make adjustments to county levy amounts for changes identified in the prior year. Most of the changes stem from differences in assessed value from the time they are submitted to the time that the counties distribute the levies. These changes are included in the next year's calculation to reduce the amount of adjustments made throughout the year. All adjustments are the following:

- Fifth Preceding Year Adjustment - The remaining balance not collected from the fifth preceding year is rolled into the current levy amount. For example, 2018 is the fifth preceding year for fiscal year 2023; therefore, any amounts remaining in 2018 will be "rolled" over and counties will not be required to pay on the remaining balance for 2018 as it will have been rolled over/included in the total state levy amount to be collected for fiscal year 2023.
- Refund Levy Adjustment - When a taxpayer pays while in dispute with amounts owed and the court rules in their favor, amounts are refunded. DOR increases the next year's levy amount to ensure the total levy balance from the prior year is collected.
- Previous Year's Levy Adjustment - Due to changes in assessed value from the point they are submitted to DOR to the point the levies are distributed by the county (April-May). The counties will send an update of assessed values when the levies are distributed. DOR uses these updated assessed values to calculate adjustments for the next year.

RFA has several review processes to ensure calculations are accurate for the state levy. First, RFA creates an assessor review tab within the state levy calculation spreadsheet that includes the assessed values of all counties that were submitted. To ensure the amounts input and used for calculations are accurate, RFA asks the counties to verify the assessed values to their own records. Mark Studer, Tax Policy Specialist, prepares the entire state levy calculation spreadsheet. He explained that a secondary reviewer will ensure calculations are consistent with prior years and are allocated appropriately.

In December of each year, county assessors receive a letter from DOR regarding the state property tax levy amount due in the upcoming year for part 1 and part 2. The letter is automatically generated to include the calculations and adjustments noted above. Before the letters are sent, two separate members of the Property Tax Division select a random sample of letters to ensure amounts sent to the county agree to the calculations. The most important figure, the total state levy owed by the county, is bold and circled in red so the counties are aware of their allocated amount. The county will determine its own levy rate by dividing the state levy amount by their own assessed value of property. Since the assessed value is less than the market value used by DOR in their calculations of the levy rate, the county's levy rate will be slightly higher. Because the calculated levy amounts are entirely dependent on the assessed values submitted by the counties in October, the counties are the best source of review to ensure the current year's calculated levy total is correct. DOR sends an email to all the county's containing the spreadsheet with the calculations for the levy amounts, and asks them to review **(Key Control 1 - Valuation)**. Once the county agrees no changes need to be made, DOR records the review by each county in the "review" tab of the "State Levy Documents Received" spreadsheet and stores the email in a communal mailbox. The valuation control for Deferred Inflows of Resources consists of each county verifying the calculated amount of Levy due is consistent with previous years and county changes in valuation. When the county agrees to the total calculated, it is generally sent in an email and added to a communal inbox that can be reviewed by members of DOR. However, it is not a requirement that the acceptance be submitted in writing as some counties prefer to communicate over the phone. DOR keeps track of county acceptance in their "State Levy Documents Received" spreadsheet, but there is no documentation DOR's review of the acceptance. See issue here [V: DOR_Internal Review Documentation for Deferred Inflows County Acceptance].

Property Tax Collections

We met with Andrew Arnold, Fiscal Analyst 5, on May 3, 2023 to gain an understanding over Deferred Inflows of Resources reporting. The 39 counties (not DOR) are responsible for collecting property taxes; however, the tax revenue and cash received are recorded by DOR in AFRS. Per Andrew, DOR uses the "Property Tax Receivable System (PTRS)", a web-based database, to track property tax collections by county. The web-based database is a more practical means for running summary reports rather than AFRS.

Counties remit taxes they collect to the Office of the State Treasurer (OST) using a cash journal (CJ). OST summarizes these individual CJ's into a JV and records the cash into AFRS. Using the county CJ, the Revenue section of DOR's Business and Financial Services records the information into spreadsheets and the Property Tax Receivable System to track collections by county. Expected collections (the State Property Tax Levy of 2022 expected to be collected in 2023) are input into the "Property Tax Receivable System" by a Fiscal Analyst 2 and verified by Andrew Arnold, Fiscal Analyst. Using the OST JV, DOR's Revenue Accounting prepares a JV and records the revenues into AFRS by revenue source. A Cash Receipts Journal Summary is prepared for each county's total deposits and sent to the Office of the State Treasurer, this is done prior to any adjustments.

How transactions are recorded in AFRS (Year-End JV):

At year end, a Property Tax Accounts Receivable summary report is run of the total Property Tax Receivable System as of June 30 (GL 1311). It is a running total of taxes due by county for the preceding five years 2018-2022. Estimated collections for July and August are provided by the Forecast Council and are included in the year-end adjusting entry. The forecasted amounts are based on the June forecast and total approximately 2% of the total receivables.

A year-end journal voucher for unavailable property tax revenue is prepared by a Fiscal Analyst by subtracting the estimated collectible amounts for July - August (as received from the Forecast Council) from the year end property tax account receivable report. This Journal Voucher is reviewed by a Fiscal Analyst 5 to ensure Unavailable revenue is properly calculated. The supervisor/manager reviews the forecast council's tracking spreadsheet and the county's PTRS totals that was used by the Fiscal Analyst in preparing the JV to ensure the amount reported is accurate and classified between earned and unearned correctly based on forecast information **(Key Control 2 - Valuation/Classification)**.

Monthly Reconciliations:
A monthly reconciliation of AFRS to the web-based data base for property taxes is performed each month. An Exception Ending Balance report is used to track differences between the Accounts Receivable amount and the Ending Balances. The expectation is previous month's ending balance minus the current month's payments, plus or minus adjustments (typically corrections to sub source) is what is recorded. Any negative balance for an individual levy year does not reduce the amount of the receivable for the combined levy years. In addition, reconciliations are performed by Andrew each month of cash payments made per the Property Tax System and the monthly balance per AFRS. Monthly Journal Vouchers are received from OST documenting the transfer of monies remitted by the counties to DOR during the month. A spreadsheet is prepared by Andrew to document and reconcile the cash receipts journal summary to OST's monthly JVs to ensure collections are classified appropriately **(Key Control 3 - Classification)**.

Key controls are as follows:

- **Key Control 1 - Valuation - Research and Fiscal Analysis calculates property tax state levies for all 39 counties based on an identified levy limit and market value of properties, letters are sent to each county where they are reviewed. If the county agrees to the determined amount, it is recorded in the "State Levy Documents Received" spreadsheet.**
- **Key Control 2 - Valuation/Classification - A Fiscal Analyst prepares the year end entry to record deferred inflows of resources using PTRS accounts receivable reports and Forecasts from the Forecast council. A Fiscal Analyst 5 reviews forecast totals and PTRS totals by county to ensure amounts are accurate and classified between earned and unearned correctly based on forecast information.**
- **Key Control 3 - Classification - Fiscal Analyst 5, reconciles Property Tax Receivable System, AFRS, and OST JVs on a monthly basis to ensure collections are classified appropriately.**

Noted Weaknesses are as follows:

- None

D.3.PRG - Deferred Inflows of Resources

State of Washington

Procedure Step: Key Control #1 (Manual)

Prepared By: MRF, 6/12/2023

Reviewed By: SLB, 10/17/2023

Record of Work Done:

Key Control 1 - Valuation - Research and Fiscal Analysis calculates property tax state levies for all 39 counties based on an identified levy limit and market value of properties, letters are sent to each county where they are reviewed. If the county agrees to the determined amount, it is recorded in the "State Levy Documents Received" spreadsheet.

The understanding for this system is documented above in the "Controls - AFRS" step.

1. Confirmation of Key Manual Control:

We met with Mark Studer, Tax Policy Specialist, Research and Fiscal Analysis, on April 24, 2023, and again on May 9, 2023 to confirm our control over the property tax certified levy calculation. He provided the "StateLevy2022" excel spreadsheet used to calculate the 2023 State Property Tax Levy Part 1 and Part 2 for collection in 2023. He walked us through the calculation for Adams county part 1. The total assessed value for local property was $2,609,991,000 and state real property was $130,053,748. Together the total real property value was $2,740,044,748. To determine the actual value, the assessed value was divided by the real property ratio (71.0) to get the actual value of $3,859,217,955. The actual value of personal property for Adams county was $408,106,158. The total actual (market) value of all taxable property for Adams county was $4,293,835,801.

To determine the levy rate, the previous year levy limit is increased by 1% and increased by new construction and state assessed property. With these adjustments, the new levy limit (less refund levy) was $2,990,212,572. The levy limit is divided by the market value of all counties which is $2,141,413,953,626. The new rate is therefore calculated to be 1.3961028700 (rate with refund and adjustment).

The rate is applied (multiplied) to Adams county's actual value of all taxable property and results in a state levy amount of $5,994,538. The levy amount is adjusted by previous year adjustments, refund levy, and uncollected levy amounts from the fifth preceding year. With those adjustments, the grand total state levy calculated for Adams County was $6,269,761 for part 1.

In December, the Department of Revenue sends out a certification of the statewide state property tax levy calculation to all counties. The certification tied to the levy rate calculation above without exception. The letter is signed by Mark Studer.

We obtained the state levy part 1 letter sent out to Adams County and tied all figures back to the calculation workbook, including the total state levy amount of $6,269,761. We also reviewed the "2022 State Levy Documents Received" worksheet and noted that Adams county had the levy reviewed by Veronica Rodriguez on 12/14/2022. ***No issues noted.***

Based on the levy calculations, the expected collections (levy of 2022 to be collected in 2023) are posted to the property tax receivable system (PTRS). Andrew Arnold will review and sign a printout of the collections input in PTRS to evidence that the amounts were verified and tied to the levy calculations and letters. The printout was digitally signed 02/20/23 by Andrew Arnold, Fiscal Analyst 5. We noted the digital printout listed the total Part I Levy for Adams County as $6,269,761 which matches the amount sent on the letter by Mark Studer. ***No issues noted.***

Noted Weaknesses are as follows:

- None.

2. Preliminary Control Risk Assessment

Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test of Key Manual Control:

Not applicable - we are not planning to rely on controls and therefore do not need to test controls; control risk will be assessed at maximum.

D.3.PRG - Deferred Inflows of Resources

Procedure Step:	Key Control #2 (Manual)
Prepared By:	MRF, 7/17/2023
Reviewed By:	SLB, 10/17/2023

Record of Work Done:

Key Control 2 - Valuation/Classification - A Fiscal Analyst prepares the year end entry to record deferred inflows of resources

using PTRS accounts receivable reports and Forecasts from the Forecast council. A Fiscal Analyst 5 reviews forecast totals and property tax receivable system (PTRS) amounts by county to ensure amounts are accurate and classified correctly.

The understanding for this system is documented above in the "Controls - AFRS" step.

1. Confirmation of Key Manual Control:
Andrew Arnold, Fiscal Analyst 5, provided the year end journal voucher, the PTRS totals for the counties, and the estimated collections by the forecast council. The journal voucher was prepared by Yi-Ting Liu, Fiscal Analyst 4, on 07/05/2023 and approved by Andrew Arnold on 07/05/2023.

There is a one month delay between when counties collect the taxes and when they are submitted to DOR, so DOR's taxes receivable balance as of June 30th is the counties balance as of May 30th. Andrew provided the Counties May Accounts receivable balances through screenshots of PTRS for Part I and Part II. He also provided the forecast council's excel sheet that tracks all receivables "Forecast Allotment_2325_2023_06" as of June 30th. Property taxes are listed on the "2325 Cash Jun 2023" tab, in lines 11 and 12 (source code 50, subsource code 02: Property Tax) for parts I and II respectively. Columns 01 and 02 are the first two fiscal months. Altogether, there are four balances pulled from this spreadsheet for the two parts of the levy in the first two fiscal months, that all together makes the estimated available property tax revenue. Andrew provided the property tax estimates in a simplified table "Property Tax Forecast for FY24".

We reviewed JV 14031203 which is the year end voucher for all of the receivables. There was a total of $2,207,727,498.73 from two sources, 3205 (estimated) and 5192 (deferred inflows). We noted the deferred inflows total was $2,165,642,950.16. Using the PTRS May statements, we calculated the total property tax receivables for parts I and II to be $2,207,727,498.73. Using the forecast spreadsheet we calculated the available revenue to be $42,084,548.58. The deferred inflows total listed on the JV matched the total property tax receivables balance less the available revenue with a zero dollar difference. No issues noted.

Noted Weaknesses are as follows:

- None.

2. Preliminary Control Risk Assessment
Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test of Key Manual Control:
Not applicable - we are not planning to rely on controls and therefore do not need to test controls; control risk will be assessed at maximum.

D.3.PRG - Deferred Inflows of Resources

Procedure Step: Key Control #3 (Manual)
Prepared By: MRF, 5/4/2023
Reviewed By: SLB, 10/17/2023

Record of Work Done:

Key Control 3 - Classification -A Fiscal Analyst 5, reconciles Property Tax Receivable System, AFRS, and OST JVs on a monthly basis to ensure collections are classified appropriately.

The understanding for this system is documented above in the "Controls - [AFRS]" step.

1. Confirmation of Key Manual Control:
Monthly journal vouchers are received from OST documenting the transfer of monies remitted by the counties to DOR during the month. A spreadsheet is prepared to document and reconcile cash receipts journal summary to OST's monthly JVs.

Andrew Arnold, Fiscal Analyst 5, provided the FY23 reconciliations for the month of March 2023. We reviewed the Property tax part 1 March reconciliation and tied the Property Tax Receivable System (PTRS) ending balance for Adams County to PTRS accounts receivable reports. Per PTRS the ending balance was $2,829,937,329.95. The OST cash journal entries totalled $13,534,572.99 for the month. The prior month ending balance less the June cash receipts resulted in an ending balance of $2,829,937,329.95 per the source documents from OST. No variance was noted for any of the counties between PTRS and OST JVs. *No issues noted.*

Revenue Accounting performs a reconciliation between PTRS and AFRS to ensure that payments received are accurately reported and classified appropriately. We noted the total payments for all counties for March were $13,534,572.99 as documented in PTRS. We tied this amount to AFRS using an ER report for General Fund source 50 - property tax. Amounts tied without exception. *No issues noted.*

Noted Weaknesses are as follows:

- None.

2. Preliminary Control Risk Assessment
Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test of Key Manual Control:
Not applicable - we are not planning to rely on controls and therefore do not need to test controls; control risk will be assessed at maximum.

D.3.PRG - Deferred Inflows of Resources

Procedure Step: Risk Assessment

Prepared By: MRF, 7/20/2023

Reviewed By: SLB, 10/17/2023

Record of Work Done:

(1) Inherent Risk (IR):
Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

- **Classification -** LOW
- **Valuation -** LOW

(2) Control Risk (CR):
We assessed control risk as follows for each system and relevant assertion:

- **Agency Financial Reporting System (AFRS)**:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

- **Classification - MOD**
- **Valuation - MOD**

(4) Testing Strategy:
We designed our substantive testing strategy based on our assessment of the risk of material misstatement. We plan to perform the following tests:

Every month, each county submits a cash journal to the Office of the State Treasurer (OST) called an A8. OST then batches all 39 cash journals into one monthly cash journal that is posted to AFRS called a cash receipt journal summary (DOR has copies of the A8s and the OST cash journals).

We will select from the monthly cash receipt journal summaries and use these journals to perform the valuation and classification assertion testing outlined below.

Substantive tests to meet the Valuation assertion:
Most deferred inflows of resources are a result of property taxes not expected to be collected within 60 days of fiscal year-end. The property taxes that are considered deferred inflows at year end are recorded in a JV prepared by the Revenue Accounting Division at the Department of Revenue.

We will test the valuation assertion for the deferred inflows balance by recalculating:

- Statewide state property tax levy receivables
- Less: Property tax collections by county
- Less: Available Revenue

We will determine if this recalculated balance ties to the year-end journal voucher for deferred inflows property tax receivables prepared by DOR.

Substantive tests performed to meet the Classification assertion:
To determine whether the property taxes were correctly classified as deferred inflows vs available, we will use the selected cash journals to test

for the following:

- Property Tax Collections are recorded in proper revenue source codes in PTRS (Property Tax Receivable System)
- Property Tax Collections recorded by OST cash receipt journal summaries into AFRS are coded correctly.

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

In addition, we will address the taxes receivable existence and completeness assertions in this area as this testing will be used for part of the coverage of the taxes receivable balance testing. See below:

Substantive tests to meet the Existence assertion (Relevant to the Taxes Receivable testing only):

We will trace each of the counties in the selected cash journal from OST to their A8 and their acceptance of the balance.

- We will review all 39 of the county's A8*s for the selected JVs and tie the amounts recorded for part 1 and part 2 of the property tax from the A8s to the JV.

Substantive tests to meet the Completeness assertion (Relevant to the Taxes Receivable testing only):

We will review all the levy totals for parts 1 and 2 for each of the counties for FY23 and determine if the total amount of levy balance due from all the counties is the amount due to the state per the calculation performed by DOR (the same as PY plus 1%).

D.3.PRG - Deferred Inflows of Resources

Procedure Step:	Substantive Test
Prepared By:	RKM, 9/28/2023
Reviewed By:	SLB, 10/17/2023

Record of Work Done:

Substantive tests to meet the Valuation assertion:

Most deferred inflows of resources are a result of property taxes not expected to be collected within 60 days of fiscal year-end. The property taxes that are considered deferred inflows at year end are recorded in a JV prepared by the Revenue Accounting Division at the Department of Revenue.

We noted the calculation of the deferred inflows of resources related to property tax is composed of the following:

- Statewide property tax levy receivables - part 1 and part 2 (all calculated property taxes)
- **Less:** Property tax collections by county (what has already been collected)
- **Less:** Available Revenue (Expected property tax collections within 60 days of year end where July and August expected collections forecasted by Economic Revenue and Forecast Council (ERFC) is considered "available" at FY end)

Valuation Testing Results:

We recalculated the statewide property tax receivable balance due in FY23 for parts I and II of the levy.

- We reviewed RCW 84.52.050 - Limitation of Levies and noted, "aggregate of all tax levies...shall not in any year exceed one percentum".
- We reviewed the US. Bureau of Labor Statistics website for inflation rates in the western region (which includes WA) and noted the inflation did not drop below 1% at any point in FY23.

We verified the increase of 1% (plus adjustments) and determined our calculations matched those of DOR. We obtained the year-end entry made to record deferred inflows of resources at year end. Using support obtained from Andrew Arnold, Revenue Accounting Supervisor, and ERFC predictions, we recalculated the year end amount of property tax receivables to be recorded as deferred inflows of resources. The support included the "Forecast Allotment_2325_2023_06" which tracks the estimated receivables through the year and the May 2023 accounts receivable statements. Our expected JV amount for deferred inflows of resources tied directly to the actual JV without exception. See testing here [Year-End JV Testing] on the Summary tab. The Property Tax deferred inflows balance is not the complete deferred inflows balance on the government wide financial statement. The remainder of this line item is made of other taxes including Retail Sales Tax, Use Tax, and Business & Occupation tax.

We also obtained property tax collection cash journals made throughout the year to ensure the amount tracked within the Property Tax Receivable System (PTRS) is accurate. We obtained the state levy calculation spreadsheet and the accounts receivable report from PTRS to tie the amounts entered as state levy for each county back to the actual collection. All amounts tied without exception. We determined the beginning balances were accurate and valued correctly. See testing here: [Journal Voucher Testing].

Monthly Journal Vouchers from the Office of the State Treasurer detail how much tax was collected by each county. We selected a sample of four journal vouchers and two individually significant vouchers that represented 89% of all collections for the year. See sample here [Journal Voucher Testing] on the "OST JVs" tab. For each of the selected JVs, we reviewed the JV amounts for property taxes, and the totals listed within DOR's PTRS system to determine if the accounts receivable from property taxes was correctly valued. The difference from one month to the next in the property tax receivable system was equal to the amount remitted to DOR through OST by the counties for all tested months. See testing here [Journal Voucher Testing] on the Small Pop. Substantive Sample tab.

Substantive tests performed to meet the Classification assertion:

To ensure property tax receivables were classified correctly within PTRS, we selected a sample of monthly cash journals prepared by the Office of

State Treasury to review. To determine whether the property taxes were correctly classified, we recalculated the year end JV and tied totals to the source codes.

Classification Testing Results:
To ensure property tax receivables were classified correctly within PTRS, we selected a sample of monthly cash journals prepared by the Office of State Treasury. We selected four journal vouchers and two individually significant vouchers that represented 89% of all collections for the year, to review for the following:

- Property Tax Collections are recorded in proper revenue source codes in PTRS (Property Tax Receivable System)
- Property Tax Collections recorded by OST cash receipt journal summaries into AFRS are coded correctly.

We reviewed the source coding on the county's A8s and the compiled OST monthly JVs to ensure the balances remitted were entered into the correct codes; Fund 001, Source 0150, Subsource 020000 and 020001. We determined the the OST JVs and the PTRS records were coded correctly without exception. See testing here [Journal Voucher Testing] on the Small Pop. Substantive Sample tab.

The deferred inflows balance listed on the JV should tie to the taxes receivable balance in PTRS as of May (due to the one month delay) less the estimated available revenue. We calculated that the totals listed on the year end JV balanced and matched their source code without exception. See testing here [Journal Voucher Testing].

In addition, we addressed the existence/completeness assertion in this area as this testing will be used for part of the coverage of the taxes receivable balance testing.
Substantive tests to meet the Existence assertion (Relevant to the Taxes Receivable testing only):
We traced each of the counties in the selected cash journals from OST to their A8s and their acceptance of the balance.

Existence Testing Results:
We reviewed the A8 from each county for each of the months selected by the JV selection process. The A8s listed all the taxes collected by the county to be remitted to DOR through OST. We added the taxes collected from Fund 001, Source 0150, subsources 020000 and 020001 only for the amount of property tax collected. We added the totals of all 39 counties for the property taxes collected, and compared to the amount remitted to DOR through OST in the relevant JV under the same subsource codes. The total remitted to OST by all the counties matched the total remitted by OST to DOR. See testing here [Journal Voucher Testing] on the Small Pop. Substantive Sample tab.

Substantive tests to meet the Completeness assertion (Relevant to the Taxes Receivable testing only):
We added all the levy totals given to the counties and the total matched what the original total was (the same as last year plus 1% and adjustments)

Completeness Testing Results:
Andrew Arnold, Fiscal Analyst 5, provided the letters sent to each of the 39 counties, which outlined the amount of property taxes due for Parts I and II in 2023. We totalled the amounts due from each of the counties for both parts. We compared the total of the letter amounts, to the total of

all county levies as calculated in the State Levy spreadsheet. Both Parts I and II balanced with only a rounding difference. See testing here [Property Taxes Receivable].

We noted the amount of levy due by all the counties was different than the total amount of levy due per the original calculation (last year plus 1%). Mark Studer, Tax Levy Specialist, explained that the total amount of levy due to DOR by the state is not entirely made of property tax levy on the counties. There are other adjustments that add or deduct from the balance like new construction value improvements and state property. Mark provided additional calculations for Part I which tied the county levy total to the total levy due with the adjustments. We were able to replicate this support independently in the Part II calculation. See testing here [Property Taxes Receivable].

D.4.PRG - Human Services

Procedure Step:	Summary & Conclusion
Prepared By:	CJL, 10/18/2023
Reviewed By:	SLB, 10/20/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
The results of our substantive tests do not indicate a need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
The quality and quantity of evidence obtained was sufficient and appropriate.

D.4.PRG - Human Services

Procedure Step:	Understanding of Line Item
Prepared By:	CJL, 11/15/2023

State of Washington

Reviewed By: SLB, 11/20/2023

Record of Work Done:

(1) Prior Audit Exceptions:

We reviewed the most recent audits or in-process audits for the agencies for accountability, SWSA, and ACFR for exceptions related to the Medicaid program:

- ACFR Audits: Prior finding/management letters related to the general IT control deficiencies due to the lack of a SOC II type 2 report that addresses an entire year (even fiscal years have six months of coverage) or at all (odd fiscal years).
  - We confirmed with Christine Nolan, Deputy CIO, HCA did not have a SOC report for ProviderOne for FY23. **Issue [**V: HCA ProviderOne SOC Report Deficiency (Part of Finding 2023-01) See ISS.26**]**.

  Impact: This impacts our assessment of control risk for all assertions by increasing it to MAX as necessary.

- Single Audit: We reviewed the FY22 SWSA (S1Medicaid-SA22) for issues that directly correlate with our tested management assertions:
  - Provider Eligibility - Both agencies did not have adequate controls to ensure provider eligibility requirements for the Medicaid Program.
    - HCA relied on automated systems to assist in the revalidation of providers (required every five years); however, we noted that out 2,049 providers that should have been revalidated or deactivated: None were revalidated before the due date.
      - HCA subsequently revalidated 648 providers which were backdated
      - 1,242 providers were deactivated, but HCA did not process the deactivation until 30 days after the eligibility end date
      - The remaining 159 providers should have been deactivated, but HCA did not take effort to deactivate or revalidate them
    - DSHS relied on automated systems to confirm the identify and exclusion status of providers, which is required monthly. A management decision was made to only screen providers on an annual basis. There was additionally missing documentation related to enrollment determinations.

  Impact: This impacts the Rights and Obligations assertion to ensure claims are paid to eligible providers at the time of service. When we met with SA for coordination [ACFR / SWSA Brainstorm], Stephanie Garza and Ronni Copeland mentioned that our methodology of testing eligibility was appropriate due to HCA's ability to backdate revalidations. We will continue to clarify with the Single Audit team during testing to ensure that our work addresses the requirements of the Medicaid portion of the single audit.

- Accountability/IT Audit: We reviewed the in-process audit (S1HealthCareAuthority(ProviderOne)-AC22 and noted that there were issues created (non-finalized) that impact

- General risks - There is no IT risk assessment for the ProviderOne system
- Access to the rules engine (where changes to the rules are made) was excessive and there could be unauthorized changes to the rules engine
- Providers may not be alerted to changes for contacts and EFT information.

Impact: We do not anticipate these potential issues to significantly impact our testing strategies**.**

(2) Composition & Change Analysis:

Line Item Leadsheet: [Line Item Lead Sheet].
Final Coverage Analysis [Human Services Breakdown]

Expenditure Analysis

We analyzed expenditures* in the following manner [Human Services Breakdown].
HCA [Human Services Breakdown**]**
DSHS [Human Services Breakdown**]**

- By Origin Code:
  - 85% of the expenditures for HCA were from ProviderOne (OC P1), presenting the most significant origin system. This is expected as ProviderOne is the Medicaid MMIS.
  - 45.3% of the expenditures for DSHS were from ProviderOne and 14.3% were from payroll (OC PR, which is addressed in other testing procedures in the ACFR).
- By Subobject:
  - **HCA:** 96.6% were from NB (direct payments to providers)
  - **DSHS:** 81.2% were from NA/NB (direct payments to providers and clients)
- By GL Account
  - The only item of significance related to the GL accounts is for GL 6525 for DSHS. This account is used for SNAP expenditures. This represented 24.6% of their expenditures.

These expenditures sources are all in line with our expectations due to the significance of the Medicaid program.

Based upon the quantitative and qualitative aspects of the Medicaid program, we do not consider identified changes to the expenditures significant which fluctuate year-to-year based upon actual services rendered and demand.

*Note: The amounts within the analysis are interim and based upon the funds, GL accounts, and subobjects from FY22 ACFR queries which provide information between the income statement sort codes and AFRS transaction detail. We anticipate these are similar year-to-year and sufficient for preliminary analysis purposes. Additionally, based upon historical testing, we expect HCA and DSHS (followed by DCYF) to contribute the most to the Human Services line item as they are the primary agencies responsible for human services.

Amendment Updates

The State Plan which describes the nature and scope of Washington's Medicaid Program is changed with plan changes (State Plan Amendments, SPA) submitted to the Department of Health and Human Services, to be approved by the Centers for Medicare and Medicaid Services (CMS) to determine whether it meets federal requirements and policies. The State Plan is updated when CMS issues final approval of an SPA.

We reviewed approved SPAs with approval dates within FY23 documented at [State Plan Amendments Review]. During our review, we noted general updates including extending/increasing of existing rates, technical changes and updates, and exceptions to existing procedures.

Testing impact assessment:

- **Valuation** - We identified multiple rate and effective date updates within the SPAs. Correct rates are an attribute for testing and a sample of rate updates for accuracy and review and upload process is tested as part of control testing [Key Control #5 (Manual) - Rate Change Review].
- **Rights and Obligations (Provider) -** One SPA served to distinguish two different rates for Sole Community Hospitals for those with and without single bed certifications. There is no direct impact on our testing as one of our tested attributes for rights and obligations is to ensure the provider was eligible to provide the specific service at the time of the claim.
- **Completeness** - We identified SPAs that would increase the number of eligible clients through various means. This has no impact on our testing as we test for "negative" attributes, i.e. if the client was eligible at the time of service, rather than should more clients have been registered as eligible. There is no financial impact for "potentially eligible" clients as they do not submit claims if they are not registered.
- **General Risk -** The state extended its waiver for its exception of establishing a Medicaid Recovery Audit Contractor program. This is a general risk that does not directly impact our testing; we will consider this waiver in our risk assessment.

Public Health Emergency End [AppleHealth_PostPHE_Winddown**]**

During the Public Health Emergency (PHE), CMS provided guidance that allowed for relaxed eligibility determinations and redeterminations, known as the continuous enrollment provision. Essentially, enrollees were allowed to self-attest to their conditions and income levels for their eligibility into their recipient aid groups. Those that had coverage were able to retain their coverage throughout the PHE. The PHE ended on 5/11/2023, but the Consolidated Appropriation Act of 2023 ended the provision. HCA and DSHS resumed normal operations for eligibility redeterminations 4/1/2023, with terminations for those that did not renew eligibility resuming on 5/31/2023.

During this time period, HCA began its efforts to reach clients, including phone calls, text messages, mail/enhanced envelopes, and updated correspondence for clients to respond to renewals and eligibility reviews to determine if they were still eligible for Apple Health coverage or other insurance through the Washington Healthplanfinder. Depending upon the coverage group (Classic Apple Health coverage through DSHS, MAGI Apple Health through Washington Healthplanfinder, etc.) the redetermination process can either be automatic (comparing self-reported income through the Healthplanfinder to various sources) or a manual process.

One key takeaway, however, is that terminated clients have 90 days from their termination date to complete their renewal and have **retroactive reinstatement** from their termination date without a gap in coverage **(pg. 15)**.

Testing impact assessment: Potential impact

- **Rights and Obligations** - For those individuals who may be ineligible to receive services due to termination between the time frame of 6/1/2023 through 6/30/2023. As noted above and in the wind down guide, those terminated clients have an additional 90 days from termination to complete their renewal process for retroactive reinstatement. Eligibility of clients are still updated through batches from ACES to ProviderOne; we will take additional consideration for those TCNs that do not meet client eligibility on a service date to consider retroactive reinstatement.
    - **Valuation** - HCA should potentially have a Expenditure Accrual estimate, with a corresponding Accounts Payable entry, for those clients (and their transactions) that are initially deemed ineligible due to the renewal lapse, but receive retroactive eligibility within the 90 day window. Per inquiry with HCA we determined this is not a new process in eligibility and has been in place since the enactment of the ACA. A client has up to 90 days to be reconsidered for their renewal and HCA can reinstate coverage back to termination. Once eligibility is established, claims can be submitted.

SAO Risk Register

We reviewed the Medicaid Task Force's Risk Register for topics that may impact the ACFR for our selected management assertions. We noted that the risks topics identified could more adequately be covered in other audits such as accountability and performance audits, rather than for financial reporting purposes.

(3) Updates to Material Account Matrix:

We made a slight change to the DSHS line item risk to also include "A lack of service organization's internal control audit for the ProviderOne system could lead to inaccurate payments, misuse, loss of misuse, loss or misappropriation of public funds, or payments not properly made only to eligible recipients for allowable (authorized) services". The risks now match HCA.

No other updates to the Material Account Matrix are necessary. Expenditures for the line items are in expected agencies and sub-objects. We did not identify significant changes in the expenditures from year to year.

D.4.PRG - Human Services

Procedure Step: Controls - ProviderOne

Prepared By: CJL, 7/24/2023

Reviewed By: SLB, 10/20/2023

Record of Work Done:

Material Balance(s) and Assertions

Internal controls in ProviderOne address the following balance(s):

- Statement of Activities - Government Wide - Human Services - Expenses
- Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds - Human Services

For the following assertions:

- Rights and Obligations - Medicaid / social service payments may not be made to eligible providers, for eligible recipients, or for allowable services
- Valuation - Medicaid / social service payments may not be made at correct rates.
- Completeness - Payments may not be completely rolled-up to AFRS from P1.
- General Risk - ProviderOne is the Medicaid payments system. A lack of service organization's internal control audit for the ProviderOne system could lead to inaccurate payments, misuse, loss of misuse, loss or misappropriation of public funds, or payments not properly made only to eligible recipients for allowable (authorized) services.

We met with the following to discuss ProviderOne and controls:

- Kari Summerour, Audit Liaison
- Sam Trimble, IT Business Analyst - Senior
- Ed Hicks, IT System Administrator - Senior
- Lorena Delgado, IT System Administrator - Journey
- Cheri Wright, Medicaid Accounting Manager

Gain an Understanding of Internal Controls

Background:

The Social Security Amendments of 1965 created Medicaid by adding Title XIX to the Social Security Act, 42 USC 1396 et seq. Under the program, the federal government provides matching funds to States to enable them to provide medical assistance to residents who meet certain eligibility requirements. The objective is to help States provide medical assistance to residents whose incomes and resources are insufficient to meet the costs of necessary medical services. Medicaid serves as the nation's primary source of health coverage for low-income populations.

Services are provided to Medicaid eligible enrollees either through enrollment in the managed care program or on a fee-for-service basis. Most medical services are provided by Medicaid providers. Medicaid providers can be any person, group of people, or health care facility that supplies medical services to Medicaid recipients. Providers include doctors, medical equipment companies, podiatrists, dentists, licensed professional counselors, hospitals, adult day care centers, nursing homes, clinics, pharmacies, ambulance companies, case management centers, home health care workers, and others.

Managed Care

Managed care is a prepaid, comprehensive system of medical and health care delivery. It includes preventive, primary, specialty and ancillary health services. The term "managed care" is used to describe a variety of techniques intended to reduce the cost of providing health benefits, improve the quality of care and deliver health care organized around managed care techniques and concepts. HCA administers the following managed care programs:

1. Apple Health (formerly known as "Healthy Options") managed care

The majority of Medicaid clients are enrolled in the Apple Health program. The state pays a fixed rate (capitation rate) to licensed health insurance carriers to provide a defined set of services to enrolled members. Thus, these carriers are paid a negotiated capitation monthly premium without regard to the actual medical services utilized by each beneficiary. Clients in Apple Health managed care must see only providers who are in their plan's provider network, unless prior authorization is given or to treat urgent or emergent care.

Currently, the following five plans are available through the Apple Health managed care program:

- Amerigroup
- Community Health Plan of Washington
- Coordinated Care of Washington
- Molina Healthcare of Washington
- United Healthcare Community Plan

2. Integrated Managed Care (known as "Fully Integrated Managed Care (FIMC)")

FIMC coordinates physical health, mental health, and substance use disorder treatment services to help provide whole-person care under one health plan. Integrated managed care is available in all regions.

3. Apple Health Foster Care (AHFC)

The Apple Health Foster Care (AHFC) program provides integrated managed physical and behavioral health coverage statewide to Apple Health children in foster care. Care coordination for all Washington State foster care enrollees is provided through a single, statewide managed care plan called Apple Health Core Connections administered by Coordinated Care of Washington (CCW). Apple Health children in foster care (out of home placement) are auto-enrolled to Coordinated Care of Washington.

4. Primary Care Case Management (PCCM)

The Primary Care Case Management (PCCM) program is available for American Indians or Alaska Natives. The State's PCCM program is provided only through tribal clinics and Urban Indian Centers.

Fee-for-service
Under the fee-for-service delivery system, HCA pays providers directly for each service, using the ProviderOne payment system. Regardless whether a Medicaid client is enrolled in a managed care plan, the following services are always covered as fee-for-service (FFS):

- Dental Care
- Vision hardware (children only)
- Long-term care
- Inpatient psychiatric care for physician services.

Fee-for-service providers have agreed to accept the rates established by HCA as total payment for services. They are not permitted to bill clients for any amount above that which it received from HCA. For services in which there has been no designated rate, prior approval must be obtained before the service can be provided. HCA maintains several toll free lines for such approvals.

ProviderOne
ProviderOne (P1) is the state's Medicaid Management Information System (MMIS). P1 is critical to the Medicaid program, processing claims transactions and payments for Medical, Social Services, Dental, and Pharmaceutical claims. The Health Care Authority relies on P1 for compliance with the Health Insurance Portability and Accountability Act of 1996 (HIPAA) and Medicaid (Title XIX). The Health Care Authority (HCA) contracted with a vendor, Client Network Services, Inc. (CNSI), to develop ProviderOne to process state Medicaid payments.

- Since May 9, 2010, P1 has been processing payments for managed care, hospital, medical, dental, medical supplies, vision, and nursing home claims in "Phase 1."
- Since January 15, 2015, social service provider payments, such as adult family home, assisted living home and home care agency claim payments, have been processed through ProviderOne instead of the Department of Social and Health Services' (DSHS's) Social Services Payment System (SSPS) in "Phase 2". Additionally, W2 social service provider payments were transferred from SSPS to IPOne, a new online billing system for W2 providers, as of March 2016. W2 provider payments, such as self-employed individual provider payments, have been processed through IPOne instead of the Social Services Payment System (SSPS) since March 2016.

The P1 system comprises the following subsystems:

- **Client** - Client information. Interfaces with DSHS's Automated Client Eligibility System (ACES), DSHS's Comprehensive Assessment Reporting Evaluation (CARE) system for Social Services Claims, and Department of Corrections' (DOC's) OMNI system for incarcerated individuals.
- **Provider** – Provider enrollment and validation. Interfaces with LexisNexis for provider screening and DSHS's Agency Contract Database (ACD).
- **Third Party Liability** - This subsystem is used when a client has other medical coverage and Medicaid is not the primary payer of the claim.
- **Prior Authorization** - This subsystem contains prior authorizations that are required for some medical services.
- **Social Services** - This subsystem includes services provided by Home and Community Services Providers (individual and agency providers) and Residential Care Providers (adult family homes, nursing homes, etc.) who contract with DSHS. Almost all of the expenditures processed in this subsystem are recorded as DSHS expenditures because they fall under programs administered by DSHS. All social services should be pre-authorized. A social services' case worker will evaluate each client and determine what services will be provided to the specific client and will pre-authorize the services. P1 will not pay for social services that are not pre-authorized. The adjudication process is the same as other claims.
  - Prior to 6/1/2022, DSHS was the legal employer of and submitted claims information for individual providers. As of 6/1/2022, the Consumer Direct Care Network Washington (CDWA) is the legal employer of all Individual Providers (IP) in the state of Washington and is responsible for submitting claims for the individual home care providers.
- **Claims** – facilitates submission of claims, payment of claims, managed care payments/encounters, adjustments.
  - FFS and Managed Care claims
  - Edit processing
- **OFIN (Oracle Financials)** - used to store GL, A/P, A/R and other financial information.
- **Rate Setting** - HCA's Managed Care unit contracts with actuaries to determine rate. The actuary determines base rate for MCO and adjustment factors based on gender, age, location. P1 calculates actual rate based on the base rate and relevant actuary factors.

Claims:
Payments initiated from ProviderOne can originate from two different subsystems: Claims and Managed Care. Medical or social service claim payments to providers are processed through Claims, managed care monthly premiums are paid to Managed Care Organizations through Managed Care. Premium assistance is paid to insurance organizations or clients through TPL.

P1 has hard coded edits to adjudicate medical/social service claims and managed care monthly premium payments. Using the details included in a claim, system edits will verify eligibility and allowability of the claim based upon related information included in P1 subsystems, such as Client, Provider, etc. Payment will not be made unless claims pass the hard edits. The adjudication process can be seen as summarized by the following flow chart: [Claims Adjudication Flowchart].

Some of the key attributes of a claim that are checked by the edits include:

- The provider is eligible to provide the specific service covered by the plan to the specific beneficiary **(Key Control #1 (Automated) - Provider Eligibility, Rights and Obligations)**
- The beneficiary is eligible for the particular category of service at the time it was rendered **(Key Control #2 (Automated) - Beneficiary Eligibility, Rights and Obligations)**
- The allowed amount is within reasonable and acceptable limits or if it differs from the allowable fee schedule amount by a certain percentage **(Key Control #3 (Automated) - Payment Reasonableness, Valuation)**
- The procedure codes are within the valid code set HIPAA Transactions and Code Sets (TCS) and are covered by the State Plan **(Key Control #4 (Automated) - Valid Codes, Rights and Obligations)**

The ProviderOne system automatically provides daily reports to both the CNSI operations staff and HCA regarding the previous day's adjudication and processing results. In addition, weekly and monthly reports are provided to HCA. These reports provide indicators that processing is completed successfully and the results are within normal operating parameters. For example, claims denied percentage should not typically exceed paid percentage. Any usual variances in values would provide indications to the CNSI and HCA claims team that a possible problem may exist.

Managed Care:
HCA contracts with managed care organizations (MCOs) to pay providers for Medicaid services to eligible Washingtonians. MCOs deliver defined benefit packages to eligible clients for fixed monthly rates determined by an independent actuary. ProviderOne pays the MCOs premiums for clients enrolled in Managed Care Programs (MCP).

Managed Care (MC) transaction flows include the following:

- Encounter data is sent to P1 by MCOs. This data is processed through P1 edit adjudication process to determine whether claims are allowable. Encounter data is subsequently sent to an actuary to calculate base premium rates for the MCO's.
- Rates (upload process)
- Adjustment factors (risk, age, gender, location) - These are adjustments made to the base rate. The adjustment factors are determined by the actuaries and entered in P1.
- Portal for clients to request change in MC plan.

Client
For a client's claims to be paid through the P1 system, they must reside in the Client subsystem. Client data is entered in the Client subsystem through various sources including:

- DSHS's Automated Client Eligibility System (ACES)
- DSHS's Comprehensive Assessment Reporting Evaluation (CARE) system
- DOC's OMNI system
- Direct entry by HCA staff

Provider
For a provider to be paid, providers must reside in the Provider subsystem. Provider data is entered in the Provider Subsystem through various sources including:

- OneHealthPort
- Agency Contracts Database (ACD)
- Enrolled providers can update certain information in the Provider Portal.
- Direct entry by HCA staff.

CNSI contracts with LexisNexis contracts for provider integrity screening. P1 provider information is sent to LexisNexis. LexisNexis looks up provider data in multiple public data sources to verify/validate provider is able to provide Medicaid services and sends information back which is updated in the P1 system.

Third Party Liability
Third Party Liability (TPL) refers to the legal obligation of third parties (for example, certain individuals, entities, insurers, or programs) to pay part or all of the expenditures for medical assistance under Medicaid. All other available third party resources must meet their legal obligation to pay claims before the Medicaid program pays for the care of an individual eligible. TPL information is communicated to HCA from various sources, such as client disclosure, claims, information obtained from the Support Enforcement Management System (SEMS) and outside vendors. TPL data is entered in ProviderOne including insurance company information, updating TPL invoices, and applying cash receipts to paid claims. TPL data is entered in ProviderOne through:

- Manual entry from Coordination of Benefits Unit
- SEMS interface

Rate Adjustment (Valuation)
Fee-for-service and managed care premium payment rate factors are uploaded into ProviderOne. Ed Hicks' team is responsible for the fee-for-service rate uploads and Sam Trimble's area operates the managed care capitation rate factors.

For managed care, HCA pays a monthly premium rate to manage care organizations (MCOs) based on a rate per member per month (PMPM). There are about ten different rate templates for various medical and behavioral contracts as well as three rate templates for different foundational community support (FCS) contracts. There are five factors used to calculate the rates: base rate factor (BRF), age group factor (AGF), geographic region factor (GRF), risk adjust factor (ADF), and qualitative adjust factor (ADF). Pending on the managed care program they may use all or some of the rate factors. Ideally, HCA would like two months from the time a rate change is requested before it is uploaded and executed in ProviderOne. This time is required to adequately review changes, test for errors, receive proper approvals, and update ProviderOne. For fee-for-service, HCA directly pays providers for services rendered on qualified Medicaid members. The number of items to review is not as complicated as managed care so rate turnaround time is usually about 48 hours (target rate for quality control).

The rate change process begins with the System Operations and Implementation Unit (SOIU) receiving a rate update request via a ticket through a shared inbox and are triaged for assignment to Information Technology Specialist (ITS) staff within SOIU. Each ticket has a number that is used to track the progress of these requests. ITS staff first review the information provided to ensure it is complete. The review is only limited to data validation such as number formats and date ranges, etc. The ITS staff member then uploads the provided file into the ProviderOne User Acceptance Testing (UAT) environment. This allows them to verify that the file uploads appropriately before attempting to upload the file into production.

ProviderOne has processing controls to help ensure the rate data uploaded is complete and valid. Updates that do not meet programmed edits will suspend to an error file that is reviewed by the ITS. If errors are identified, ITS staff notify the business area to make corrections and submit a new file attachment to the ticket.

Prior to uploading, Sam will also provide the business unit with a computed Rate Report for review. Once correct and successfully uploaded, ITS reviews the data and additionally compares the number of records in the source data to the number of records uploaded to ProviderOne. If everything processes appropriately, ITS then uploads the file into the production environment and the data goes through the same processing controls as in the UAT. When successfully uploaded, all rate updates will have an "In Review" status listed.
ITS then updates and sends the ticket to Heidi DeVries, IT Specialist, who acts as an internal quality assurance for ProviderOne Operations (P1O). She reviews the rate data for accuracy and to ensure the requested changes conforms to medical related coding information which was provided to HCA from the Centers for Medicare and Medicaid Services (CMS).

HCA's vendor for ProviderOne, CNSI, obtains these types of files from the CMS website and then uploads them to ProviderOne. HCA will also upload reference data based upon decisions made by its own Policy Division. Heidi reviews all relevant information and determines whether to approve or reject the changes. Each rate's status reflects her decision. She then updates the ticket and sends it back to the ITS for closure, or closes the ticket herself.

Once approved, the system attaches dates to the rates data, including the effective date (when the rate was approved), the start date (when the new rate takes effect), and the end date. ProviderOne also has internal edits which will cause the claim calculation to fail out if data is invalid. After confirming the test runs produced correct results, P1O will push the rate changes to production **(Key Control #5 (manual), Rate upload review prior to production - Valuation)**.

How Transactions are Recorded in AFRS:
Using the details included in a claim, system edits will verify eligibility and allowability of the claim based upon related information included in each of the above subsystems. This also allows the system to determine the type of claim. In this way, ProviderOne adjudicates all claims and assigns AFRS account codes to each transaction. When all the account codes are assigned, the Claims subsystem validates the assignment which includes checks for blank values, valid account codes, and AFRS table edits. As account code and table edits are updated in AFRS, there is an

automated interface between AFRS and ProviderOne to update them in ProviderOne. If the transaction passes the edits in the subsystem, it is put into an Available for OFIN (Oracle Financials) status. OFIN stores general ledger, accounts payable, accounts receivable, and other financial information.

On a weekly basis, the Claims and Managed Care subsystems transactions are imported into the OFIN subsystem. It is within this subsystem that the Accounts Payable and Accounts Receivable netting and other processes occur to prepare the financial portion of the transactions to be sent to AFRS in batches. Transactions are sent via interface to AFRS for payment. AFRS and OST issue payments and sends a Warrant Wrap file to ProviderOne where OFIN and the original transactions are updated with the Warrant/EFT Number and Paid Date.

HCA Accounting staff perform daily reconciliation between ProviderOne Batch Reconciliation Report 1280 and the AFRS Batch Interface log to verify the batches sent from ProviderOne are received and processed in AFRS **(Key Control #6 P1 to AFRS Reconciliation, Completeness).** Payment will not be made unless hard edits in ProviderOne are satisfied for validity of the claim and the provider based on the information in ProviderOne.

Transactions other than Managed Care or Claim payments, are sent to AFRS daily. These daily files include PHIPP/ESI payments and cash applications in TPL and Drug Rebate.

DSHS

DSHS primarily relies on HCA for **rights and obligations (see Automated controls #1-4)** and **valuation (Key Control #5)** as HCA is the owner of ProviderOne. DSHS fiscal staff perform a similar daily reconciliation **(Key Control #6 P1 to AFRS Reconciliation, Completeness)** between ProviderOne report 1280 and AFRS Batch Interface log reports to ensure that batches are sent from ProviderOne to AFRS in their entirety.

To track the reconciliation process, an Excel workbook is created at the beginning of the month to document this process daily. The reconciliation process begins with a Fiscal Analyst accessing the ProviderOne system and running a ProviderOne batch reconciliation report (Financial Report #1280). The P1 batch report specifies agency, batch date, batch type, batch number, batch count (count of all batched transactions), and batch amount. The ProviderOne batch type is categorized as "AH" (ProviderOne warrant payment) or "AI" (ProviderOne warrant cancellation).

The Fiscal Analyst will take a screen shot of this report and paste it into the Excel workbook noted above with a new worksheet for each day of the month. The Fiscal Analyst then accesses the AFRS - Batch Interface (BI) system and then runs an AFRS batch interface report. The AFRS batch report also specifies agency, batch type, batch number, batch count, and batch amount. The Fiscal Analyst will take a screen shot of this AFRS report and paste it to the same worksheet as the ProviderOne batch reconciliation report. The Fiscal Analyst verifies on the AFRS batch report that the batch date, batch number, batch count, and batch amount shown in the AFRS report matches to the ProviderOne batch report. If the batch item on both reports match, the Fiscal Analyst will electronically sign the top of the worksheet where is says "Reviewer" for this batch date.

If there is a discrepancy between the two reports, the Fiscal Analyst will send a copy of the worksheet with the two compared reports to Cheri Wright, Medicaid Accounting Manager, at HCA to resolve the issue. Documentation of the communication and resolution is also stored on the tab for the daily reconciliation.

Key Controls are as Follows:

- Key Control #1 (Automated): ProviderOne verifies that the provider is eligible to provide the specific service covered by the plan to the specific beneficiary **(Right & Obligations)**
- Key Control #2 (Automated): ProviderOne verifies that the beneficiary was eligible for the particular category of service at the time it was rendered **(Rights & Obligations)**
- Key Control #3 (Automated): ProviderOne verifies that the allowed amount is within reasonable and acceptable limits or if it differs from the allowable fee schedule amount by more than a certain percentage **(Valuation)**
- Key Control #4 (Automated): ProviderOne verifies that all coded data items consisting of procedure codes are within the valid code set HIPAA Transactions and Code Sets (TCS) and are covered by the State Plan **(Rights & Obligations)**
- Key Control #5 (Manual): Health Care Authority reviews and approves the input of fee schedules into ProviderOne prior to being available for payment in processing in the system **(Valuation)**
- Key Control #6 (Manual): Fiscal analysts at both HCA and DSHS perform a daily reconciliation of amounts for batch interface uploads between the ProviderOne system and AFRS for AH (Payments and adjustments) and AI (Warrant cancelations or reissuances) batches **(Completeness)**

Noted Weaknesses are as Follows:

HCA confirms that general controls are in place at CNSI by requiring a biennial Statement on Standards for Attestation Engagements (SSAE) No. 16 Type II audit to occur at the vendor, which occurs on even fiscal years in a biennium. We confirmed with Christine Nolan, Deputy CIO, HCA did not have a SOC report for ProviderOne for FY23.

Without this SOC report, we do not have assurance for general controls within the system and are unable to solely rely on the controls tested above. **Lack of SOC Report Issue [**V: HCA ProviderOne SOC Report Deficiency (Part of Finding 2023-01) See ISS.26**].**

D.4.PRG - Human Services

Procedure Step:	Key Controls #1 - 4 Edit Checks (Automated)
Prepared By:	TLJ, 10/5/2023
Reviewed By:	SLB, 10/20/2023

Record of Work Done:

This record may contain information considered exempt from public disclosure under RCW 42.56.420 of the Public Records Act. As such, distribution of this record is limited. Limited Distribution information is highlighted in Orange. Redact

Key Controls for Provider One:

Key Automated Control Confirmation and Testing:
The following lists the automated controls we will confirm and test to determine whether the controls are in place and operating as intended:

- Key Control #1: ProviderOne verifies that the provider is eligible to provide the specific service covered by the plan to the specific Beneficiary. (Rights and Obligations)
- Key Control #2: ProviderOne verifies that the Beneficiary was eligible for the particular category of service at the time it was rendered. (Rights & Obligations)
- Key Control #3: ProviderOne Verifies that the allowed amount is within reasonable and acceptable limits or if it differs from the allowable fee schedule amount by more than a certain percentage. (Valuation)
- Key Control #4: ProviderOne verifies that all coded data items consisting of procedure codes are within the valid code set HIPAA Transactions and Code Sets (TCS) and are covered by the State Plan. (Rights & Obligations)

Determine whether the entity has sufficient general controls in place and operating effectively to be relied upon. This would include determining if the Heath Care Authority obtains a Service Organization Control (SOC) report for the ProviderOne vendor (CNSI).

The understanding for this system is documented above in the "Controls - ProviderOne" step, Controls - ProviderOne.

2. Key Automated Control Confirmation and Testing:
In order to confirm and test key controls related to Key Controls #1-4, we began by obtaining the current list of all ProviderOne system edits as of June 1, 2023. To obtain this list, we logged into ProviderOne via its web interface, clicked on the Claims subsystem tab, clicked the Administration link, and clicked the Error Codes link. We then filtered the report to only include those edits that are in Active status. The resulting report included 1,893 records [See "Active Error Codes" Tab here:FY23_Edit_Testing] which includes edits that affect both medical and social service claims. Green Highlighted records within the "Active Error Codes" Tab identify edits from the Point of Sale (POS) pharmacy system, which are included in ProviderOne for reference, but not used in the adjudication process. Therefore, these edits are outside the scope of our review and will not be considered for testing. Instructions, including screen shots for downloading this information from ProviderOne, can be seen at the "P1 Screens" tab here: [FY23_Edit_Testing].

To select edits related to our key controls we filtered the list of edits as follows:

- **Provider Eligibility Edits:** Either the Error Description column contained "provider", "taxonomy", "NPI", "Enrolled Hospital" or Group column contained "Provider." This resulted in 173 related codes, which can be seen at the "Provider Elig Edits 2023" tab here: [FY23_Edit_Testing],
- **Client Eligibility Edits:** Either the Error Description column contained "Client", "patient", "recipient", or the group column contained "Client". This resulted in 228 related codes, which can be seen in the "Client Elig Edits 2023" tab which can be seen here [FY23_Edit_Testing].
- **Allowed Amount Edits:** Either the Error Description column contained "price", "pricing", "rate", "amount", "fee", "unit", "exceed" or the group column contained "Pricing", "TPL" or "Duplicates". This resulted in 514 related codes, which can be seen in the "Allowed Amt Edits 2023" Tab here: [FY23_Edit_Testing].
- **Procedure Code Edits:** Either the Error Description column contained "account", "code", "coding", "procedure", "CPT", "HCPCS", "modifier", "revenue" or the group column contained "Account Coding" or "Reference". This resulted in 511 related codes, which can be seen at the "Procedure Code Edits 2023" tab here: [FY23_Edit_Testing].

Once edits related to our key controls were identified, we made judgmental selections for testing based on the following factors:

- Error Code Number
- Error Description
- Prior Audit Work
- Group description
- Start Date
- Effective Date
- End Date
- Typical number of claims the edit applies to
- Last year of selection for review (if applicable)

Our goal was to select edits that appear to be general enough that they could be related to any claim, or at least larger groups of claims, processed by the system. Many of the edits in the system are specific to particular providers or unique situations, so selecting the general edits allows us increased coverage and assurance that larger numbers of claims are being adjudicated correctly. We also considered what procedure codes have been selected in prior year reviews.

Due to the number of edits in the system, we cannot look at all audits utilized within the given audit period. Therefore, we cycle through different edits each year to gain additional coverage over time. A listing of prior year edit selections can been seen in the "Prior Years Selections" Tab here: [FY23_Edit_Testing] and a listing of edits excluded from testing in prior years can be seen in the "Prior Years Exclusions" tab here: [FY23_Edit_Testing]. Our 2023 selections can be seen in the "Initial Edit Selections 2023" Tab here: [FY23_Edit_Testing]. We then provided this listing to HCA in order to obtain additional information and verify if the edits meet our expectations based upon the brief description included in the system. Ed Hicks, System Operations & Implementation Unit Manager, viewed the selections and provided us with information regarding our selected edits and the applicability of their current usage (i.e. the codes will not post as their functionality has been either removed or turned off due or the edit check is not a part of the claim process). The information provided by HCA and our final selections for testing can be seen in the "Edit Selections - HCA 2023" Tab here: [FY23_Edit_Testing]. An overall summary describing the number of edits selected this year, as well as prior years can be seen in the "2023 summary of Edit Testing" Tab here: [FY23_Edit_Testing].

TraceTool/RuleIt Logic Testing and User Acceptance Testing

The following edits were selected for testing: Allowed Amounts: 12516, 09025, 16005, 12014, 00500, 16030; Client Edits: 000070, 03100, 12301; Procedure Code: 03936, 11120, 12335; Provider: 01625, 01505, 40125

In August 2023, we met several times with Brandon Diltz, IT system Administrator, Angela Skinner, Senior IT System Administrator Specialist, and Ed Hicks, System Operations and Implementation Manager, to perform our confirmation of controls. Prior to our meetings, Ed sent us the TraceTool information for each edit which described (in plain talk) what would cause the edit to post. During our meetings, Ed presented his screen and we viewed the logic code in RuleIt for each error code selected. We compared the provided TraceTool information to the RuleIt code or configuration settings within the ProviderOne system and saw that either the RuleIt included code covering each item described in the TraceTool logic or it was covered by a ProviderOne configuration setting. See "Rules Engine Testing 2023" Tab here: [FY23_Edit_Testing].

In addition to the test performed above, we opted to perform the following procedures for all selected edit checks against actual claims within Provider One:

- Activate the selected edit check (To ensure it activates on an applicable claim)
- Remove the selected edit check (To ensure it does not activate on non applicable claims)

In August 2023 on multiple days, we performed the noted testing above, within PRovider Ones system's User Acceptance Testing (UAT) environment with Brandon Diltz, Angela Skinner, and Ed Hicks. For documentation purposes, for each category of the edit checks we have provided the screenshots & walkthrough of our testing for only one of the edits. We obtained similar documentation for all edit check tests below during these meetings. Results of the tests are provided in the results below.

The following provides the results of our edit testing for Key Controls #1-4:

Key Control #1: ProviderOne verifies that the provider is eligible to provide the specific service covered by the plan to the specific beneficiary.

The following edits were selected for our edit testing related to **provider eligibility**:

Error Code	Error Description	Did the Edit Check appear in the applicable claim? (Y/N)	Did the Edit Check appear in the non applicable claim? (Y/N)	Auditor Notes
01625	Local taxonomy invalid for Medical Claims	Yes	No	No issues noted.
40125	Out of State Billing Provider is not allowed	Yes	No	No issues noted.
01505	BILLING PROVIDER IS A SERVICING PROVIDER ONLY	Yes	No	No issues noted.

[12]

[redacted] No exceptions. See "Rules Engine Testing 2023" Tab here: [FY23_Edit_Testing].

Additionally, HCA submitted claims through ProviderOne so we could test the behavior of each selected edit. Procedures for the edit check testing can be seen below:

- 01625 Local Taxonomy invalid for Medical Claims
    - Activate Edit Check Procedures:
        - To activate the Edit Check the following steps were performed:
            - Start with a claim with this edit check not active
            - Within the Claim, modify the "Special Claim Indicator" Field to "SM - Suspend Medical Claim", which will modify the claim to a Medical claim and with the given "Billing Provider Taxonomy Code" set to a local taxonomy code 25CRL00000L, the Edit check appeared as this local taxonomy code is invalid for Medical Claims.
    - Deactivate/Remove Edit Check Procedures:
        - To remove the active Edit Check the following steps were performed:
            - From the claim noted in the previous step, we modified the "Special Claim Indicator" Field to remove the "SM - Suspend Medical Claim". After Medical Claim indicator was removed, the activated edit check dropped off and was no longer active on the claim
- 40125 Out of State Billing Provider is not allowed (See walkthrough of Testing for this edit check performed here:HCA Provider Edits)
    - Activate Edit Check Procedures
        - To activate the Edit Check the following steps were performed:

        - Start with a claim with this edit check not activated and with the service being provided to the client by an out of state servicer.
        - Within the Claim modify the RAC codes to be not termed properly for the date of service. (**Auditor Note:** We confirmed with Ed, Brandon, and Angela on 10/5/23 that the properly termed RAC codes bypass the selected edit check to allow out of state providers to be paid. Provider One defaults to not allowing any out of state of providers, this is bypassed however if the client is participating in an Eligible RAC that allows them to receive basic services outside of the state). This should generate the claim.
        - Upon modifying the RAC codes to not be properly termed for the date of service on the claim, the edit check was generated.
  - Deactivate/Remove Edit Check Procedures:
    - To remove the edit check the following steps were performed:
      - Utilizing the same claim from the precious steps above, the RAC codes were modified to be properly termed with the date of service on the claim.
      - Once the step above was completed, the edit check was removed from the claim.
- 01505 BILLING PROVIDER IS A SERVICING PROVIDER ONLY
  - Activate Edit Check Procedures
    - To activate the Edit Check the following steps were performed:
      - Start with a claim with this edit check not active with an accurate Billing Provider, Referring Provider, and servicing Provider NPI (National Provider Identifier) in their respective fields.
      - Removing the Servicing Provider NPI (and leaving the input field blank) and replacing that (Servicing Provider NPI) number into the Billing Provider NPI Field should result in the Edit check being generated. This is because the purpose of the edit check is to make sure that the Provider that is Billing is not in in the Provider One system as a servicing only provider.
      - Once the steps above were complete, the edit check was generated.
  - Deactivate/Remove Edit Check Procedures:
    - To remove the edit check the following steps were performed:
      - Utilizing the same claim from the previous steps above, Inputting an accurate Service Provider and Billing Provider NPI in their respective fields should remove the edit check on the claim as the NPI's should be indicating within Provider One that the Provider that it is both a billing and servicing provider.
      - Once the steps were complete the edit check was removed from the claim.

Based upon this testing, we found each edit behaved as expected. No exceptions. Testing example for one of the edit testing can be seen here: HCA Provider Edits

Key Control #2: ProviderOne verifies that the beneficiary was eligible for the particular category of service at the time it was rendered.

The following edits were selected for our edit testing related to **client eligibility**:

Error Code	Error Description	Did the Edit Check appear in the applicable claim? (Y/N)	Did the Edit Check appear in the non applicable claim? (Y/N)	Auditor Notes
00070	INVALID PATIENT STATUS	Yes	No	No issues noted.
03100	Diagnosis not Valid for Client Gender	Yes	No	No issues noted.
12301	New Patient EPSDT Screen Limit Exceeded	Yes	No	No issues noted.

[redacted] [12]

[redacted] See "Rules Engine Testing 2023" Tab here [FY23_Edit_Testing].

Additionally, HCA submitted claims through ProviderOne so we could test the behavior of each selected edit. Procedures for the edit check testing can be seen below:

- <u>00070 INVALID PATIENT STATUS</u>
  - Activate Edit Check Procedures
    - To activate the Edit Check the following steps were performed:
      - Start with a claim with this edit check not active and has an accurate patient status. For this test a claim on a recent new-born infant was utilized to demonstrate how Provider One identifies if the patient status is accurate to the claim. Additionally within the claim, the "Special claim Indicator", was set to "B-Baby On Moms PIC" to indicate that since it was less than 60 days since the birth of the infant (DOB was 12/24/22 and date of service was set to 1/23/23) the baby was on the mothers client ID. The Patient Status on the claim was modified to " 69-Discharged/transferred to a Designated Disaster Alternative Care Site" which should trigger the edit check as the child was still receiving care and would be invalid to the current status of the claim.

            - Upon modifying the Patient Status claim to " 69- Discharged/transferred to a Designated Disaster Alternative Care Site", the edit check did appear
    - Deactivate/Remove Edit Check Procedures:
        - To remove the edit check the following steps were performed:
            - Utilizing the same claim from the previous step, to remove the edit check, the Patient status on the claim was modified to "30 - Still Patient" to indicate that the newborn is still receiving care/services. This should remove the edit check on the claim as the infant is still receiving care.
            - Upon modifying the Patient status on the claim to "30 - Still Patient", the edit check was removed.
- 03100 Diagnosis not Valid for Client Gender (See walkthrough of Testing for this edit check performed here:HCA Client Edits)
    - Activate Edit Check Procedures
        - To activate the Edit Check the following steps were performed:
            - Start with the claim from the previous step with the edit check not activated. From there, modify the Gender on the claim to not match with the gendered diagnosis. In our test the diagnosis was male related, so the gender on the claim was modified from male to female which should result in the edit check generating.
            - Upon the modification of the claims gender to female, the edit check was generated.
    - Deactivate/Remove Edit Check Procedures:
        - To remove the edit check the following steps were performed:
            - The first test we completed was to utilize a claim with the edit check already activated. The claim was generated as the Claim contained a Male diagnosis, however the gender on the claim was listed as "Female"
            - To remove the claim the gender listed on the claim was modified to male, which should result int he edit check being removed.
            - Upon the modification of the gender to male the edit check was removed from the claim.
- 12301 New Patient EPSDT Screen Limit Exceeded
    - Activate Edit Check Procedures
        - To activate the Edit Check the following steps were performed:
            - Start with a claim with this edit check not active and modify the billed units for EPSDT (Early Period Screening, Diagnostic, and Treatment) to 47. This exceeds the Limit of five billed units for these types of claims, the Edit check should generate as these exceeds the limit set within Provider One.
            - Upon modifying the billed units to 47, the edit check was generated.
    - Deactivate/Remove Edit Check Procedures:
        - To remove the edit check the following steps were performed:
            - Utilizing the claim from the previous step the Billed units for the claim was modified from 47 to one. This should result in the removal of the edit check as it is below the limit of five.
            - Upon modifying the Billed units to 1, the edit check was removed from the claim.

Based upon this testing, we found each edit behaved as expected. No exceptions. Testing example of one of the edits can be seen here: [HCA Client Edits].

Key Control #3: ProviderOne verifies that the allowed amount is within reasonable and acceptable limits or if it differs from the allowable fee schedule amount by more than a certain percentage.

The following edits were selected for our edit testing related to **allowed amounts**:

Error Code	**Error Description**	Did the Edit Check appear in the applicable claim? (Y/N)	Did the Edit Check appear in the non applicable claim? (Y/N)	Auditor Notes
12516	Home Health Limit Exceeded	Yes	No	No issues noted.
09025	ALLOWED AMOUNT EXCEEDS CLAIM THRESHOLD LIMIT	Yes	No	No issues noted.
16005	BILLED AMOUNT REQUIRES REVIEW	Yes	No	No issues noted.
12014	EXCEEDED THE LIMITS ALLOWED PER YEAR	Yes	No	No issues noted.
00500	CLAIM CONTAINS A PAYMENT AMOUNT FROM ANOTHER PAYER	Yes	No	No issues noted.
16030	Unable to price for the Date of Service	Yes	No	No issues noted.

[redacted] [12]
[redacted] ee "Rules Engine Testing 2023" Tab here [FY23 Edit Testing].

Additionally, HCA submitted claims through ProviderOne so we could test the behavior of each selected edit. Procedures for the edit check testing can be seen below:

- 12516 Home Health Limit Exceeded

- Activate Edit Check Procedures
    - To activate the Edit Check the following steps were performed:
        - Start with a claim with this edit check not active and with "0" Billed units of Home Health Claim Visits. (Per Ed, Angie, and the review of the Trace Logic, the limit to Home Health Visits for this particular type of claim is two Billed Units). The Billed Units within the claim was then modified to 17 units which should result in Provider One generating the edit check as the number of Billed units exceeds the maximum allowable billed units for Home Health Limits.
        - Upon modifying the Billed units to 17, the edit check was generated indicating the Home Health Limits had exceeded.
- Deactivate/Remove Edit Check Procedures:
    - To remove the edit check the following steps were performed:
        - Utilizing the claim from the previous step, The Billed units within the claim was modified from 17 Billed units to 2 billed units which should result in the removal of the edit check as it is equal to the limit of the Home Health Visit Billed units and does not exceed the amount.
        - Upon modifying the number of Billed Units to two, the edit check was removed from the claim.

- 09025 ALLOWED AMOUNT EXCEEDS CLAIM THRESHOLD LIMIT (See walkthrough of Testing for this edit check performed here:HCA Allowed Amounts Edits)
    - Activate Edit Check Procedures
        - To activate the Edit Check the following steps were performed:
            - Start with a clam with this edit check not active and with Manual Price on the claim set to $35,000 which is below the $50,000 Dollar threshold limit for the allowable amounts on claims (Per Ed and Angie the Manual Price is the driver of this edit check as the Allowable amount is equal to the Manual Price set within the claim). To generate the edit check the Manual Price field was modified to $55,000, which is above the threshold limit.
            - Upon modifying the Manual Price Field to $55,000, the edit check was generated on the claim.
    - Deactivate/Remove Edit Check Procedures:
        - To remove the edit check the following steps were performed:
            - Utilizing the claim from the previous step, the claims manual price was modified back to $35,000 which is below the Threshold limit.
            - Upon modifying the manual price, the edit check was removed from the claim.
- 16005 BILLED AMOUNT REQUIRES REVIEW
    - Activate Edit Check Procedures
        - To activate the Edit Check the following steps were performed:
            - Start with a claim with this edit check not active and a Manual Price Set to $0 on the claim. The claim will generate if the Manual Price is set to anything higher then $1 which will result in the claims Billed amount being

required to be reviewed and the Edit check generating. To generate the edit check the manual price was set to $50.

            - Upon modifying the manual price to $50 within the claim the edit check was generated indicating the claims billing amount required review.
    - Deactivate/Remove Edit Check Procedures:
        - To remove the edit check the following steps were performed:
            - Utilizing the claim from the previous step, the Manual Price amount was adjusted to $.99 which should result in the edit check being removed from the claim.
            - Upon modifying the Manual Price amount to .99, the edit check was removed from the claim.
- 12014 EXCEEDED THE LIMITS ALLOWED PER YEAR
    - Activate Edit Check Procedures (Per Review of the Trace Tool and confirmation from Ed and Angie, there are 16 different ways this edit check can be generated, for the test below, we selected the generation route of the edit check being activated from two claims being submitted for the same service for the same service date which is beyond the allowable limit of 1 for the particular medical service)
        - To activate the Edit Check the following steps were performed:
            - Utilizing the scenario set up below, the secondary claim had its void reversed, which should subsequently generate the edit check.
            - Upon removing the void on the secondary claim, the edit check reappeared on both claims
    - Deactivate/Remove Edit Check Procedures:
        - To remove the edit check the following steps were performed:
            - Start with a claim with the edit check activated. The edit check is activated because there was two claims submitted for the same service on the same date which is beyond the allowable limit of 1 for the particular medical service.
            - The non-original claim (Second claim to the Original Claim), was then modified to be voided, which should result in the Edit Check following off the original claim and the secondary claim.
            - Upon voiding the second claim the edit check dropped off on both claims (Note: The edit check would drop off on the secondary claim because it would be voided and not be paid).
- 00500 CLAIM CONTAINS A PAYMENT AMOUNT FROM ANOTHER PAYER
    - Activate Edit Check Procedures
        - To activate the Edit Check the following steps were performed:
            - Start with a claim without this edit check generated. To activate the claim, changing the TPL (Third Party Liability) indicator to "yes", should activate the claim as it indicates there is a TPL payment on the claim. This is because for the particular claim selected, it does not allow for TPL payment to be made (this was confirmed by reviewing the TPL information tab within the claim header which confirmed there was only one allowable payer and no allowable Third Party payment source).

      - Upon modifying the special claim indicator to "Yes" the edit check was generated.
  - Deactivate/Remove Edit Check Procedures:
    - To remove the edit check the following steps were performed:
      - Utilizing the claim from the previous step, modifying the TPL indicator to "no" should result in the edit check being removed from the claim.
      - Upon modifying the TPL Indicator to "No" the edit check was removed from the claim.
- 16030 Unable to price for the Date of Service
  - Activate Edit Check Procedures
    - To activate the Edit Check the following steps were performed:
      - Utilizing the same claim in the steps below, we modified the Date of Birth back to the mothers date of birth which should result in the edit check being generated as it is inaccurate to the type of service provided and not correct according the Special Claim indicator.
      - Upon modifying the Date of birth back to the mother, the edit check was generated.
  - Deactivate/Remove Edit Check Procedures:
    - To remove the edit check the following steps were performed:
      - Start with a claim with the edit check activated. The edit check is activated because for this applicable claim, there is a billing error derived from the patients information on the claim. The billing error is due to the mothers identification (Date of Birth) being utilized on the claim but not the newborns date of birth (the baby received the medical service provided). Provider One recognizes this as an error due to the Special Claim Indicator "B-Baby on Moms ID".
      - The Date of birth on the claim was changed to reflect that of the newborn which should result in the edit check being removed from the claim.
      - Upon modifying the date of birth to reflect that of the newborns, the edit check was removed from the claim.

Based upon this testing, we found each edit behaved as expected. No exceptions. Testing can be seen here: [HCA Allowed Amounts Edits].

Key Control #4: ProviderOne verifies that all coded data items consisting of procedure codes are within the valid code set HIPAA Transactions and Code Sets (TCS) and are covered by the State Plan.

The following edits were selected for our edit testing related to valid **procedure codes**:

Error Code	**Error Description**	Did the Edit Check appear in the applicable claim? (Y/N)	Did the Edit Check appear in the non applicable	Auditor Notes

			claim? (Y/N)	
11120	PROCEDURE REQUIRES PRIOR AUTHORIZATION	Yes	No	No issues noted.
03936	Invalid Revenue Code and Procedure Code combination	Yes	No	No issues noted.
12335	PROCEDURE LIMIT OF 2 PER MONTH EXCEEDED	Yes	No	No issues noted.

[redacted] [12] [redacted] See "Rules Engine Testing 2023" Tab here [FY23 Edit Testing].

Additionally, HCA submitted claims through ProviderOne so we could test the behavior of each selected edit. Procedures for the edit check testing can be seen below:

- 11120 PROCEDURE REQUIRES PRIOR AUTHORIZATION (See walkthrough of Testing for this edit check performed here:HCA Procedure Edits)
    - Activate Edit Check Procedures:
        - To activate the Edit Check the following steps were performed:
            - Start with a claim that has an active DRG Code that requires pre authorization (In this claim it was for a medical procedure that required pre-authorization)
            - Modify the Prior authorization date "End Date" field within the "Access Indicator Detail" Access Screen to be an invalid date (The start date utilized was 1/1/2016 and the end date utilized was 12/31/2999, the Provider One system will recognize this (the end date) as invalid). The edit check generated as the end date was recognized as invalid within Provider One.
    - Deactivate/Remove Edit Check Procedures:
        - To remove the edit check the following steps were performed:
        - From the claim in the previous step modify the end date to a valid date (in this case the end date was modified to 1/1/2016) which resulted in the edit check being removed from the claim as the date was recognized as a valid preauthorization date
- 03936 Invalid Revenue Code and Procedure Code combination
    - Activate Edit Check Procedures
        - To activate the Edit Check the following steps were performed:

- Start with a claim with this edit check not active. To activate this edit check, the combination of the Procedure/Service Code has to be an inaccurate combination with the Revenue Code. The valid Procedure/Service code and revenue code combo was modified, the current, valid Procedure code was G0151 (when paired with Revenue Code 0421), modifying this procedure code to (G0157) should result in the edit check activating as the this combo is invalid which was confirmed by Ed, Angela, and Brandon.
- Upon modifying the Procedure code, the edit check was generated on the claim.

  - Deactivate/Remove Edit Check Procedures:
    - To remove the edit check the following steps were performed:
      - Utilizing the same claim from above, the Procedure Code was modified back to G0151, which should result in the edit check dropping off as the (G0151 PRocedure Code & 0421 Revenue Code are a valid combination)
      - Upon modifying the procedure code back to G0151, the edit check dropped off.
- 12335 PROCEDURE LIMIT OF 2 PER MONTH EXCEEDED
  - Activate Edit Check Procedures
    - To activate the Edit Check the following steps were performed:
      - Utilizing the same claim in the test below, to reactivate the edit check, the void was reversed, which should result in the edit check reappearing.
      - The edit check reappeared on the second claim once the void was removed.
  - Deactivate/Remove Edit Check Procedures:
    - To remove the edit check the following steps were performed:
      - Start with a claim with this edit check generated. This edit check is generated on the claim because there was already another paid claim for 2 billed units for this client for the same procedure within the same month. The second claim (the claim in this scenario) had one billed unit which would have brought the total number of Procedures/billed units to three in the month which is why the edit check is generated.
      - The second claim (the claim in this scenario) was voided which should result in the drop of the edit check as the claim is no longer valid.
      - The edit check dropped once the second claim was voided as it was no longer valid to be paid.

Based upon this testing, we found each edit behaved as expected. No exceptions. Testing can be seen here: [HCA Procedure Edits].

Part 2: Data Analysis Testing:

We also determined we would complete some in-house CAATs (computer assisted audit techniques) work, which will allow us to look at the actual payments made during the audit period, and determine if ProviderOne processed payments as expected based upon our understanding. This will be a re-performance of the controls on a large scale, which will provide us with much more assurance if the controls are working as described. Additionally, since we are reviewing actual payments, we consider this dual purpose testing as it will provide us with a great deal of substantive evidence as well. This is in addition to the more detailed substantive work to be completed by the ACFR team. If any particular exceptions are identified during our testing, we will inform the line team so they can increase the sample size of their substantive work.

To complete our testing, we began by analyzing the population to determine what our testing population should include [see FY23 Dual Purpose Procedure Code Testing]. Based on this analysis, we determined we would consider all FY23 paid claims paid at the service line level. We then summarized this population by procedure code and claim type in order to identify specific procedure codes for testing [see FY23 Dual Purpose Procedure Code Testing]. Not all payments made through ProviderOne contain a procedure code, but we will concentrate on the population that does based upon the key controls identified. In order to get as much coverage of dollars spent during FY23 as we can, we initially determined we would select all procedure codes with more than $3 million in paid claims for testing, which were not tested in our prior year reviews between FY14 and FY22. We would also exclude the OPPS claim type (testing OPPS claims requires more information than what is available in the ProviderOne data) and W2 provider personal care services (these provider rates are unique to each provider and only available in the IPOne system) from our selections. Following this criteria, we identified a minimal number of new codes to test, so we expanded our selection to include additional codes not tested since FY16 [FY23 Dual Purpose Procedure Code Testing]. This provided us with 21 procedure codes for testing, which included $394,905,666.72 related to 5,560,954 claims [see FY23 Dual Purpose Procedure Code Testing]. This makes up 6.7% of the total population. Each year we try to focus on codes that have not been tested before in order to test as many codes as possible over the years of testing. Our queries to analyze and create the testing population for the procedure code testing can be seen at [ProcedureCode_Population_Queries].

The following provides the details of our data analysis testing as related to key controls #3 and #4:

Key Control #3: ProviderOne Verifies that the allowed amount is within reasonable and acceptable limits or if it differs from the allowable fee schedule amount by more than a certain percentage.
Based on our selection of procedure codes as described above, we identified the approved rates based on HCA's fee schedules available on its web site. We then analyzed associated medical and social service claims from the ProviderOne system and compared the paid amounts to these rates to ensure claims were paid at the appropriate amounts. We performed the testing with SQL queries [see FY23_ProcedureCode_Testing_Queries] and documented the results at [FY23 Dual Purpose Procedure Code Testing] (the testing of each procedure code is included in the last 21 tabs of the spreadsheet after the "Testing PSC" tab). Records tested included $394,905,666.72 from 5,560,954 paid claims, which makes up 6.7% of the population of FY23 ProviderOne claims paid at the service line level with procedure codes [see FY23 Dual Purpose Procedure Code Testing]. The service line level payments with procedure codes make up over 78% of the total population of dollars paid in ProviderOne and over 87% of all records [see FY23 Dual Purpose Procedure Code Testing].

For the procedure codes included in our testing, we have determined the ProviderOne system is paying claims at or below the appropriate rates included in the identified fee schedules and reports. No exceptions identified.

Key Control #4: ProviderOne verifies that all coded data items consisting of procedure codes are within the valid code set HIPAA Transactions and Code Sets (TCS) and are covered by the State Plan.

During our testing of procedure codes [see FY23 Dual Purpose Procedure Code Testing], we found all procedure codes tested were part of the agency's plan for covered procedures. We did this by identifying each selected procedure code in its corresponding provider billing guide and fee schedules available publicly on the HCA website. We saw no evidence of claims paid through the ProviderOne system for services not covered by the agency. No exceptions noted.

[12] [redacted]

[redacted]

[redacted] V:
HCA_ProviderOne SOC Report Deficiency (Part of Finding 2023-01) See ISS.26] [12] [redacted]
ProviderOne_Summary_Totals_Queries). Total dollars included in the data are **$17,905,641,999.54** and total transactions are **147,537,435**.

2. Preliminary Control Risk Assessment

LOW - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. We will perform testing below to determine if we can place reliance on the controls.

3. Control Risk at LOW – Test General Controls:
In order to support a **LOW** control risk assessment, we tested relevant general IT controls that maintain the integrity of the automated controls. Based on our testing, general IT controls related to the automated control **were not** adequate to ensure that the control operated consistently during the audit period. Control risk will be assessed at **maximum**.

D.4.PRG - Human Services

Procedure Step: Key Control #5 (Manual) - Rate Change Review

Prepared By: CJL, 8/9/2023

Reviewed By: SLB, 10/20/2023

Record of Work Done:

Human Services - Valuation
Key Control #5 (Manual): Health Care Authority reviews and approves the input of fee schedules into ProviderOne prior to being available for payment processing in the system.

1. Test of Key Manual Control:
Testing of key controls for this system are required due to the incorporation of our testing procedures into the single audit.

To test whether HCA adequately reviews and approves the input of fee schedules and changes into ProviderOne prior to them being available for payment processing in the system.

We generated populations of rate upload files for both fee-for-service and managed care within ProviderOne by performing the following exports; we set a run end date for the filters to be prior to the year-end, but consider our testing to be sufficient as the process is the same for the entire year and our population is sufficiently large to opine on.

FFS:
Rate Settings -> Rate Group -> Filter By: Upload Date **07/1/2022 to 04/27/2023** -> AND: File Name **%** -> AND Status: **Approved** for the following Rate Groups:

- Provider Rates
- Program Rates

- Group Rates
- Proc/Svc/Revenue Rates
- Client Rates
- Taxonomy Rates
- DRG Value Rates

MC:
Managed Care -> PMPM Rate Configuration -> View Summary Rate Report -> Filter by: Generate Date **07/1/21 to 04/27/23**

The process of rate change review, approval, and upload are similar between the MC and FFS rates, but the requests originate from different teams. We combined the rate change files into a single population to draw our sample.

Sample Selection and testing [Human Services - Control Dual Purpose Testing]
We randomly selected 56 file uploads into ProviderOne from the single population of FFS and MC rate changes. For each sample item, we reviewed help desk ticket strings and correspondence to determine whether HCA ITS staff and program staff reviewed and approved the rate change files in the UAT* and PROD settings prior to being available for payment processing in the system.

*If the batch number was not noted in work note comments, we logged into the ProviderOne UAT environment and searched on the File Name to see the relevant upload date for the rate sheet. There are instances where the file cannot be uploaded into the testing environment, e.g. the NPI is not loaded present in UAT, the NPI is termed for validation in UAT, etc. The UAT environment serves as a test to see necessary changes to the rate files prior to their upload. UAT is updated approximately once a year. We do not consider those files that cannot be uploaded into the UAT as exceptions, primarily because we noted general correspondence between the requestor and assigned processor when changes are necessary for the file upload.

Noted Weaknesses are as follows:
None

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

While we have tested controls for the completeness of ProviderOne batch amounts to AFRS via dual-purpose testing, we noted [Controls - ProviderOne] that we cannot entirely rely on controls within the ProviderOne system due to the the lack of a SOC report for general control assurances for the fiscal year. Due to the lack of assurance, we have assessed our control risk for valuation **MAX** (based upon a combination of dual-purpose testing and the general risk of controls within the system).

D.4.PRG - Human Services

Procedure Step: Key Control #6 (Manual) - P1 to AFRS Batch Reconciliation

Prepared By: CJL, 7/24/2023

Reviewed By: SLB, 10/20/2023

Record of Work Done:

Human Services - Completeness

Key Control #6 - Fiscal analysts at both HCA and DSHS perform a daily reconciliation of amounts for batch interface uploads between the ProviderOne system and AFRS for AH (Payments and adjustments) and AI (Warrant cancelations or reissuances) batches.

The understanding for this system is documented above in the "Controls - ProviderOne" step.

1. Test of Key Manual Control:

Testing of key controls for this system are required due to the incorporation of our testing procedures into the single audit.

To test whether daily reconciliations between ProviderOne to AFRS are performed (which would ensure complete roll-up of expenditures from the source system to AFRS), we performed the following procedures:

Population

As the reconciliations are performed daily, we identified workdays (non-weekends and non-holidays) between 7/2/2022 and 4/27/23 (based upon prior audit history), resulting in a total of 251 workdays. As both agencies perform a similar reconciliation, this results in a total of 502 potential reconciliations to be performed for FY22 settlement dates. We consider our testing to be sufficient as the process is the same for the entire year and our population is sufficiently large to opine on.

Selection

As the reconciliations are the same between the two agencies, we determined that a single sample with two strata (one for each agency) would be sufficient to test the control and to perform the dual purpose test to ensure that the ProviderOne expenditures are fully rolled up into AFRS. Based upon the Substantive/Dual Purpose Sample sample size chart with tolerable misstatement of 5% and 0% expected failure rate (we have performed this in prior audits, with no errors identified), the stated sample size was 56; this is the same sample size as the Control Statistical Sample with the same parameters. We randomly selected 56 reconciliation workdays and allocated the first half to DSHS and the second to HCA.

Testing [Human Services - Control Dual Purpose Testing]
For each random date, we reviewed the reconciliation to determine whether **(Completeness)**:
- The agencies performed a reconciliation of the prior day between ProviderOne report 1280, for batch types AH/AI - **Both agencies performed reconciliations between AFRS and ProviderOne within the ProviderOne settlement date, no issues noted.**
- The ProviderOne report 1280 amounts reconciled to the AFRS Batch Interface Logs - We reconciled the AFRS batch interface amounts to the ProviderOne 1280 reports each day with **with no differences between the batched amounts noted.**

Noted Weaknesses are as follows:
None

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

While we have tested controls for the completeness of ProviderOne batch amounts to AFRS via dual-purpose testing, we noted [Controls - ProviderOne] that we cannot entirely rely on controls within the ProviderOne system due to the the lack of a SOC report for general control assurances for the fiscal year. Due to the lack of assurance, we have assessed our control risk for completeness **MAX** (based upon a combination of dual-purpose testing and the general risk of controls within the system).

D.4.PRG - Human Services

Procedure Step:	Risk Assessment
Prepared By:	CJL, 6/29/2023
Reviewed By:	SLB, 10/20/2023

Record of Work Done:

(1) Inherent Risk (IR):
Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

- Rights and Obligations - **MAX**
- Valuation - **MAX**
- Completeness - **MAX**

(2) Control Risk (CR):
We assessed control risk as follows for each system and relevant assertion:

- ProviderOne

Rights and Obligations - **MAX** - We performed dual-purpose tests [Key Controls #1 - 4 Edit Checks (Automated)] without exception, which provided evidence that automated controls were effective.

Valuation - MAX - We performed dual-purpose tests [Key Controls #1 - 4 Edit Checks (Automated)] without exception, which provided evidence that automated controls were effective. We additionally performed manual control testing [Key Control #5 (Manual) - Rate Change Review] and determined rate uploads were adequately reviewed and approved prior to being available for billing and payment.

Completeness - **MAX**- We performed dual-purpose tests [Key Control #6 (Manual) - P1 to AFRS Batch Reconciliation] without exception, which provided evidence that manual controls were effective and determined that ProviderOne to AFRS batch interfacing was complete.

MAX - While we have performed dual-purpose tests for the assertions above, general internal controls for the ProviderOne system cannot be relied upon due to the lack of a SOC 2, Type II report for the fiscal year. As such, we cannot determine that appropriate general controls for the system were in place during the fiscal year. **Accordingly, we are reporting the following significant deficiency [**V: HCA ProviderOne SOC Report Deficiency (Part of Finding 2023-01) See ISS.26**].**

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

- Rights and Obligations - **MAX**
- Valuation - **MAX**
- Completeness - **MAX**

(4) Testing Strategy:
We designed our substantive testing strategy based on our assessment of the risk of material misstatement.

A. Substantive test to meet the Rights and Obligations and Valuation assertions:

Select a random sample of ProviderOne transactions and perform the following tests:

- Test 1: Determine whether the recipients are eligible (Rights & Obligations) at the time of service based upon their insurance group
- Test 2: Determine whether the providers are eligible to provide services and bill Medicaid at the time of service (Rights & Obligations)
- Test 3: Determine whether the services are allowable per State Plan (Rights & Obligations)
- Test 4: Determine whether the paid amounts are correctly determined or calculated based on authorized rate or fee schedule (Valuation)

B. Substantive test to meet the Completeness assertion:

Select a random sample of P1 and AFRS batch reconciliation reports (daily reconciliation reports) and perform dual-purpose testing on the sample reports to determine whether total amounts in the ProviderOne batch report tie to AFRS Batch Interface Report. This was completed in conjunction with **Key Control #6 (Manual)** testing [Key Control #6 (Manual) - P1 to AFRS Batch Reconciliation].

C. Completed in-house CAATs (computer assisted audit techniques) work

This allowed us to look at the actual payments made during the audit period, and determined that ProviderOne processed payments as based on our understanding of automated controls in ProviderOne system. This was a re-performance of the controls on a large scale, which provided us with much more assurance if the controls were working as described. Additionally, since we reviewed actual payments, we also considered this as dual purpose testing because it provided us with a great deal of substantive evidence as well. The details of this test are documented at **Key Control #1-4 (Automated) section [**Key Controls #1 - 4 Edit Checks (Automated)**].**

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

D. Follow-up on re-eligibility for the post 90 day termination date for terminated clients (Valuation)
We will inquire and follow-up with HCA to determine the quantity of retroactively renewed clients after the 5/31/23 termination date and assess the quantitative impact to the human services line item. The risk is that these previously ineligible transactions would retroactively be allowed and would present a significant increase to the human services expenditures from the month of June to the Phase II close window.

D.4.PRG - Human Services

State of Washington

Procedure Step: Substantive Test
Prepared By: CJL, 10/18/2023
Reviewed By: SLB, 10/20/2023

Record of Work Done:

Substantive tests performed to meet the Completeness assertion: Human Services - Control Dual Purpose Testing

Dual Purpose Testing Procedures:

Select a random sample of P1 and AFRS batch reconciliation reports (daily reconciliation reports) and perform dual-purpose testing on the sample reports to determine whether total amounts in the ProviderOne batch report tie to AFRS Batch Interface Report.

For the randomly selected days we obtained ProviderOne batch reconciliation reports (report 1280) and AFRS Batch Interface Reports (screen C105P070) and confirmed that the quantity of records and total batch amounts in the ProviderOne batch report tied to the AFRS Batch Interface report, ensuring the completeness of interfacing for the claim payments.

Testing Results:

ProviderOne transactions batched completely to AFRS based upon amounts and quantities reported on the P1 report 1280 and AFRS Batch Interface Reports (screen C105P070) for batch types AH/AI (warrant related). **No issues noted.**

Random Sample Selection Procedures for Claims/Premiums for Valuation and Rights & Obligations:

Populations

HCA provided ProviderOne claim data covering the 7/1/2022 through 6/30/2023 time period. The claim data information, including total quantity of transactions and paid amounts, is summarized at [FY23_ACFR_StratifiedSummaries_FullYear]. To address the risk of material misstatement (MAX for Rights/Obligations and MAX for Valuation), we set the assurance needed to **high** and set a **1% expected misstatement rate**. Because this test is also used for the Statewide Single Audit, the **tolerable misstatement was set for 5%**. This resulted in 65 sample items for testing.

Due to the nature of claim transactions, we determined testing required sub-sampling for various populations. For the agencies, we noted the following populations of claims:

- ProviderOne Claims - DSHS - Social Services
- ProviderOne Claims - DSHS - Medical Service Claims (Fee for Service)
- ProviderOne Claims - HCA - Medical Service Claims (Fee for Service)
- ProviderOne Claims - DSHS - Managed Care Claims

- Provider One Claims - HCA - Managed Care Claims

Stratification [Human Services_Sampling Stratification]
We determined that the claims for DSHS Managed Care (0.36%) were immaterial to the balance of the ProviderOne claims and excluded this subset from testing. We additionally excluded negative values to $1 claims from the sample frames and claims under $10 (DSHS Fee for Service sample frame) due to their immateriality.

For each sampling frame, we stratified the transactions into quartiles (to a reasonable degree) and/or along the natural histogram of the populations and allocated the 65 transactions pro-rata based upon each stratum's total amount to the overall sampling frame. For the DSHS Social Services sample, we judgmentally selected a single transaction over $1 million and added five additional random transactions in the 2,500.01 - 800,000 stratum (total of 70 random transactions and one judgmentally selected) due to the skewness of the population.

Samples were pulled by IT Audit using a stratified sampling method documented in:
Fee for Service: Sampling for ProviderOne Claims
Managed Care: Sampling for ProviderOne Managed Care

Testing (Sample results are summarized below; detailed testing notes and procedures are on subsequent tabs that are referenced)
DSHS Social Services: Human Services Testing_CONFIDENTIAL
DSHS Fee for Service: Human Services Testing_CONFIDENTIAL
HCA Fee for Service: Human Services Testing_CONFIDENTIAL
HCA Managed Care: Human Services Testing_CONFIDENTIAL

Substantive tests performed to meet the Valuation assertion:
ProviderOne Claim Testing Procedures
- **Test 4**: Determine whether the paid amounts are correctly determined or calculated based on authorized rate or fee schedule (service paid rate)
  - HCA Fee-for-service - We reviewed billing guides and fee schedules, point of sale support, and rates within ProviderOne to recalculate the fees. Generally:
    - Pharmacy claims: We reviewed point-of-sale support to ensure that the POS system and ProviderOne paid the lesser of drug costs based upon various reference tables for the amount paid.
    - Medicare Crossover claims: We ensured that ProviderOne elected the lesser of the allowable Medicaid (as computed) and Medicare amounts and deducted Medicare payments for the amount paid.
    - Inpatient/Outpatient claims: We reviewed billing and fee schedules to ensure that ProviderOne used the correct factors (NPI conversion factors, EAPG weights, DRG weights, etc.) based upon claim information and recalculated the paid amount.

        - Other Claims: We reviewed specific billing guides and fee schedules to ensure that ProviderOne used the correct rates and calculations for the amount paid.
    - DSHS Fee-for-service (including social services) - We reviewed billing guides and fee schedules, Provider rates and authorized rates (from prior authorizations) within ProviderOne and recalculated the paid amount.
    - HCA Managed Care -
        - Service Based Enhancement Claims - We ensured that the Provider's rate for the applicable charge mode was used for the payment amount and recalculated the paid amount.
        - Premiums - We reviewed client cohort information to ensure that the appropriate rates/factors were used and recalculated the client's monthly premium. This included withhold release TCNs (void old monthly premium TCN with amount withheld and processing a related TCN for a percentage release of the withhold amount).

IT Dual Purpose Testing [Key Controls #1 - 4 Edit Checks (Automated)]

- IT Test 3: Determine whether the paid amounts are correctly determined or calculated based on authorized rate or fee schedule (Valuation)
    - CAATS/IT Procedures: IT audit performed edit testing and checks for a selection of error codes related to the valuation of a claim.

Testing Results:

ProviderOne Claim Testing Results

Paid amounts for DSHS fee for service, social services, and HCA managed care premiums and service based enhancement claims were recalculated using the applicable billing guides, fee schedules, point of sales reports, and rates without exception. We identified one transaction in the HCA fee-for-service sample which used an incorrect NPI CPE cost factor (paid calculation used a 0.31 factor rather than the fee schedule 0.312), resulting in an understatement by $10.13.

This projects to a likely $27,543 understatement in the HCA fee-for-service sample frame; this amount is below the floor and considered trivial/immaterial. Additionally, the error rate is below our tolerable misstatement of 5%. We will not create an issue and will not carry this error to the AOM. **No issues taken.**

Substantive tests performed to meet the Rights & Obligations assertion:

ProviderOne Claim Testing Procedures

- Test 1: Determine whether the recipients are eligible at the time of service based upon their insurance group (client eligibility)
    - Medicaid Eligibility: We accessed ACES Online and ProviderOne client information to ensure that service beneficiaries were enrolled as an eligible Medicaid recipient (Insurance Type = MC: Medicaid) on the date(s) of service.
    - Recipient Aid Category Eligibility: We accessed ProviderOne client information to ensure that service beneficiaries were enrolled within the corresponding RAC on the date(s) of service for which the service was coded.

  - Managed Care (in addition to above for Medicaid for HCA - Managed Care sample): We accessed ProviderOne client information to ensure that service beneficiaries were enrolled in one of the Washington Managed Care organizations (Insurance Type = HM: Health Maintenance Organization) on the date of service/premium payment.

- Test 2: Determine whether the providers are eligible to provide services and bill Medicaid at the time of service (provider eligibility)
  - Eligible Provider: We accessed ProviderOne provider information to ensure that providers (overall organization) were enrolled as an active (eligible) provider on the date of service.
  - Taxonomy (N/A for Managed Care): We accessed ProviderOne provider information for the claim provider to ensure that the provider was approved for the provider-type and speciality (taxonomy code) on the date of service.
  - Service Eligibility (N/A for Managed Care): We reviewed the claimed proc/svc code history and modification codes to ensure that the proc/svc was approved as part of the listed taxonomy on the date of service.

- Test 3: Determine whether the services are allowable per State Plan (service eligibility)
  - We reviewed the descriptions of services for the transactions using various attributes such as procedure code and reviewed the Washington State Medical State Plan, Attachment 3 and State Billing guides to determine whether the services were under a covered service category, e.g. Inpatient hospital, dental services, etc.
  - For HCA - Managed Care, the majority of samples were premium payments which are for a method of Medicaid administration. This includes the premium withholding release payments for prior premiums when the MCO met the requirements of the Value Based Purchasing targets.

IT Dual Purpose Testing [Key Controls #1 - 4 Edit Checks (Automated)]
- **IT Test 1:** Was the recipient eligible to receive the medical assistance services on the specific service dates?
  - CAATS/IT Procedures: IT audit performed editing testing and checks for a selection of error codes related to the validity of a claim's client.
- **IT Test 2:** Was the provider enrolled as an active (eligible) provider on the specific service dates?
- CAATS/IT Procedures: IT audit performed edit testing and checks for a selection of error codes related to the validity of a claim's provider.
- **IT Test 4:** Was the assistance service listed as an allowable service in the Medicaid State Plan?
  - CAATS/IT Procedures: IT audit performed edit testing and checks for a selection of error codes related to the validity of a claim's procedure code.

Testing Results:
ProviderOne Claim Testing Results
Claims processed within ProviderOne were made to eligible clients (based upon their insurance group, recipient aid category, and enrolled managed care program, as applicable) on the date of service.

Claims processed within ProviderOne were made by eligible providers (based upon their status and taxonomy group) on the date of service.
Claims processed within ProviderOne were allowable per the State Medicaid Plan.

D.4.PRG - Human Services

Procedure Step: Sampling for ProviderOne Claims

Prepared By: JMT, 8/31/2023

Reviewed By: PS, 9/1/2023

Record of Work Done:

AUDIT OBJECTIVE
The audit objective was to determine if Claims payments processed through ProviderOne are legitimate.

SAMPLE DESIGN AND METHODOLOGY
The samples of ProviderOne Claims transactions were produced by the IT Audit Data Analysis team using data provided by the Health Care Authority (HCA).

HCA provided the full year (7/1/2022 - 6/30/2023) claims data on July 18, 2023 (social service claims) and August 17, 2023 (medical claims).

A document summarizing the total dollars and records received for FY23 was created and can be seen at [FY23_ACFR_StratifiedSummaries_FullYear] (see tabs "DSHS SS Claims Summary" for the social service claims summary; "DSHS Med Claims Summary" and "HCA Med Claims Summary" for the medical claims summaries). Team Financial Audit (FA) Human Service line item auditors determined the amounts in these spreadsheets were reasonable based upon their general expectations of Medicaid expenditures during a fiscal year.

Team IT Audit also performs data reliability steps on all ProviderOne data received from HCA. Since the ProviderOne data mainly supports the Statewide Single Audit for the Medicaid program, all of the data reliability work is documented in that project (S1Medicaid-SA23 in S.3). In general, the following items are considered when determining the reliability of data:

- Record count of the dataset agrees to the record count provided by HCA.
- Fields requested are included in the dataset.

- Dataset covers the expected timeframe.
- Field values agree with data dictionary.
- The frequency count of values in a field are in a reasonable range.
- The minimum and maximum values of fields are in a reasonable range.
- Blank (or NULL) values do not appear in fields that should not contain missing information.
- Dataset does not contain duplication.
- Comparison of records in the dataset to the source ProviderOne system.

Based upon the various data reliability steps performed, it was determined the data used for testing was complete and accurate.

CHARACTERISTICS TO BE MEASURED
We based our determination as to:

-Whether the recipients are eligible.
-Whether the providers are eligible to provide services.
-Whether the services are allowable per State Plan.
-Whether the paid amounts are correctly determined or calculated based on authorized rate or fee schedule in ProviderOne.

IT Audit Deliverables:
The first item provided to Team FA includes stratified summary tables for the claims and Managed Care premium payments split out by agency (DSHS and HCA). From these summaries, Team FA determines the final stratifications and sample sizes. Based on this information, IT Audit then pulls samples from the data populations and provides those to Team FA. For FY23, all samples will be pulled from the full year data and the social service and medical claims populations will be sampled from separately.

Full Year Social Service Summary
IT Audit created summary tables by agency for the social service claims population between July 1, 2022 and June 30, 2023 [see FY23_ACFR_StratifiedSummaries_FullYear]. (see tab "DSHS SS Claims Summary").
The queries written to create the summary tables can be seen at [FY23_ACFR_SS_Claims_Summary_FullYear].

Full Year Medical Summary
IT Audit created summary tables by agency for the medical claims population between July 1, 2022 and June 30, 2023 [see FY23_ACFR_StratifiedSummaries_FullYear]. (see tabs "DSHS Med Claims Summary" and "HCA Med Claims Summary").
The queries written to create the summary tables can be seen at [FY23_ACFR_Med_Claims_Summary_FullYear].

Full Year Social Service Sample
Sample selections were made based upon the stratification and sample sizes provided by Team FA [see Human Services Sampling Stratification]. The population included all social service claims paid by Medicaid during FY23 (minimum $1). The selected records were provided to Team FA via the internal network in a spreadsheet titled "!2023_ACFR_Samples_SS_Claims" due to the inclusion of confidential information. The queries written to select the samples can be seen at [FY23_ACFR_SS_Claims_SampleSelections].

Full Year Medical Sample
Sample selections were made based upon the stratification and sample sizes provided by Team FA [see Human Services Sampling Stratification]. The population included all medical claims paid by Medicaid during FY23 (minimum $1). The selected records were provided to Team FA via the internal network in a spreadsheet titled "!2023_ACFR_Samples_Med_Claims" due to the inclusion of confidential information. The queries written to select the samples can be seen at [FY23_ACFR_Med_Claims_SampleSelections].

D.4.PRG - Human Services

Procedure Step: Sampling for ProviderOne Managed Care

Prepared By: JMT, 8/31/2023

Reviewed By: PS, 10/1/2023

Record of Work Done:

AUDIT OBJECTIVE
The audit objective was to determine if Managed Care payments processed through ProviderOne are legitimate.

SAMPLE DESIGN AND METHODOLOGY
The samples of ProviderOne managed care transactions were produced by Team IT Audit using data provided by the Health Care Authority (HCA).

HCA's vendor, CNSI, provided the full year (7/1/2022 - 6/30/2023) managed care data con August 18, 2022.

A document summarizing the total dollars and records received for FY23 was created and can be seen at [FY23_ACFR_StratifiedSummaries_FullYear] (see tabs "DSHS MC Summary" and "HCA MC Summary" for the managed care summaries). Team FA Human Service line item auditors determined the amounts in these spreadsheets were reasonable based upon their general expectations of

Medicaid expenditures during a fiscal year.

Team IT Audit also performs data reliability steps on all ProviderOne data received from HCA. Since the ProviderOne data mainly supports the Statewide Single Audit for the Medicaid program, all of the data reliability work is documented in that project (S1Medicaid-SA23 in S.3). In general, the following items are considered when determining the reliability of data:

- Record count of the dataset agrees to the record count provided by HCA.
- Fields requested are included in the dataset.
- Dataset covers the expected timeframe.
- Field values agree with data dictionary.
- The frequency count of values in a field are in a reasonable range.
- The minimum and maximum values of fields are in a reasonable range.
- Blank (or NULL) values do not appear in fields that should not contain missing information.
- Dataset does not contain duplication.
- Comparison of records in the dataset to the source ProviderOne system.

Based upon the various data reliability steps performed, it was determined the data used for testing was complete and accurate.

We will rely on the totals from the first six months for determining sample size as we expect the amounts to stay consistent throughout the fiscal year.

CHARACTERISTICS TO BE MEASURED
We based our determination as to:

-Whether the recipients are eligible.
-Whether the providers are eligible to provide services.
-Whether the services are allowable per State Plan.
-Whether the paid amounts are correctly determined or calculated based on authorized rate or fee schedule in ProviderOne.

IT Audit Deliverables:
The first item provided to Team FA includes stratified summary tables for the claims and Managed Care premium payments split out by agency (DSHS and HCA). From these summaries, Team FA determines the final stratifications and sample sizes. Based on this information, IT Audit then pulls samples from the data populations and provides those to Team FA. For FY23, all samples will be pulled from the full year data.

<u>Full Year Summary</u>

IT Audit created summary tables by agency for the managed care population between July 1, 2022 and June 30, 2023 [see FY23_ACFR_StratifiedSummaries_FullYear]. (see tabs "DSHS MC Summary" and "HCA MC Summary" for the managed care summaries). The queries written to create the summary tables can be seen at [FY23_ACFR_MC_Summary_FullYear].

Full Year Sample

Sample selections were made based upon the stratification and sample sizes provided by Team Financial Audit [see Human Services_Sampling Stratification]. The population included all Managed Care premium Medicaid transactions during FY23 (minimum $1). We did not include any transactions that net to zero, nor did we include any transactions identified as a replaced transaction. The selected records were provided to the Team via the internal network in a spreadsheet titled "!2023_ACFR_Samples_MC" due to the inclusion of confidential information. The queries written to select the samples can be seen at [FY23_ACFR_MC_SampleSelections].

D.5.PRG - Federal Grants-In-Aid

Procedure Step: Summary & Conclusion

Prepared By: CJL, 10/18/2023

Reviewed By: SLB, 10/18/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?

The results of substantive tests do not indicate a need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?

The quality and quantity of evidence obtained was sufficient and appropriate.

D.5.PRG - Federal Grants-In-Aid

Procedure Step: Understanding of Line Item

State of Washington

Prepared By: CJL, 6/15/2023
Reviewed By: SLB, 10/18/2023

Record of Work Done:

(1) Prior Audit Exceptions:
There were no prior audit exceptions for the Federal Grants-in-Aid line item in the prior ACFR.

(2) Composition & Change Analysis:
Line Item Leadsheet: [Line Item Lead Sheet].
Note: We rely on work performed at the fund level to substantiate at the government-wide level.

Significant Changes
We inquired with:
- **HCA:** Laura Roberts, Federal Claims Supervisor, and Jill Arlow, Deputy Section Manager (Federal Financial Reporting Section). Both confirmed that the process for the federal draw-downs and recording of the revenues have not changed.
- **DSHS:** Gwendolyn Dain, Program Services Manager, and Christie Johnson, Administrative Services Manager. Both confirmed that the process for the federal draw-downs and recording of the revenues have not changed.

Federal cash revenues are recorded when agencies draw down federal cash (cash receipts) based upon the cash payments of federal program expenditures:

Cash Revenues - GL3210
- **Cash Draw Downs (Cash Receipts)** - Agencies receive reimbursement funds from federal grants equal to cash expenditures less any prior year liquidations. Liquidations occur when revenues accrued in a prior year are paid out in the current year. The liquidation does not impact current year expenditure and revenue account balances as it is a cash payout for the accrual. The liquidation decreases the total cash draw balance and the revenue receivable balance.
- **Federal Cash Revenue:** Federal grantors pay out reimbursements owed to agencies once the agencies have paid for the expenditures. Cash received is based upon both cash expenditures and liquidations. Federal cash revenue, thus, equals the total of federal cash receipts less any cash received for liquidations of prior accrued expenditures.

Accrued Revenues - GL3205

- Agencies accrue federal revenue up to the total allowed federal expenditure amounts as the federal grantors will reimburse agencies for those allowed expenditures that they have paid. Federal accrual revenues are recorded monthly. Accruals for June are handled separately due to the fiscal year end process.
- Monthly accruals are recorded as XX batches which are automatically reversed in the subsequent month with XY batches.
- June accruals are initially processed at the end of the fiscal year, but periodically updated with JV runs up until phase II close to calculate the most current and accurate accrual to record, using up-to-date enterprise reporting reports.

Composition Analysis
We ran interim reports [Line Item Lead Sheet] for federal revenue (Roll up fund FAA, Major Source 03, GL Account 32%) as of 6/15/23 and noted that the following agencies composed 86.1% of the FGIA revenues (15,858,713,531):

- HCA: 8,987,661,225, 47.2%
- DSHS: 7,397,718,752, 38.9%

Amounts recorded in the Federal Grants in Aid line item are primarily the combined revenue of the Department of Social and Health Services (DSHS) and Health Care Authority (HCA), received for federal program expenditure reimbursements administered by both agencies. The total federal revenue balance contains cash revenues (GL3210), accrued revenues (GL3205) and revenue adjustments (GL3225).

We further analyzed the sources (federal administration) of above agencies' revenues and grouped the revenues by subsource.

HCA [Line Item Lead Sheet**]**
HCA's revenue is primarily Medicaid revenue subsources (D*, N*, Q*, T*, U*), totaling approximately $8.605 billion (95.7%) for the fiscal year to date. This is expected as HCA is the state's Medicaid administrative agency and is consistent with prior year percentages as well (FY22 Medicaid FGIA revenue was approximately $8.556 billion (95.9%)).

DSHS [Line Item Lead Sheet**]**
DSHS's revenue is primarily from:

- Department of Agriculture - These are revenues associated with SNAP administration, totaling approximately $2.923 billion (39.5%). DSHS records the reimbursement draws to GL3225 for SNAP.
- Department of Health and Human Services - The primary revenues from DHHS are for the Medicaid program (see subsources above), totaling approximately $3.634 billion (49.1%).

These percentage compositions are expected as DSHS is the administrator of the SNAP program and has Medicaid services within DDA and ALTSA administrations.

(3) Updates to Material Account Matrix:

No updates to the Material Account Matrix are necessary. Revenues for the line items are in expected agencies and programs.

D.5.PRG - Federal Grants-In-Aid

Procedure Step: Controls - Federal draw downs (HCA)

Prepared By: CJL, 5/24/2023

Reviewed By: SLB, 10/18/2023

Record of Work Done:

Material Balance(s) and Assertions

Internal controls for the Federal drawn down (HCA) process address the following balance(s):

- **General Fund - Federal Grants in Aid**
- **Governmental Activities - Operating Grants and Contributions: Human Services**

Primarily reimbursement from the Federal government for Medicaid - Payments of medical treatment of eligible, low-income persons.

For the following assertions:

- **Rights and Obligations -** Federal draw-down requests may not be based on actual grant expenditures in accordance with federal cash management requirements.
- **Valuation -** Federal Grant draw-down requests may not be correctly calculated

Gain an Understanding of Internal Controls

We met with:

- Laura Roberts, Federal Claims Supervisor
- Jill Arlow, Deputy Section Manager (Federal Financial Reporting Section)
- Kari Summerour, External Audit Liaison

State of Washington

A high level summary of the draw process is as follows:

- **Federal Revenue Draws:** The cash draw amount determination is based on actual cash and liquidation expenditures as recorded in AFRS. AFRS account coding identifies amounts to calculate the federal and state share of each expenditure based on match rates (FMAP) received from the appropriate federal awarding agency.
- **Draw Frequency:** HCA requests cash draws in the period the expenditures were incurred to ensure timely and regular draws. Timing frequency for draws varies:
  - Weekly for the Title XIX services.
  - Bi-weekly for all other federal awards to coincide with state payroll; this will include the administrative reimbursement for the program.
  - Monthly for ProviderOne Medicaid payments with cash requests of forty percent of expenditure amount for MCO premium payments.

Federal Draw Process

Draw Preparation

Fiscal Analyst (4s and 5s) within the Federal Financial Reporting section (Federal Claims unit, FFRU) ensure HCA's draw amount is correctly calculated and based upon actual expenditures by reconciling expenditure and revenue reports from Enterprise Reporting for relevant cost objectives and revenue subsources for a given program.

For each type of draw (weekly, bi-weekly, and monthly), the FA will run enterprise reporting year-to-date reports for the cost objectives (expenditures) and subsources (revenue) of a program/grant. The draw-down calculation is:
Total Expenditures less Total Revenues. This is performed for every cost objective/subsource for the specific grant. E.g. for Title XIX services, services for clients are coded with T3*, D3*, N3*, and Q3* cost objectives and subsources. Both enterprise reporting reports are saved into FFRU's shared drive for records.

The FA will then login to the Grants Management System (GMS) and select the requesting grant. The FA uploads the ER reports and calculates the current and liquidation portions of the expenditures and revenue and difference to calculate the draw amount. These figures are entered into a summary tracking workbook for each grant located on the FFRU's shared drive for each draw. The FA will submit the draw request in GMS and sends screenshots of the draw preparation screens, e-mails from the other agencies for their draw portion, and draw calculation reports to Laura Roberts (primary approver) and Jill Arlow (backup approver) for approval of the draw calculation.

Laura/Jill will review the reports (assessment of the criteria used for the reports), current draw information, and backup history of the draws to ensure that the current draw was correctly calculated and based upon actual and liquidated expenditures and revenues to date.
(Key Control #1 - Draw calculation and approval).

Draw Process

After approval, the FA will complete the draw process portion within GMS for the current draw. The FA will select the approved draw prep to include in the draw process and selects the correct agency, grant, and enters the appropriate draw amount per agency.

Afterwards, the FA will log into the Federal Payment Management System (PMS), enter the Payee Account Number (C7133P1 for HCA; subaccount XIX-MAP3 is for tracking Title XIX assistance), select the correct subaccount, and enter the requested draw amount (all three requesting agencies). The draw confirmation is screen-shotted to include in the AFRS batch draw workbook.

The FA will obtain a TM$ draw workbook and prepare the draw information for a cash receipts journal, with the total draw amount split among the agencies, document number being used to process the revenues, and effective date of the deposit (next business day) and sends it to HCA's Cash Management group to process an A-8 with the Treasury (created by a separate group/individual). Once this is processed, the Cash Management group will provide the FRRU a screenshot of the processed A-8 within TM$ (included in the revenue recording workbook).

How Transactions are Recorded in AFRS:
After the draw amount is approved and the actual draw is performed, a separate FA will prepare an AFRS batch to record the revenue via a AFRS toolbox upload. The FA will log into GMS and select the current draw and reviews the number of transactions, hash total, and JV total. GMS will generate the JV's toolbox upload sheet with the correct transaction codes, variable GLs, funds, revenue groups, and subrevenue codes for the current document number. The FA will review the transaction codings (001/003 for currents, 835/835R for liquidations), ensuring the correct amounts are present in total for each grouping. The FA will then upload the financial toolbox file and submit it to AFRS, comparing the hash and transaction number amounts to ensure the transactions uploaded correctly.

When the uploaded batch is cleared of errors, the overall draw/revenue workbook is loaded into GMS and the overall draw is saved. The FA will then send the draw workbook along with request for review and approval of the AFRS batch to Laura and Jill. Laura/Jill will review the transactions for accuracy (amount, transaction codes, subsources) for final approval of the batch into AFRS and completion of the draw process within GMS. **(Key Control #2 - AFRS batch approvals)**

Key Controls are as Follows:

- **Key Control 1 (Rights & Obligations/Valuation)** - Fiscal analysts run expenditure and revenue reports and perform a reconciliation to calculate the correct request amount for Federal draw downs. This is submitted to the Federal Claim Supervisor for review of the calculations and reports prior to the actual draw.

- **Key Control 2 (Valuation) -** After approval and submission of the draw, the FA5 will prepare the AFRS batch to record the revenue. This includes reviewing the sub-resource codes for the revenues, amounts to be recorded, and appropriate transaction codes (which will determine whether the transaction line will impact the GL1351 (for liquidations) or GL3210 (for current period amounts). The Federal Claims Supervisor will then review the draw workbook for accuracy and approve and release the batch into AFRS.

Noted Weaknesses are as Follows:

- None

D.5.PRG - Federal Grants-In-Aid

Procedure Step:	Key Control #1 (Manual) - Draw calculations and approval
Prepared By:	CJL, 5/24/2023
Reviewed By:	SLB, 10/18/2023

Record of Work Done:

Line Items

General Fund - Federal Grants in Aid
Governmental Activities - Operating Grants and Contributions: Human Services

Assertions

Rights and Obligations
Valuation

Key Control #1 - Fiscal analysts run expenditure and revenue reports and perform a reconciliation to calculate the correct request amount for Federal draw downs. This is submitted to the Federal Claim Supervisor for review of the calculations and reports prior to the actual draw.

The understanding for this system is documented above in the "Controls - Federal draw downs (HCA)" step.

1. Confirmation of Key Manual Control:

We reviewed current document FA0191 for the T19 Medicaid and T19 COVID weekly 3/27/23 draw down revenue recording. The draw reconciliation was performed by Mary Anderson, FA5. Included in the workbook were the two enterprise reporting reports used to calculate the draw amount. Relevant report criteria included:

- Expenditure report
  - Begin fiscal month - 04-Oct FY1
  - End: Current (report run on 3/27/23, March FY2)

State of Washington

    - Cost objective: T3*,D3*,N3*,Q3*,[T33C*,D33C*,N33C*,Q33C*]
    - Cost allocation type: F
    - Expenditure content: Cash
    - Expenditure liquidation Content: All liquidations
- Revenue report
    - Same begin/end fiscal month
    - Major source: 03
    - Source: 03/93
    - Subsource: 03/93/D3*,03/93/T3*,03/93/N3*,03/93/Q3*,[03/93/D33C*,03/93/T33C*,03/93/N33C*,03/93/Q33C*]
    - Revenue content: Cash
    - Revenue liquidation content: Yes

Cost objectives (Expenditures), as summarized:

- T***:
    - Disbursements: 2,203,015,300.78
    - Liquidations: (131,602,547.19)
- D***:
    - Disbursements: 1,728,013,657.56
    - Liquidations: (59,566,422.40)
- N***: No activity
- Q***:
    - Disbursements: 0.00
    - Liquidations: (18,203.11)

Revenue sub-sources (Revenues), as summarized:

- T***:
    - Cash Receipts: 2,184,020,775.78
    - Liquidations: (132,352,597.70)
- D***:
    - Cash Receipts: 1,692,888,633.84
    - Liquidations: (61,231,213.03)
- N***: No activity
- Q***:
    - Cash Receipts: 0.00
    - Liquidations: (18,203.11)

Totals:
Expenditures to date: 3,739,841,785.64
Revenues to date: 3,683,307,395.78
Draw amount: **56,534,389.89**

This total draw of 56,534,389.89 appeared (E-mail tab within the draw workbook) as the HCA portion of the total draw (draws include amounts from DSHS and DCYF as the Medicaid grant is administered through HCA) for PMS Subaccount XIX-MAP23. The reports were submitted by Mary Anderson to Laura Roberts on 3/27/23 at 8:56 AM and approved by Laura at 9:06 AM for the draw amount. The total draw amount within the Federal Payment Management System totaled 114,056,251.76 (HCA's $56m was part of the total draw, including DSHS and DCYF) was completed on 3/27/23 with a payment due date of 3/28/23 for the C7133P1 account, subaccount XIX-MAP23. **No issues noted**

Noted Weaknesses are as follows:
None

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

D.5.PRG - Federal Grants-In-Aid

Procedure Step: Key Control #2 (Manual) - AFRS revenue recording and release
Prepared By: CJL, 5/24/2023
Reviewed By: SLB, 10/18/2023

Record of Work Done:

Line Items

State of Washington

General Fund - Federal Grants in Aid
Governmental Activities - Operating Grants and Contributions: Human Services

<u>Assertions</u>
Rights and Obligations
Valuation

Key Control #2 - After approval and submission of the draw, the FA will prepare the AFRS batch to record the revenue. This includes reviewing the sub-resource codes for the revenues, amounts to be recorded, and appropriate transaction codes (which will determine whether the transaction line will impact the GL1351 (for liquidations) or GL3210 (for current period amounts). The Federal Claims Supervisor will then review the draw workbook for accuracy and approve and release the batch into AFRS.

The understanding for this system is documented above in the "Controls - Federal draw downs (HCA)" step.

<u>1. Confirmation of Key Manual Control:</u>
We reviewed current document FA0191 for the T19 Medicaid and T19 COVID weekly 3/27/23 draw down revenue recording. The draw reconciliation was performed by Mary Anderson, FA5.
To summarize the draw calculation:
Expenditures to date: $3,739,841,786
Revenues to date: $3,683,307,396
Draw amount: **$56,534,390**

The AFRS revenue batch included the A8-A form (AFRS Cash Receipts) which included all the subsources under T2* and D2*.
The line calculations of the draw workbook for current year were recorded using TCs 001 and 003 as determined by either a debit or credit amount, totaling **$54,119,549**
The line calculations of the draw workbook for liquidations were recorded using TC835 to adjust the receivable amount from the prior period, totaling **$2,414,841**

For a total receipt amount of $56,534,390.

The revenue recording workbook was prepared by Roxanne Smith, FA5, and approved by Laura Roberts, Federal Claims Supervisor, for batch HB 232.

Noted Weaknesses are as follows:

- None

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

D.5.PRG - Federal Grants-In-Aid

Procedure Step:	Controls - Federal draw downs (DSHS)
Prepared By:	CJL, 6/26/2023
Reviewed By:	SLB, 10/18/2023

Record of Work Done:

Material Balance(s) and Assertions
Internal controls for the Federal drawn down (DSHS) process address the following balance(s):

- **General Fund - Federal Grants in Aid**
- **Governmental Activities - Operating Grants and Contributions: Human Services**

Primarily reimbursement from the Federal government for Medicaid - Payments of medical treatment of eligible, low-income persons.

For the following assertions:

- **Rights and Obligations -** Federal draw-down requests may not be based on actual grant expenditures in accordance with federal cash management requirements.
- **Valuation -** Federal Grant draw-down requests may not be correctly calculated

Gain an Understanding of Internal Controls
We met with:

- Christine Johnson, Administrative Services Manager

- Gwendolyn Dain, Program Services Manager
- Debra Trickler, Accounting and internal Control Administrator (ESA)
- Julia Mosier, Office Chief (ALTSA/DDA)
- Rick Meyer, External Audit Compliance Manager

A high level summary of the draw process is as follows:

- DSHS Technology Services Division loads a report into the Grants Management System (GMS) with data from AFRS for the relevant Medicaid cost objectives and subsources for revenue, expenditures, and liquidations processed through the prior day. AFRS data is loaded into GMS to assist with calculating the draw amount using the following calculation: Total Revenue – Total Expenditures – Liquidations = draw or return amount showing in GMS.
- The Senior Financial Coordinator reviews the Title XIX Medicaid Assistance draws weekly on the first business day of the week and Administrative draws during 'payday draws,' the day before payday; if any special draws are necessary, they are created as needed.
- The Senior Financial Coordinator reviews the draw amount in GMS, the Administrative Services Manager or Program Services Manager approves the draw amount in GMS, and the Grant Specialist (a Fiscal Analyst) draws the funds within GMS, as well as processes the batch to record the revenue for the draw through AFRS. Within GMS each position verifies the data and checks a box in GMS to ensure accurate calculations, review and approvals are processed prior to finalizing each draw request.

Federal Draw Process

Creating the Draw Request

The Senior Financial Coordinator initiates the draw requests by comparing the reported amounts within GMS to an AFRS report for revenue, expenditure, and liquidation data for the relevant subsources (revenue) and cost objectives (expenditures). The Senior Financial Coordinator reconciles the report calculation to the pending draw screen amounts in GMS to ensure that the draw amount is correctly calculated. When the draw amount is correct, the Senior Financial Coordinator signs off on the draw amount and sends the Administrative Services Manager and Program Services Manager an e-mail summarizing the total draw amount, with an attached report for HCA. The Administrative Services Manager/Program Services Manager will review the related AFRS reports and the amounts within GMS to ensure that the total revenues, expenditures, and liquidations were captured for the draw process **(Key Control #1 - Draw Calculation and Approval).**

HCA Draw Process and Recording

HCA is the administrating agency for Medicaid; as such, HCA is issued the grant and LOC authorization amount for Medicaid. HCA processes draw requests from DSHS and DCYF during the weekly, semi-monthly, and ad-hoc draw requests within the Federal Payment Management Services (PMS) system.

After receiving approval from the Administrative Services Manager/Program Services Manager for the draw amount, the Senior Financial Coordinator will send HCA an e-mail with the AFRS report used in the draw calculation, alongside the agency's approval. During this time, HCA will work with DSHS if there are any discrepancies or if the draw amount needs to be adjusted for any reason (e.g. HCA requests that DSHS only draws up to a certain amount because of LOC authorization). HCA staff will create the draw within PMS and begin their process of creating the cash receipt A8/TM$ journal, as they receipt the actual grant reimbursements (in total) as well. The A-8 entry by HCA is split among the requesting agencies (DSHS, DCFY, OFM as applicable) and is sent by the HCA creator to the DSHS FSA/OAS GMS share box.

How Transactions are Recorded in AFRS:
A Fiscal Analyst records payment transactions to AFRS using journal vouchers (JVs). For each draw, the Fiscal Analyst will move the current document number generated by GMS to the reference document field and uses HCA's current document number to ensure that the reimbursement and JV match HCA's. GMS will generate the JV's toolbox upload sheet with the correct transaction codes, variable GLs, funds, revenue groups, and subrevenue codes for the current document number. The FA will review the transaction codings (001/003 for currents, 835/835R for liquidations), ensuring the correct amounts are present in total for each grouping. The FA will then upload the financial toolbox file and submit it to AFRS, comparing the hash and transaction number amounts to ensure the transactions uploaded correctly.

The Program Services Manager/Administrative Services Manager, will review the batch to ensure the correct accounting coding is present and all relevant backup information is present within the draw/revenue recording workbook for final approval of the batch into AFRS **(Key Control #2 - AFRS Batch Approvals)**. Supporting documentation within the draw workbooks include:

From HCA:
- Embedded e-mail from HCA detailing the draw amount
- Screenshot from PMS for the draw
- A-8/TM$ screenshot of the A-8 entry and breakdown of agency

From DSHS:
- Screenshots within GMS showing the approved pending draw
- FPS Data Entry Report (shows summary information of the LOC subaccount and amount)
- Grant Financial Status Report (shows the LOC, total grant award, and summary draw calculation information)
- Approval e-mails by the Program Services Manager/Administrative Services Manager
- AFRS report that the draw calculations were based upon

Key controls are as follows:
- **Key Control #1 (Rights & Obligations/Valuation) -** The Senior Financial Coordinator initiates the draw requests by comparing a report from GMS to a WEBI report of AFRS data based on AFRS revenue, expenditures, and liquidations. The Senior Financial Coordinator reconciles both reports to the pending draw screen amounts in GMS to ensure the draw amount is accurate. The Administrative Services Manager or Program Services Manager completes a secondary review of draw requests in GMS to ensure supporting documentation matches the draw request with an accurate calculation before approving the draw calculation.

- **Key Control #2- (Valuation) -** After HCA provides the A-8/TM$ information for the actual federal reimbursement through PMS, a Fiscal Analyst will prepare the AFRS batch JV with transaction information from the GMS upload sheet, which includes the transaction codes, revenue subsources, fund, and variable GL codes. The Fiscal Analyst will review the report to ensure the transaction detail is accurate and matches the A-8/TM$ from HCA. The Fiscal Analyst will submit the batch into AFRS and the Program Services Manager/Administrative Services Manager will perform a secondary review for correct account coding and amount and that all required reports/screenshots are within the JV workbook before approving and releasing into AFRS.

Noted Weaknesses are as follows:
None

D.5.PRG - Federal Grants-In-Aid

Procedure Step:	Key Control #1 (Manual) - Draw calculations and approval
Prepared By:	CJL, 6/26/2023
Reviewed By:	SLB, 10/18/2023

Record of Work Done:

Line Items
General Fund - Federal Grants in Aid
Governmental Activities - Operating Grants and Contributions: Human Services

Assertions
Rights and Obligations
Valuation

Key Control #1 (Rights and Obligations/Valuation) - The Senior Financial Coordinator initiates the draw requests by comparing a report from GMS to a WEBI report of AFRS data based on AFRS revenue, expenditures, and liquidations. The Senior Financial Coordinator reconciles both reports to the pending draw screen amounts in GMS to ensure the draw amount is accurate. The Administrative Services Manager or Program Services Manager completes a secondary review of draw requests in GMS to ensure supporting documentation matches the draw request with an accurate calculation before approving the draw calculation.

State of Washington

The understanding for this system is documented above in the "Controls - Federal draw downs (DSHS)" step.

1. Confirmation of Key Manual Control:
We reviewed current document FA0124 (batch KX 443) for the T19 Medicaid 9/6/22 weekly draw down revenue recording (cost objectives/revenue sources D2* - Regular T19 and T2* Generally T19 waivers and other expansions (Newly Eligible)). Included in the draw workbook was the draw report, prepared by Raveena Mangat, Senior Financial Coordinator, sent to HCA for DSHS's portion of the weekly draw which contained (in summary, based upon draw calculations (Current) Expenditures - (Current) Revenues - Net Liquidations) for AFRS transaction dates 8/29/22 - 9/6/22:

D2*
Net current = $41,765,571.44
Net liquidations = $1,623,649.59
Net draw = **$43,389,221.03**

T2*
Net current = **$**1,759,402.21
Net liquidations = $(7,749.26)
Net draw = **$1,751,652.95**

GMS Information for agency 3000: Title XIX ASSIST - HCA to date (federal grant number 5-202205WA5MAP, LOC C7133P1)
Cash Disbursement to date: $3,307,538,367.03
Revenue Drawn to date: $3,262,397,493.05
Draw Amount: $45,140,873.98

Total Actual draw = $45,140,873.98

The subsource amounts and total draw amount of $45,140,873.98 was submitted for approval via e-mail by Raveena to Gwendolyn Dain, Program Services Administrator, on 9/6/22, alongside the webi query and draw amount to submit to HCA. Gwendolyn reviewed the reports and approved the draw amount. This amount was present with the same information within GMS in the Approved Pending Draws tab after approval by Gwendolyn as "approved." **No issues noted**

Noted Weaknesses are as follows:
None

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

D.5.PRG - Federal Grants-In-Aid

Procedure Step: Key Control #2 (Manual) - AFRS revenue recording and release
Prepared By: CJL, 6/26/2023
Reviewed By: SLB, 10/18/2023

Record of Work Done:

Line Items
General Fund - Federal Grants in Aid
Governmental Activities - Operating Grants and Contributions: Human Services

Assertions
Rights and Obligations
Valuation

Key Control #2 - (Valuation) - After HCA provides the A-8/TM$ information for the actual federal reimbursement through PMS, a Fiscal Analyst will prepare the AFRS batch JV with transaction information from the GMS upload sheet, which includes the transaction codes, revenue subsources, fund, and variable GL codes. The Fiscal Analyst will review the report to ensure the transaction detail is accurate and matches the A-8/TM$ from HCA. The Fiscal Analyst will submit the batch into AFRS and the Program Services Manager/Administrative Services Manager will perform a secondary review for correct account coding and amount and that all required reports/screenshots are within the JV workbook before approving and releasing into AFRS.

The understanding for this system is documented above in the "Controls - Federal draw downs (DSHS)" step.

State of Washington

<u>1. Confirmation of Key Manual Control:</u>
As noted in our confirmation of Key Control #1 [Key Control #1 (Manual) - Draw calculations and approval], current document FA0124 (batch KX 443) for the T19 Medicaid 9/6/22 weekly draw down revenue recording (cost objectives/revenue sources D2* - Regular T19 and T2* Generally T19 waivers and other expansions (Newly Eligible)).

The draw amount calculated by Raveena Mangat, Senior Financial Coordinator, was **$45,140,873.98.**

After approval of the draw calculation by DSHS (Gwendolyn Dain, Program Services Manager), Raveena sent the draw information (grant information including: LOC (C7133P1), total grant award and authorization, disbursements to date and revenue to date, the Webi report used to calculate the draw amount, and the e-mail chain for approvals for the draw calculation as noted above) to HCA and DSHS staff.

HCA employee Mary Anderson, FA5, submitted the request for payment totaling $252,006,421.84 (HCA: $206,865,547.86 and DSHS: $45,140,873.98, and DCYF: $0.00 requests) for the weekly draw. The generated A8 by Diana Dunn, Medical Assistance Specialist 3 (HCA), included the total $45,140,873.98 for agency 3000.

The draw workbook (KX 443) recording the revenues was prepared by Fnu Neha, FA4; included in the workbook were approvals for the Gwendoyn Dain for the draw calculations, summary shot of approved pending draws from GMS for the relevant LOC, screenshot within the Federal Grant Management System, and HCA's A-8/TM$ information all showing the total draw amount for DSHS of $45,140,873.98.

Another tab was "Original Data" which is the system interface between GMS/PMS and creates a report by LOC, transaction code, fund, program index, revenue sources, and subrevenue sources, with the referenced GMS doc number. This amount matches the draw calculations per revenue source within the draw calculation section within GMS/PMS. This report drives the AFRS transaction records for the toolbox upload within the "KX 443" tab.

The line calculations of the draw workbook for current year were recorded using TCs 001 and 003 as determined by either a debit or credit amount, totaling $43,524,973.65
The line calculations of the draw workbook for liquidations were recording using TC835 to adjust the receivable amount from the prior period, totaling $1,615,900.33.

The workbook was prepared/submitted by Fnu Neha, and approved by Gwendolyn Dain.

Noted Weaknesses are as follows:
None

<u>2. Preliminary Control Risk Assessment</u>

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

D.5.PRG - Federal Grants-In-Aid

Procedure Step: Risk Assessment
Prepared By: CJL, 6/26/2023
Reviewed By: SLB, 10/18/2023

Record of Work Done:

(1) Inherent Risk (IR):
Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

- Rights and Obligations – LOW
- Valuation – LOW

(2) Control Risk (CR):
We assessed control risk as follows for each system and relevant assertion:

- **Federal Draw Downs** – Rights and Obligations and Valuation

MAX – We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

- Valuation – **MAX**
- Rights and Obligations – **MAX**

(4) Testing Strategy:
We designed our substantive testing strategy based on our assessment of the risk of material misstatement.

- We will review a sample of drawdown revenue recordings and their related expenditure and revenue reports to ensure that the draw amount was correctly calculated and recorded.
- We will review a sample of drawdowns and their related expenditure and revenue reports to ensure that the draw amounts were based upon actual program expenditures.

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

D.5.PRG - Federal Grants-In-Aid

Procedure Step:	Substantive Test
Prepared By:	CJL, 10/18/2023
Reviewed By:	SLB, 10/18/2023

Record of Work Done:

Population Sourcing and Reconciliation
HCA: JV Population Reconciliation
DSHS: JV Population Reconciliation
We ran queries from the ACFR database for the material balances (Rollup fund FAA and IS Sort Code CG) for DSHS and HCA. We ran queries in Enterprise Reporting Web Intelligence which were filtered to match the results of the ACFR database to obtain transaction level detail for sampling. We reconciled the amounts by source and GL to the ACFR query with **no variances noted.** As the total population of the Webi queries' FGIA revenues reconciled to the ACFR database, we consider the transaction data to be complete.

Sample Frames
HCA: JV Population Reconciliation

State of Washington

DSHS: JV Population Reconciliation
Based upon overall analysis of the revenue sources (SAO source within ACFR database queries) and subsources (within Webi queries), we determined that we obtained sufficient coverage limiting testing to Title XIX Medicaid subsources: D*, N*, Q*, T*, and U*

We filtered the Webi transaction data for Medicaid sub-sources* (D*, N*, Q*, T*, and U*) and summarized the transactions by document number (representing revenue draws) for sample frames:
HCA: 82 current doc numbers, totaling 9,350,185,717.78.
DSHS: 74 current doc numbers, totaling 4,071,086,417.78.

The year-end revenue accrual (GL3205) is covered in its entirety in the Due from Other Governments line substantive testing; the actual sample frames, therefore, must include the non-Medicaid subsources as well (indicated in the additional subsource line amount under the sample frame table).

Sample Number and Selection
Based upon the substantive/dual-purpose testing FA small population tables, we randomly selected and identified:
HCA : 14 transactions, no individually significant items
DSHS : 13 transactions, no individually significant items

Substantive tests performed to meet the Valuation assertion:
HCA: HCA_FGIA Sample
DSHS: DSHS_FGIA Sample

Testing Procedures:
Weekly and Payday (semi-monthly draws)
For the selected draws, we reviewed biennium-to-date expenditure and revenue Enterprise Reporting reports for the relevant cost objectives/subsources and re-calculated (current expenditures less current revenues) the draw amount to ensure that the draws and amounts recorded to GL3210 were correctly calculated.

Premium Draws (HCA Only)
Premium draws are based upon a calculation of 40% times the ProviderOne expenditures for the weekly payment cycle. These are made as-needed, but are typically drawn near the end of a month to cover managed care premium payments. We verified the ProviderOne expenditures via reports provided by CNSI agents (ProviderOne vendor) to HCA and recalculated the premium draw amounts.

Year-end Accrual (GL3205)
The year-end accrual in GL3205 is separately tested for **all** federal cost objectives/subsources. The GL3205 revenue is the credit side of the

recording to GL1351 (due from Federal Government receivable).
GL1351 at year-end was tested at:
HCA: HCA_YE Accrual
DSHS: DSHS_YE Accrual

In this workbook, we reviewed the YE accrual workbooks for GL1351 amounts in total and their supporting documents, including year-to-date enterprise reporting reports for revenues and expenditures of federal programs. Within the individual JV tabs, we recalculated the the revenue accrual (total expenditures disbursed/liquidated less total revenues received/accrued) and compared them in total to the amounts recorded to GL3205.

Testing Results:
Revenue draws (GL3210) were correctly calculated based upon expenditures and revenues for their given cost objectives/subsources. The year-end accrual/receivable from the federal government was correctly calculated based upon the total expenditures and revenues at year-end.
No issues noted.

Substantive tests performed to meet the Rights & Obligations assertion:
Testing Procedures:
Weekly and Payday (semi-monthly) draws:
We ran a query in Enterprise Reporting WEBi for the following query filters for both agencies and fiscal year 2023:

- GL Account = 6510
- Cost Objective = D%, N%, Q%, T%, and U%
- Cost Allocation Funding Type = "F"

We summarized the expenditures by Process Date and Cost Objective and compared the totals of each cost objective in the expenditure report to the recorded revenue draw amounts for (GL3210) and amounts for their corresponding subsources in the draw calculation workbooks*. This ensures that the current cash draws are based upon actual cash expenditures.

*Note: Draw calculation workbook amounts for subsources must exclude transaction codes 835. These transaction codes are associated with the liquidations of 1351 receivable amounts. The test is to ensure that the draws are based upon program expenditures (current disbursements/revenues). The 835 transactions are factored into the total draw amounts.

Premium draws (HCA only):
Premium draws are based upon a calculation of 40% times the ProviderOne expenditures for the weekly payment cycle. We verified the ProviderOne expenditures via reports provided by CNSI agents (ProviderOne vendor) to HCA and recalculated the premium draw amounts*.

*Note: The premium draw amounts must be considered for expenditures in cost objectives D2AA20/D3AA30 as the premium draws are made "early" against these subsources. The subsequent weekly draws after these premium draws are reduced by these "early" draws.

Testing Results:
Revenue draw amounts (GL3210) are correctly based upon actual cash expenditures (GL6510) for their respective subsources and cost objectives.

D.6.PRG - Education

Procedure Step: Summary & Conclusion
Prepared By: MEC, 10/17/2023
Reviewed By: SLB, 10/17/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
The results of substantive tests **do not** indicate a need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
The quality and quantity of evidence obtained **was** sufficient and appropriate.

D.6.PRG - Education

Procedure Step: Understanding of Line Item
Prepared By: MAT, 5/23/2023
Reviewed By: SLB, 10/17/2023

State of Washington

Record of Work Done:

(1) Prior Audit Exceptions:
We reviewed the prior audit and did not note any exceptions relevant to these line items.

(2) Composition & Change Analysis:
Line Item Leadsheet: [Line Item Lead Sheet].

- General Fund - Education
- Governmental Activities - Education - Elementary and Secondary (K-12) - Expenses

We rely on work performed at the fund level to substantiate at the government-wide level.

We gained an understanding of the composition of this ACFR line item through inquiry with OSPI staff and review of AFRS database reports (ER). See below:

- Object N comprised a majority of Education Expenditures. The significant expenditure streams for both balances are the apportionment payments made to all of the schools in Washington State.
- The OSPI Apportionment System is used for all apportionment expenditures.

We reviewed AFRS database reports (ER), budget documents, and the agency website. We did not identify any significant events or changes from last year that affect the line item or risks of misstatement.

(3) Updates to Material Account Matrix:
We identified no changes that need to be made to the Material Account Matrix.

D.6.PRG - Education

Procedure Step:	Controls - Apportionment
Prepared By:	MAT, 5/23/2023
Reviewed By:	SLB, 10/17/2023

Record of Work Done:

Material Balance(s) and Assertions

Internal controls in the Apportionment System address the following balance(s):

- Governmental Fund - Education
- Governmental Activities - Education - Elementary and Secondary (K-12) expenses

For the following assertions:

- Occurrence: The distribution amount did not occur.
- Completeness: The distribution amount was not reported in the proper period.

Gain an Understanding of Internal Controls

On May 10, 2023, we updated and confirmed our prior understanding of internal controls over apportionment with Amy Kollar, Director of Agency Financial Services, Amy Harris, Director of Federal Fiscal Policy and Grants Management, Rachel Patrick, Accounting Manager, Jeannie Walker, Accounts Payable Supervisor, and Lori Eckler, Fiscal Analyst.

Using the Senate Budgets and the Supplemental budgets, Washington State sets and updates the state appropriation for each fiscal year. The most recent budget, 2023 Supplemental Operating Budget, was passed April 23, 2023. OSPI uses a portion of the appropriation to provide funding ("apportionment") to the schools in Washington State.

How Apportionment is Calculated:

Apportionment amounts are determined by student enrollment and transportation. That enrollment data is submitted to OSPI from each school district with approval from their Educational Service District through the P223 system. Local education agencies (LEAs) complete forms P-223, P-223H, P-223S, or P-240 which includes data about their student enrollment. The enrollment data is then sent to Melissa Jarmon, Apportionment Payment Supervisor, to upload into the apportionment system. The apportionment system is a Education Data System (EDS) that compiles all of the data from the P-223, P-223H, P-223S, and P-240 forms. Transportation data is calculated through the Student Transportation Allocation Reporting System (STARS) with information provided from school districts.

The school year runs from September to August. From September to December, schools submit their estimated enrollment data to OSPI through form F-203 with approval from their Educational Service District. This data helps determine how much funding each school needs. Transportation funding will use last school year values until February when new data from STARS is available for the new school year. A true-up adjustment is made in January to reflect actual enrollment data. From January to the end of each school year, actual enrollment data is used to determine funding to the schools. Melissa enters the data from the district into the apportionment system.

How Apportionment is Paid:
Payments are made through the following methods:

- **Office of the State Treasurer (OST):** Payments made through OST are determined by subtracting the amount of the warrant payments from the total amount of apportionment for the month. Fiscal Office at OSPI notifies OST using a Disbursements Request memo how much apportionment is to be distributed for the month to various Country Treasurers and Colleges. Once OST disburses the funds on the last working day of the month, the agency will send OSPI the report, "DetailReport 721," to confirm the disbursement.
- **Warrants:** Payments made through warrants normally comprise less than 1% of the apportionment to be paid for Month 1. On the Form 1198, they are highlighted in yellow and include: DSHS, the tribal agencies, charter schools, School for the Blind, Suquamish Tribal Education Department, WA State Center for Childhood Deafness and Hearing Loss, and the Washington Military Department.

How transactions are recorded in AFRS:
Lori Eckler, Fiscal Analyst records the payments in AFRS using the Financial Toolbox to prepare two separate batch's: one for OST payments and one for warrants. A batch is prepared for the Accounts Payable Supervisor's review, which includes:

- Financial Toolbox screen shot - Confirms that the data was uploaded to AFRS
- Distribution of Funds by Source memo
- Form 1198
- Disbursements Request memo
- Detail Report 721

Before the batches are released in AFRS, the Accounts Payable Supervisor reviews the batches to ensure that the batch is supported by the documentation noted above. At the beginning of the month, Jeannie Walker performs a monthly reconciliation. She reviews the distribution memo from apportionment and the AFRS distribution to ensure that amounts are recognized in the proper period. She also reviews the Detail Report 721 from the Office of State treasurer and the STAT Detail report to AFRS distribution for the month to ensure that the amount in AFRS represent all expenditures for the month **(Key Control #1 - Manual, Occurrence, Completeness).**

Monthly Monitoring of Appropriation vs. Expenditures
To verify that expenditures do not exceed appropriations each month, the Director of Agency Financial Services runs and reviews Report AE03, Allotment Expenditure Status by Program. Every May, the Director will also use a spreadsheet to estimate June expenditures and total expenditures for the year to identify programs that have excess appropriation or are in shortfall **(Key Control #2 - Manual, Completeness).**

Key Controls are as Follows:

- **Key Control #1** - At the beginning of each month, Jeannie Walker, Accounts Payable Supervisor, performs a monthly reconciliation for the preceding month. She reviews the distribution memo from apportionment and the AFRS distribution to ensure that amounts are recognized in the proper period. She also reviews the report from the Office of the State Treasurer to AFRS distribution for the month to ensure that the amount in AFRS represents all expenditures for the month **(Manual - Occurrence, Completeness).**

- **Key Control #2** - Each month, the Director of Agency Financial Services, runs and reviews Report AE03, Allotment Expenditure Status by Program to verify that expenditures do not exceed appropriations. In May, she uses a spreadsheet to estimate June expenditures and total expenditures for the year to identify programs that have excess appropriation or are in shortfall **(Manual - Completeness)**.

Noted Weaknesses are as Follows:

- None

D.6.PRG - Education

Procedure Step:	Key Control #1 (Manual)
Prepared By:	MAT, 5/23/2023
Reviewed By:	SLB, 10/17/2023

Record of Work Done:

Education - Occurrence/Completeness

Key Control #1 - At the beginning of each month, Jeannie Walker, Accounts Payable Supervisor, performs a reconciliation for the preceding month. She reviews the distribution memo from apportionment and the AFRS distribution to ensure that amounts are recognized in the proper period. She also reviews the report from the Office of the State Treasurer to AFRS distribution for the month to ensure that the amount in AFRS represents all monthly expenditures for the apportionment system.

The understanding for this system is documented above in the "Controls - Apportionment" step [Controls - Apportionment].

1. Confirmation of Key Manual Control:

To confirm this key control, we performed a walkthrough with Jeannie Walker, Accounts Payable Supervisor, on May 15, 2023 at the OSPI apportionment office. We reviewed the reconciliation spreadsheet and JV packet for March 2023. The total amount of distributions was $1,415,339,193. The total amount of school apportionment was $1,405,285,225 and apportionment paid out as warrants was $9,897,560. OSPI received a refund from the Washington State Charter School Commission (WSCSC) for $156,409 from unused apportionment from Willow Public School. We verified that the total in the Distribution of Funds by Source memo matched the amount in AFRS. ***No issues noted.***

Noted Weaknesses are as follows:

- None

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

D.6.PRG - Education

Procedure Step: Key Control #2 (Manual)
Prepared By: MEC, 9/5/2023
Reviewed By: SLB, 10/17/2023

Record of Work Done:

Education - Completeness
Key Control #2 - Each month, the Director of Agency Financial Services, runs and reviews Report AE03, Allotment Expenditure Status by Program to verify that expenditures do not exceed appropriations. In May, a spreadsheet is used to estimate expenditures for both June and the total year to identify programs with excess appropriation or are in shortfall for the Apportionment System.

The understanding for this system is documented above in the "Controls - Apportionment" step. [Controls - Apportionment]

1. Confirmation of Key Manual Control:
Monthly & Year End Monitoring Activities:
Amy Kollar, Director of Agency Financial Services, provided the February 2023 Report AE03 for our review on May 15, 2023 at OSPI. We noted tick marks on each of the items in the report, showing her review. Amy performed a walk through of the GL01 report, which showed the period activity of $10,996,297,323 and ending balance of $923,339,870. Expenditures did not exceed appropriations for any programs.

For year end, we received the "2022-2023 Reconcile Apportionment" spreadsheet, which included the AFRS GL Analysis YTD tab used to estimate June expenditures. The spreadsheet report showed each Expenditure Authority, the appropriation amount and year to date expenditures by transcode through the month of May for GL 6505 and GL 6510, subobject NZ in General Fund 001 by fiscal month for agency 3500- Supt of Public Instruction. There was a tab "251" which listed the first fiscal year of the biennium's expenditure totals by month and compared them with the amounts from the previous year's AFRS GL analysis report, and another tab "252" which listed and summarized the second fiscal year of the biennium's expenditure totals by month and compared them with the AFRS GL analysis report.

There was also a tab for each month of FY23 to reconcile Apportionments and AFRS that included a list of warrants and a list of journal entries. Additionally, there were tabs titled "Melissa Codes" for July 2022 through June 2023 showing Journal Adjustments to specific expenditure authority accounts. There were columns for each month of FY23 showing the expenditure totals by month that were totaled in column W: " YTD Total". These totals were compared with AFRS totals in column Z to indicate where corrections might be needed to adjust specific accounts so as not to expend more than what was appropriated for each account. Where there were differences noted, there were notes indicating a journal entry was needed or to indicate what journal entry was made to correct the account. Additionally, there were tabs with details of the specific journal entries and various enterprise reports for expense ledgers in fund 001, subobject NZ.

We verified that OSPI is thoroughly monitoring expenditures against appropriation amounts and making adjustments as necessary to ensure that no budgeted allocations in the general fund are overspent. ***No issues noted.***

Noted Weaknesses are as follows:

- None

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW – Test General Controls:

Not applicable - we are not planning to rely on automated controls and therefore do not need to test general controls; control risk will be assessed at maximum.

D.6.PRG - Education

Procedure Step: Risk Assessment

State of Washington

Prepared By: MEC, 9/5/2023
Reviewed By: SLB, 10/17/2023

Record of Work Done:

(1) Inherent Risk (IR):
Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

- Occurrence – **LOW**
- Completeness - **LOW**

(2) Control Risk (CR):
We assessed control risk as follows for each system and relevant assertion:

- **Apportionment** – Occurrence, Completeness

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

- Occurrence - **MAX**
- Completeness – **MAX**

(4) Testing Strategy:
We designed our substantive testing strategy based on our assessment of the risk of material misstatement.

For **Occurrence**: We will verify that the amounts paid out to each school district through the Office of the State Treasurer (OST) represent real obligations incurred during the period and were supported by documentation, including form Report 1198 and a letter to OST. We will reconcile the "Grand Total" from the OST Distribution Detail 721 Report to the "Statewide Total" on the OSPI reports (Form 1198, apportionment memo and letter to OST) and review the apportionment memo, reconciliation worksheet, and other documentation to determine the amount of apportionment expenditures that occurred in FY23.

For **Completeness**: We will review the monthly reconciliations between OST's FY23 distributed amounts to the amount reported in AFRS to determine whether all expenditures incurred during the period were reported.

Additionally, we will review the agency's monitoring of expenditures and appropriations to determine if expenditures exceeded allocations at fiscal year end.

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

D.6.PRG - Education

Procedure Step:	Substantive Test
Prepared By:	MEC, 9/18/2023
Reviewed By:	SLB, 10/17/2023

Record of Work Done:

Substantive tests performed to meet the Occurrence assertion:
During our understanding of controls, we identified that some appropriations were paid out to schools using warrants. However, since warrants comprise less than 1% of the total appropriation that is paid out to schools each month, we focused our testing on state appropriations that were paid through the Office of the State Treasurer (OST) for each month in FY23 as object "N". We verified that the amounts paid out to each school district through OST was supported by monthly documentation including Form 721, Form 1198 and a letter/memo to OST. ***No issues noted.***

See Testing at [OSPI Testing]

The total apportionment for FY23 compiled through monthly form 1198 was $16,195,229,458. We identified that this was 97% of the total for object "N" from our AFRS query documented in the lead sheet [Line Item Lead Sheet]. $122,029,340 or .75% of this was paid out in warrants to agencies not on the OST report 721 which is documented in column "E" on the testing spreadsheet.

To reconcile the "Grand Total" from the OST Distribution Detail 721 Report to the "Statewide Total" on the OSPI reports (Form 1198, apportionment memo and letter to OST) for the months from July 2022 to June 2023, we subtracted the total amount paid to entities through warrants (Column E). The transfer of funds to the state agencies, tribes, and charter schools are paid through warrants, so they are not included on the OST reports. We reviewed the apportionment memo, reconciliation worksheet, and other documentation to determine the amount of apportionment expenditures that occurred in FY23. We found that some apportionment distributions in FY23 were made for expenditures in FY22 (Column F). Old year expenditures were noted on the monthly reconciliation as "OY" for old year and were not included in FY23 expenditures per AFRS. We also determined that these were entered as transcode 808 rather than 208. ***No issues noted.***

Substantive tests performed to meet the Completeness assertion:
To determine whether all expenditures incurred during the period were reported, we reviewed the monthly reconciliation between OST's FY23 apportionment distributed amounts to the amount reported in AFRS. Jeannie Walker, Financial Analyst 4, provided us with the AFRS Distribution JV and Detail Transaction Log for each month to show that all amounts for the year were entered into AFRS. The total AFRS distribution JV's totaled $16,073,200,188.20, which tied to the detail reports from OST. Jeannie provided us a 6510 report for fund 001, Object N that broke down all of the apportionment expenditures by fiscal month and transcode. These transactions were identifiable by the "RE" date-AP" entered in the doc number field. The total of these expenditures was $15,911,983,601.81. The variance was $161,216,517.39 which we tied with a small variance (below the floor) of $2,867 to the apportionment distributions for FY22 that were made in July and august of FY23.

We inquired with Jeannie about the total of our AFRS query for OSPI object "N" expenses as we expected it might tie to the apportionment total, and she let us know that there are other "N" expenses related to grants that are not part of the apportionment that also hit GLs 6510 & 6505. This difference amounted to approximately 480 million, however total apportionment amounted to 97% of object "N" expenses reported in AFRS for OSPI general fund expenditures, which we determined to be an acceptable portion the population for our completeness testing.
No issues noted.

We also reviewed the enterprise expenditure report through the FY2 adjustment period and the Washington state appropriation schedule for the biennium which contained expenditures by fiscal year to confirm that FY23 Fund 001 OSPI expenditures provided by the client on their reconciliation did not exceed the general fund appropriations. See "Appropriation" Tab on the Testing Spreadsheet at [OSPI_Testing].

We identified that the client was tracking monthly expenditures for some expenditure authority codes, so we ran the Allotment Expenditure BTD by Agency/Organization Index and an Appropriations vs Actuals report for fund 001 from enterprise reporting to verify that fund 001 expenditure authority codes were not overspent. The expenditure authority expenditures & appropriations being tracked on the reconciliation we were provided comprised 86% of the total expenditures for fund 001 appropriations on the ER reports. We determined that OPSI is monitoring expenditures against allotments to ensure that program expenditures do not exceed appropriations. ***No issues noted.***

D.7.PRG - Due From Other Governments

State of Washington

Procedure Step: Summary & Conclusion
Prepared By: CJL, 10/18/2023
Reviewed By: SLB, 10/18/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
The results of substantive tests do not indicate a need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
The quality and quantity of evidence obtained was sufficient and appropriate.

D.7.PRG - Due From Other Governments

Procedure Step: Understanding of Line Item
Prepared By: CJL, 6/28/2023
Reviewed By: SLB, 10/18/2023

Record of Work Done:

(1) Prior Audit Exceptions:
We did not identify any exceptions to this line item in the prior audit.

(2) Composition & Change Analysis:
Line Item Leadsheet: [Line Item Lead Sheet].
Note: We rely on work performed at the fund level to substantiate at the government-wide level.
Significant Changes
We inquired with:

- **HCA:** Laura Roberts, Federal Claims Supervisor, and Jill Arlow, Deputy Section Manager (Federal Financial Reporting Section). Both confirmed that the process for the liquidations of receivables (during federal drawdowns) and the hard accrual recording process has not significantly changed.
- **DSHS:** Gwendolyn Dain, Program Services Manager, and Christie Johnson, Administrative Services Manager. Both confirmed that the liquidation process and the year-end accrual process has not significantly changed.

We ran an interim report [Line Item Lead Sheet] based upon our experience for prior GL roll-ups into the Due from Other Governments line:
- GL 1359: Due from Component Units
- GL 1351: Due from Federal Government
- GL 1352: Due from Other Governments

Two entities, the Health Care Authority (HCA - 107), and the Department of Social and Health Services (DSHS - 300) were identified as being the primary components of this line item balance. The portion of these agencies attributable to the line item is $679,660,546 of the total $632,522,256. Of this portion, **$475,954,902** was attributed to HCA, 75.3% of the total balance. The DSHS portion was **$203,705,644** which is 32.2% of the total balance. The remaining agencies were not material in comparison.

The balance for both agencies is primarily driven by GL1351, due from federal government. This is in line with our prior understandings as these agencies administer various human services, with the largest being Medicaid. These programs are on a cost reimbursement basis. During the year, the agencies must incur and pay the cost of eligible expenditures before drawing down the revenue reimbursement from the federal government. At year end, eligible expenditures incurred, but not paid for result in a receivable amount due from the federal government. This is recorded with a series of JVs up until the Phase II close in order to obtain the most current and accurate amount to record to the receivable line. Throughout the subsequent fiscal year, this beginning balance is adjusted with standard drawdowns as the receivables are liquidated or adjusted due to the prior period expenditures.

(3) Updates to Material Account Matrix:
No updates to the Material Account Matrix are necessary. Material agencies and GL accounts are within expected results for interim values.

D.7.PRG - Due From Other Governments

Procedure Step:	Controls - Year-End Accrual and Liquidations (HCA)
Prepared By:	CJL, 6/26/2023
Reviewed By:	SLB, 10/18/2023

Record of Work Done:

Material Balance(s) and Assertions

Internal controls in the Receivable Accrual and Subsequent Liquidations address the following balance(s):

- **Due from Other Governments -** Amounts due from the Federal Government to reimburse program expenditures made by the state.

For the following assertions:

- **Existence -** Amounts due from the Federal Government to reimburse program expenditures are supported by amounts actually paid during the period and the underlying program expenditures.
- **Valuation** - Amounts due from the Federal Government to reimburse program expenditures have been calculated correctly.

Gain an Understanding of Internal Controls

We met with the following:

- Rita Homan, Deputy Section Accounting Manager
- Cheri Wright, Medicaid Accounting Manager
- Terenna Eggbroten, Fiscal Analyst 4
- Laura Roberts, Federal Claims Supervisor

General Information

All federal expenditures are recorded to cost objectives specific to the federal funding source. When a federal cost objective is established in AFRS, a corresponding federal revenue source is established and associated with the cost objective. Enterprise Reporting uses this structure to produce a report specifically developed to compare the level of federal expenditures for a period to the federal revenue source associated with those expenditures, and calculates the amount to be accrued. This process ensures federal expenditures for the period match the level of federal revenue posted for the same period. The variance column represents total expenditures less total revenues and would be the amount of additional accrued revenue that would be required to be posted to adjust GL1351. An analysis is then performed by the Fiscal Analyst to ensure that the revenue accrual is accurately calculated and based on final expenditures that are recorded and submitted for reimbursement.

Monthly Accruals

The accrual process is performed monthly through a series of JVs that are processed for the regularly scheduled draws. The monthly revenue accruals are booked with XX batches. The process for calculating the monthly receivable begins by running a "Revenue Accrual Calculation" report by Program/Fund/MajorSource/SubSource. The program query criteria will depend on the program for which the accrual is being done, e.g. program 200 would be Medicaid, and the remaining criteria would include General Fund 001, and Major Group 03 (federal revenue). The report details federal disbursements, federal accruals, total expenditures, cash receipts, revenue accruals, total revenue and variance by major source (federal agency) and sub source (cost objective).

These JVs are MAJVs and are automatically reversed the next fiscal month under XY batches and primarily serve for information and reporting purposes; since the the monthly accruals are automatically reversed, they do not impact the final line amount at the end of the year.

Year End (Hard Accrual)
At year-end, the revenue is accrued using a regular JV batch. This establishes an actual accrual for the fiscal year close. This accrual will be liquidated in the following year as prior period revenue is received.

The first year-end JV is completed using a main JV number as a JV batch to differentiate from the other XH batches. All subsequent JV's will use the same main JV number with a suffix from the beginning of the alphabets to tie all the year-end JVs together. The JV process is the same as for all subsequent accruals in which a template is set up and the final expenditure and revenue reports are run to determine the final accrual to be posted **(Key Control #1 - Existence/Valuation - Year-end accrual amount is based upon final expenditure and revenue reports)**. This accrual process occurs repeatedly during FMs 12-99 and 24-25 in order to obtain the most accurate and current expenditure/revenue amounts for the accrual calculation. A fiscal analyst analyzes the final year-end expenditures, revenue, and revenue draws to calculate the final revenue accrual to record the Due from Federal Governments amount.

How Transactions are Recorded in AFRS (YE Accrual):
Transactions are recorded in AFRS using the JV process that is performed by the Fiscal Analyst during the calculation of the revenue accrual noted above. The workbook will provide the coding details for the transaction that will be needed to record the transaction in AFRS. The Fiscal Analyst will log into AFRS and check the KF batch for errors. If there are no errors, the batch is then released in AFRS and a screen print of the AFRS release screen is saved to the "Upload and Release" tab of the JV workbook. If there are errors, the Fiscal Analyst will then research the JV to identify the error before making a correction and resubmitting it to the Assistant Accounting Manager for re-approval; this process occurs for every accrual run during the close **(Key Control #2 - Year-end accrual reviews and approvals)**

Adjustments to the GL1351 Amount (prior periods)
The "hard coded" revenue accruals from the prior period are adjusted as the expenditures and revenues are liquidated throughout the subsequent fiscal year; these expenditure/revenue liquidations are identified through MOS and Fiscal Year fields in the determination of current vs prior period transactions. This occurs during standard federal draw downs and the recording process as summarized in the Federal Grants in Aid understanding [Controls - Federal draw downs (HCA)]. The revenue adjustment associated with liquidations are recorded with TC 835 to adjust the GL1351 recorded amount. **(Key Control #3 - Valuation - Adjustments to prior period year-end accruals are based upon expenditure and revenue liquidations in the current period).**

Key Controls are as Follows:

- **Key Control #1 - Valuation/Existence - The year-end hard revenue accrual/receivable recording is prepared and calculated using year-end expenditure and revenue amounts for programs.**

- **Key Control #2 - Valuation/Existence - The year-end revenue accrual/receivable recording is reviewed at each subsequent rerun by the Assistant Accounting Manager to ensure the correct amounts are posted and for the correct revenue subsources.**
  - **Key Control #3 - Valuation - During the Federal Grants in Aid draw down process, adjustments to the prior period's revenue accrual are based upon expenditure and revenue liquidations.**

Noted Weaknesses are as Follows:
None

D.7.PRG - Due From Other Governments

Procedure Step: Key Control #1 and #2 (Manual) - Calculation and Review of YE Accrual
Prepared By: CJL, 10/5/2023
Reviewed By: SLB, 10/18/2023

Record of Work Done:

Due From Other Governments - Valuation and Existence
Key Control #1 - The year-end hard revenue accrual/receivable recording is prepared and calculated using year-end expenditure and revenue amounts for programs.
Key Control #2 - The year-end revenue accrual/receivable recording is reviewed at each subsequent rerun by the Assistant Accounting Manager to ensure the correct amounts are posted and for the correct revenue subsources.

The understanding for this system is documented above in the "Controls - Year-End Accrual and Liquidations (HCA)" step.

1. Confirmation of Key Manual Control:
We reviewed the series of year-end JVs for the federal revenue accrual process to determine whether the federal revenue accruals (receivable side):

- Existed at year end, i.e. were based upon actual program receipts and liquidations of expenditures and revenues, and
- were reported at correct values, i.e. correctly calculated based upon the program expenditures and revenues. The details of testing is documented at [Substantive Test].

We reviewed [HCA_YE Accrual] the following JV documents:

- MAJV7003, 7/17/23
- MAJV7003-AA, 7/31/23
- MAJV7003-BB, 8/17/23
- MAJV7003-CC, 8/30/23
- MAJV7003-DD, 8/31/23
- MAJV7003-EE, 9/1/23

and their supporting documentation, including Enterprise Reporting revenue/expenditures reports **(KC1)** and additional correspondence related to the JVs and recalculated the revenue accruals and compared them to recorded accruals (and corresponding receivable) with **no issues noted.** The criteria for each run of the ER reports were adequate to capture all federal revenues and expenditures for the agency and time frames; additionally, for the Coronavirus State Fiscal Recovery Funds (CSFRF), the agency specifically excluded this revenue accrual as the revenues are held by OFM. **No issues noted.**

We documented the preparer/submitter (FA4) and approver/releaser (FA5 initially, with Cheri Wright, Medicaid Reporting Manager, reviewing and approving the latter sets of JVs) of the JVs and noted that there was evidence of review of the revenue subsources and calculations based upon the JV tabs. The preparer/submitter and approver/releasers were separate individuals **(KC2). No issues noted.**

Noted Weaknesses are as follows:
None

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

D.7.PRG - Due From Other Governments

Procedure Step: Key Control #3 (Manual) - Accrual/Receivable Liquidations

Prepared By: CJL, 6/26/2023

State of Washington

Reviewed By: SLB, 10/18/2023

Record of Work Done:

Due From Other Governments - Valuation and Existence

Key Control #3 - Valuation - During the Federal Grants in Aid draw down process, adjustments to the prior period's revenue accrual are based upon expenditure and revenue liquidations.

The understanding for this system is documented above in the "Controls - Year-End Accrual and Liquidations (HCA)" step.

1. Confirmation of Key Manual Control:

We reviewed current document FA0191 for the T19 Medicaid and T19 COVID 3/27/23 weekly draw down revenue recording. The draw reconciliation was performed by Mary Anderson, FA5. Included in the workbook were the two enterprise reporting reports used to calculate the draw amount. Relevant report criteria included:

- Expenditure report
    - Begin fiscal month - 04-Oct FY1
    - End: Current (report run on 3/27/23, March FY2)
    - Cost objective: T3*,D3*,N3*,Q3*,[T33C*,D33C*,N33C*,Q33C*]
    - Cost allocation type: F
    - Expenditure content: Cash
    - Expenditure liquidation Content: All liquidations
- Revenue report
    - Same begin/end fiscal month
    - Major source: 03
    - Source: 03/93
    - Subsource: 03/93/D3*,03/93/T3*,03/93/N3*,03/93/Q3*,[03/93/D33C*,03/93/T33C*,03/93/N33C*,03/93/Q33C*]
    - Revenue content: Cash
    - Revenue liquidation content: Yes

Cost objectives (Expenditures), as summarized:

- T***:
    - Disbursements: $2,203,015,300.78
    - Liquidations: $(131,602,547.19)
- D***:

  - Disbursements: $1,728,013,657.56
  - Liquidations: $(59,566,422.40)
- N***: No activity
- Q***:
  - Disbursements: $0.00
  - Liquidations: $(18,203.11)

Revenue sub-sources (Revenues), as summarized:
- T***:
  - Cash Receipts: $2,184,020,775.78
  - Liquidations: $(132,352,597.70)
- D***:
  - Cash Receipts: $1,692,888,633.84
  - Liquidations: $(61,231,213.03)
- N***: No activity
- Q***:
  - Cash Receipts: $0.00
  - Liquidations: $(18,203.11)

Totals:
Current Disbursements: $3,931,028,958.34
Current Receipts: $3,876,909,409.62
Liquidations (Net): $2,414,841.14
Draw amount: $56,534,389.89

This total draw of $56,534,389.89 appeared (E-mail tab within the draw workbook) as the HCA portion of the total draw (draws include amounts from DSHS and DCYF as the Medicaid grant is administered through HCA) for PMS Subaccount XIX-MAP23. The reports were submitted by Mary Anderson to Laura Roberts on 3/27/23 at 8:56 AM and approved by Laura at 9:06 AM for the draw amount.

As the liquidations were related to the prior period, the revenue recording workbook used TC835 for the net expenditure and revenue liquidations for the relevant subresource to adjust the accrual in GL1351. This was verified in the A8-A report with the:
- D* transactions totaling $1,664,790.63 (as calculated by the revenue/expenditure report)
- T* transactions totaling $750,050.51 (as calculated by the revenue/expenditure report).

Total liquidation of the receivable: $2,414,841.14
No issues noted.

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

D.7.PRG - Due From Other Governments

Procedure Step: Controls - Year-End Accrual and Liquidations (DSHS)
Prepared By: CJL, 6/26/2023
Reviewed By: SLB, 10/18/2023

Record of Work Done:

Material Balance(s) and Assertions
Internal controls in the Receivable Accrual and Subsequent Liquidations address the following balance(s):

- **Due from Other Governments -** Amounts due from the Federal Government to reimburse program expenditures made by the state.

For the following assertions:

- **Existence -** Amounts due from the Federal Government to reimburse program expenditures are supported by amounts actually paid during the period and the underlying program expenditures.
- **Valuation** - Amounts due from the Federal Government to reimburse program expenditures have been calculated correctly.

Gain an Understanding of Internal Controls
We met with the following:

- Christine Johnson, Administrative Services Manager
- Gwendolyn Dain, Program Services Manager

- Debra Trickler, ESA
- Julia Mosier, Office Chief (DDA/ALTSA)
- Rick Meyer, External Audit Liaison

The Office of Accounting Services (OAS) prepares revenue accruals monthly and at fiscal year-end. For both instances, the formula for determining the revenue accrual is:
Cash expenditures + Accrued Expenditures - Cash Revenue - Existing Accrued Revenue = Revenue to be accrued.

Monthly Revenue Accrual
At fiscal month close, the Fiscal Analyst preparing the monthly accrual will run an Enterprise Reporting report "Revenue Accrual Calculation by Program/Account/Major Source/Source/Subsource." Relevant criteria includes:

- Agency: 300
- Fiscal Month: 1-11 or 13-23
- Account: 001
- Program: [080,850]
- Major Source: 03
- Source: 03/*
- Subsource: [03/16/523**,03/93/T19TR0,03/93/596***,03/21/019V**,03/93/498**,03/99/APPTRN]

The above subsources are excluded for varying reasons including: own funding, expenditures not tied to specific grant, etc.
This reports captures year-to-date expenditures, revenues, and liquidations for the relevant grant programs for the agency and is the basis for the monthly accrual calculations.

OAS has a monthly accrual JV log for preparers to fill information such as the JV number, date, and prepared by. The monthly accruals are prepared using XS batches, which automatically reverse using an XY batch upon subsequent monthly accruals, i.e. the monthly accruals do not impact the final Due from Other Governments line item.

The Fiscal Analyst will load the Enterprise Reporting report into the accrual workbook with minor formatting to create the toolbox for AFRS upload; the transactions use TC 051 (dr 1351, cr 3205) by subresource code for the accrual. The log is then updated with the JV hash amounts and submitted, the Program/Administrative Manager will review the batch for accuracy/calculations and approve it for release.

Year-End Accrual
The year-end hard accrual is prepared in a similar manner as the monthly accruals in that the calculation is still the same:
Cash expenditures + Accrued Expenditures - Cash Revenue - Existing Accrued Revenue = Revenue to be accrued.

The year-end accrual is processed for fiscal months 12-99 and 24-25 and uses KH Batch types for recording. The procedures are performed at the below intervals:

- FM12 & FM24 - On the last working day of fiscal month
- FM99 & FM25 - On the last working day of Phase 1 for fiscal month
- FM99 & FM25 - Weekly; each Friday between Phase 1 (P1) close and Phase 1B (P1B) cutoff
- FM99 & FM25 – Daily; between Phase 1B (P1B) through Phase 2 (P2) close

The fiscal analyst will run the following report:

- Agency: 300
- Fiscal Month: 12 (or 12A, 24, 24A)
- Account: 001
- Program: [080,850]
- Major Source: 03
- Source: 03/*
- Subsource: [03/16/523**,03/93/T19TR0,03/93/596***,03/21/019V**,03/93/498**,03/99/APPTRN]

The above subsources are excluded for varying reasons including: own funding, expenditures not tied to specific grant, etc.
This reports captures year-to-date expenditures, revenues, and liquidations for the relevant grant programs for the agency and is the basis for the accrual calculation. **(Key Control #1 - Year-end accrual calculations - Valuation/Existence)**

Each subsequent run of the year-end accrual JV calculation to adjust (FM99/25) the original FM12/24 accrual will append a batch suffix AA, BB, CC, and so on to the JV.
The Fiscal Analyst will load the Enterprise Reporting report into the accrual workbook with minor formatting to create the toolbox for AFRS upload; the transactions (TC051) are by subresource code for each program, and the year-end log is then updated with the JV hash amounts and submitted. The Program/Administrative Manager will review the each of the accrual batches for verification of revenue subsources and calculation amounts and approve it for release.

How Transactions are Recorded in AFRS (YE Accrual):
Transactions are recorded in AFRS using the JV process that is performed by the Fiscal Analyst during the calculation of the revenue accrual note above. The workbook will provide the coding details for the transaction that will be needed to record the transaction in AFRS. The Fiscal Analyst will log into AFRS and check the batch for errors. If there are no errors, the batch is then released in AFRS and a screen print of the AFRS release screen is saved to the "Upload and Release" tab of the JV workbook. If there are errors, the Fiscal Analyst will then research the JV to identify the error before making a correction and resubmitting it to the Program/Administrative Manager for re-approval. **(Key Control #2 - Year-end accrual review and approval - Valuation/Existence)**

Adjustments to the GL1351 Amount (prior periods)
The "hard coded" revenue accruals from the prior period are adjusted as the expenditures and revenues are liquidated throughout the subsequent fiscal year; these expenditure/revenue liquidations are identified through MOS and Fiscal Year fields in the determination of current vs prior period transactions. This occurs during standard federal draw downs and their recording process as summarized in the Federal Grants in Aid understanding [Controls - Federal draw downs (DSHS)]. The revenue adjustment associated with liquidations are recorded with TC835 or TC835(R) to adjust the GL1351 recorded amount. **(Key Control #3 - Prior period year-end accrual adjustments - Valuation)**

Key Controls are as Follows:

- **Key Control #1 - Valuation/Existence - The year-end hard revenue accrual/receivable recording is prepared and calculated using year-end expenditure and revenue amounts for programs.**
- **Key Control #2 - Valuation/Existence - The year-end revenue accrual/receivable recording is reviewed at each subsequent rerun by the Administrative/Program Manager to ensure the correct amounts are posted and for the correct revenue subsources.**
    - **Key Control #3 - Valuation - During the Federal Grants in Aid draw down process, adjustments to the prior period's revenue accrual are based upon expenditure and revenue liquidations.**

Noted Weaknesses are as Follows:
None

D.7.PRG - Due From Other Governments

Procedure Step:	Key Control #1 and #2 (Manual) - Calculation and Review of YE Accrual
Prepared By:	CJL, 10/10/2023
Reviewed By:	SLB, 10/18/2023

Record of Work Done:

Due From Other Governments - Valuation and Existence
Key Control #1 - The year-end hard revenue accrual/receivable recording is prepared and calculated using year-end expenditure and revenue amounts for programs.
Key Control #2 - The year-end revenue accrual/receivable recording is reviewed at each subsequent rerun by the Administrative/Program

Manager to ensure the correct amounts are posted and for the correct revenue subsources.

The understanding for this system is documented above in the "Controls - Year-End Accrual and Liquidations (DSHS)" step.

1. Confirmation of Key Manual Control:

We reviewed the series of year-end JVs for the federal revenue accrual process to determine whether the federal revenue accruals (receivable side):

- Existed at year end, i.e. were based upon actual program receipts and liquidations of expenditures and revenues, and
- were reported at correct values, i.e. correctly calculated based upon the program expenditures and revenues. The details of testing is documented at [Substantive Test].

DSHS processed a total of 17 year-end JVs (JVKH0029, base through suffix PP) from 7/14/2023 through 8/30/2023 to post their year-end receivable. We reviewed each run of the year-end accrual [DSHS YE Accrual] and their supporting documentation include Enterprise Reporting revenue/expenditure reports **(KC1)** and additional correspondence and recalculated the revenue accruals and compared them to recorded accruals with no issues noted. The criteria for the ER reports were adequate to capture all federal revenues and expenditures for the agency and time frames. **No issues noted.**

We documented the preparer/submitter/releaser (Sumanpreet Kaur, FA3) and approver (Gwendolyn Dain, Program Services Manager, and Christie Johnson, Administrative Services Manager) of the JVs and noted that there was evidence of review of the revenue subsources and calculations based upon the JV tabs. The preparer/submitter/releaser and approver were separate individuals **(KC2). No issues noted.**

Noted Weaknesses are as follows:

None

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

D.7.PRG - Due From Other Governments

State of Washington

Procedure Step: Key Control #3 (Manual) - Accrual/Receivable Liquidations

Prepared By: CJL, 6/26/2023

Reviewed By: SLB, 10/18/2023

Record of Work Done:

Due From Other Governments - Valuation and Existence

Key Control #3 - Valuation - During the Federal Grants in Aid draw down process, adjustments to the prior period's revenue accrual are based upon expenditure and revenue liquidations.

The understanding for this system is documented above in the "Controls - Year-End Accrual and Liquidations (DSHS)" step.

1. Confirmation of Key Manual Control:

We reviewed current document FA0124 (batch KX 443) for the T19 Medicaid 9/6/22 draw down revenue recording (cost objectives/revenue sources D2* - Regular T19 and T2* Generally T19 waivers and other expansions (Newly Eligible). Included in the draw workbook was the draw report, prepared by Raveena Mangat, Senior Financial Coordinator, sent to HCA for DSHS's portion of the weekly draw which contained (in summary, based upon draw calculations (Current) Expenditures - (Current) Revenues - Net Liquidations) for AFRS transaction dates 8/29/22 - 9/6/22:

D2*
Net current = $41,765,571.44
Net liquidations = **$1,623,649.59**
Net draw = $43,389,221.03

T2*
Net current = $1,759,402.21
Net liquidations = **$(7,749.26)**
Net draw = $1,751,652.95

As the liquidations were related to the prior period, the revenue recording workbook (Batch KX 443) used TC835 for the net expenditure and revenue liquidations for the relevant subresource to adjust the accrual in GL1351. The total amount for TC835 matched the draw calculations for the relevant cost objectives/subsource. This was verified in the "KX443" tab (AFRS upload transactions) with following as calculated by the

revenue/expenditure reports and the GMS draw calculations:
D2* transactions totaling **$1,623,649.59**
T2* transactions totaling **$(7,749.26)**

The revenue recording workbook was prepared/submitted by Fnu Neha, and approved by Gwendolyn Dain.
No issues noted.

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

D.7.PRG - Due From Other Governments

Procedure Step: Risk Assessment
Prepared By: CJL, 6/26/2023
Reviewed By: SLB, 10/18/2023

Record of Work Done:

(1) Inherent Risk (IR):
Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

- Year-End Accruals – Existence and Valuation: **LOW**
- Accrual/Receivable Liquidations - Valuation: **LOW**

(2) Control Risk (CR):
We assessed control risk as follows for each system and relevant assertion:

- **Year-End Accruals** – Existence and Valuation
- **Accrual/Receivable Liquidations** - Valuation

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

- **Year-End Accruals** – Existence and Valuation: **MOD**
- **Accrual/Receivable Liquidations -** Valuation: **MOD**

(4) Testing Strategy:
We designed our substantive testing strategy based on our assessment of the risk of material misstatement.

- DSHS/HCA -
    - Adjustments to Receivable balances - We plan to sample draw-down workbooks from HCA and DSHS and review backup documentation including enterprise reporting reports to determine whether the adjustments to the receivable amounts were properly valued based upon actual revenues and expenditures **(Valuation).**
    - Year-end accrual - We plan to review all related year-end accrual JVs and their backup documentation including enterprise reporting reports to determine whether the final accrual is properly valued based upon actual revenues and expenditures **(Existence and Valuation).**

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

D.7.PRG - Due From Other Governments

Procedure Step:	Substantive Test
Prepared By:	CJL, 10/18/2023
Reviewed By:	SLB, 10/18/2023

State of Washington

Record of Work Done:

<u>Population Reconciliation Procedures for the Due from Other Governments Line Item</u> <u>JV Population Reconciliation</u>
We ran queries from the ACFR database for the material balances (Rollup fund FAA and GL Sort Code CG) for HCA and DSHS.

We ran queries in Enterprise Reporting Web Intelligence which were filtered to match the results of the ACFR database to obtain transaction level detail for sampling. We reconciled the amounts by GL to the ACFR query with **no variances noted.** As the total population of the Webi queries' Due from Receivables reconciled to the ACFR database, we consider the transaction data to be complete.

Sample Frame
For both agencies, GL1351 (Due from Federal Government) composed the significant percentage of receivable amounts in the line item at year-end (90.3% for HCA and 86.9% for DSHS). Based upon this information, we elected to test only from this GL account. This is in line with our assumptions as these agencies participate in federal reimbursable programs (Medicaid primarily).

Per our understandings and testing strategy, we split the transactions into:
1. Adjustments to the GL1351 balance during FY23, and
2. The year-end accruals, identified by:
   a. M25/Reference Doc ACRL2306 for HCA, and
   b. Batch type KH for DSHS (batches in FM24 and 25)

<u>Substantive tests performed to meet the Existence / Occurrence assertion</u>
<u>Testing Procedures:</u>
Review all related year-end accrual JVs and their backup documentation including enterprise reporting reports to determine whether the final accrual is properly valued based upon actual revenues and expenditures.
HCA: <u>HCA_YE Accrual</u>
DSHS: <u>DSHS_YE Accrual</u>

We reviewed the year-end accrual JVs and the backup documentation including Enterprise Reporting reports (Revenue Accrual Calculation by Program/Account/Major Source/Source/Subsource) and e-mail correspondence. For each run of the year-end accrual, we recalculated the revenue accrual based upon subsource and compared them to recorded amounts ensure that a year-end receivable actually existed (expenditures exceeded revenues).

<u>Testing Results:</u>
Year-end accrued federal revenues and the federal receivable actually existed as of year-end as the expenditures exceeded revenues for relevant

subsources. **No issues noted.**

No issues noted.

<u>Substantive tests performed to meet the Valuation assertion:</u>
Year-End Accrual
<u>Testing Procedures:</u>
Review all related year-end accrual JVs and their backup documentation including enterprise reporting reports to determine whether the final accrual is properly valued based upon actual revenues and expenditures
HCA: <u>HCA_YE Accrual</u>
DSHS: <u>DSHS_YE Accrual</u>

We reviewed the year-end accrual JVs and the backup documentation including Enterprise Reporting reports (Revenue Accrual Calculation by Program/Account/Major Source/Source/Subsource) and e-mail correspondence. For each run of the year-end accrual, we recalculated the revenue accrual based upon subsource and compared them to recorded amounts to ensure that a year-end receivable was correctly valued.

<u>Testing Results:</u>
Year-end accrued federal revenues and the federal receivable was correctly calculated based upon FY expenditures and revenues for relevant subsources. **No issues noted.**

Adjustments to Receivables
<u>Testing Procedures:</u>
We plan to sample draw-down workbooks from HCA and DSHS and review backup documentation including enterprise reporting reports to determine whether the adjustments to the receivable amounts were properly valued based upon actual revenues and expenditures and correctly calculated **(Valuation).**

We ran a query in Enterprise Reporting WEBi for the following query filters for fiscal year 2023:
- GL Account = 0159 (liquidations)
- Cost Allocation Funding Type = "F"

We summarized the liquidations by Process Date and Cost Objective and compared the totals of each cost objective in the liquidations report to the recorded adjustments to GL1351 in the draw calculation workbooks* processed during sample drawdowns. We additionally recalculated the adjustment amount through a review of the drawdown's total draw and current draw amounts (based upon the current expenditures/revenues).

*Note: Draw calculation workbook amounts for subsources for transaction codes 835. These transaction codes are associated with the liquidations of GL1351 receivable amounts. Total draws factor in current expenditures and revenues (GLs 6510/3210)

Testing Results:
HCA: HCA_Due From Adjustments Testing
DSHS: DSHS_Due From Adjustments Testing

Adjustments to the federal receivable during drawdowns were properly valued and based upon prior period expenditure liquidations (GL0159). **No issues noted.**

D.8.PRG - Unearned Revenues

Procedure Step: Summary & Conclusion
Prepared By: CJG, 10/30/2023
Reviewed By: SLB, 10/31/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
No, the results of substantive tests do not indicate a need to modify our risk assessment (IR, CR, and RMM).

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
Yes, the quality and quantity of evidence obtained was sufficient and appropriate.

D.8.PRG - Unearned Revenues

Procedure Step: Understanding of Line Item
Prepared By: CJG, 10/23/2023

State of Washington

Reviewed By: SLB, 10/31/2023

Record of Work Done:

(1) Prior Audit Exceptions:
There are no prior year audit exceptions for this balance.
(2) Composition & Change Analysis:
Line Item Leadsheet: [Line Item Lead Sheet].

The unearned revenue line item is usually a small amount of cash at fiscal year end that has not been distributed to other agencies. Unearned revenue arises when resources are received by the state before it has a legal claim to them, such as when grant monies are received prior to incurring qualifying expenditures/expenses. In the FY20 year, the balance was made up of money received from the Federal Coronavirus Aid, Relief and Economic Security (CARES) Act. The state and local governments of Washington state were appropriated approximately $2.95 billion to help fund the response to the COVID-19 outbreak. The cash from the CARES Act was received in April 2020, at fiscal year end, $1.8 billion remained unspent. The unspent amount was included in unearned revenue for FY20. In FY21, the majority of the CARES Act funds was recognized as revenue. Agencies had until December 2021 to spend the funds related to CARES act and therefore there may still be some CARES funds included in unearned revenue at fiscal year end.

The majority of the unearned revenue balance for FY21 was the funds received from the American Rescue Plan Act of 2021 (ARPA). ARPA was signed into law on March 11, 2021 and provided $350 billion in aid to state and local governments in response to COVID-19, along with additional funding for other areas like education, rental assistance, and transit. Based on requirements in ARPA, the funds were divided between states. Washington State was appropriated an estimated amount of $4.44 billion in ARPA funds. Based on unemployment averages, cities and counties are entitled to various amounts of ARPA funds. At fiscal year end, approximately $2 billion of the ARPA funds remain unspent.

For FY22, the majority of the unearned revenue balance continued to pour in from the American Rescue Plan of 2021 (ARPA). Through the Federal Fiscal Recovery Funds, Washington State was awarded another $4.43 billion in ARPA funds - designated as "State and Local Fiscal Recovery Funds" or SLFRF. Around $2.9 billion was earned in FY23 and beyond, therefore, the balance was reported as unearned revenue. The entry was handled by the Office of Financial Management but the ARPA funds are reported in Agency 076 - Special Appropriations to the Governor.

For FY23 the majority of the unearned revenue balance is still located in Fund 706 - Coronavirus State Fiscal Recovery Fund. This balance is primarily made of the remaining unearned revenues granted in 2021 from the American Rescue Plan (ARPA). The balance for unearned revenue started at $2.8 billion at the start of FY23, and has been spent down by all agencies throughout the year. The final numbers are not due to OFM until September. This balance is continuing to be spent down and will likely be non material within the next several years.

(3) Updates to Material Account Matrix:
No updates necessary.

D.8.PRG - Unearned Revenues

Procedure Step: Controls - JV
Prepared By: CJG, 10/23/2023
Reviewed By: SLB, 10/31/2023

Record of Work Done:

Material Balance(s) and Assertions
Internal controls in the manual JV address the following balance(s):

- Balance Sheet - Governmental Funds: Unearned Revenue

For the following assertions:

- **Occurrence -** There is a risk that unspent federal economic stimulus money was reported as earned rather than unearned revenue for FY23.
- **Completeness -** There is a risk that not all federal economic stimulus money received was identified and resulting in unearned revenue being understated.

Gain an Understanding of Internal Controls / How Transactions are recorded in AFRS
We met with Sara Rupe (Statewide Accounting Manager) and Evelyn Kover (Statewide Accountant) on July 27, 2023 to gain an understanding of unearned revenues.

State and Local Fiscal Recovery Funds or SLFRF (CFDA 21.027) are recorded in Unearned Revenue and as agencies expend the money, those amounts are then recognized as cash revenues. Evelyn Kover, Statewide Accountant, prepares JVs throughout the year to recognize earned federal revenue and reduce unearned revenues for the SLFRF. These JVs, including supporting documentation, are reviewed by Sara Rupe, Statewide Accounting Manager to ensure the revenue recognition is accurate and supported by expenditures that occurred in the period. There is a final JV in September when all agencies have reported their totals to OFM. OFM runs a report through AFRS for the American Rescue Plan Act of

2021 (ARPA) appropriation by agency to identify the total expenditures for the year (the funds were appropriated in 2021 even if they are spent down in FY23). OFM then takes the amount that has been expended in the year and makes a JV to transfer the amount from unearned revenue to cash revenues within AFRS. Evelyn compares the final reported numbers by each agency to the SEFA (Schedule of Expenditures for Federal Awards). She also reaches out to the the budget office within OFM to ensure the totals match. This review process is documented in a spreadsheet, as well as on the Journal Voucher. The JV summarizes the beginning balance, the funding received, what was recognized, and the remaining balance. Evelyn Kover, prepares the JV and it undergoes a secondary review by Sara Rupe, to ensure amounts reported are accurate, complete, and represent revenues that actually occurred **(Key Control 1 Occurrence, Completeness).**

Key controls are as follows:

- **Key Control 1: Occurrence, Completeness: An OFM Statewide Accountant prepares JVs to recognize earned federal revenue and reduce unearned revenues. These JVs are secondarily reviewed by an OFM Statewide Accounting Manager to ensure amounts reported are accurate, complete, and represent revenues that actually occurred.**

Noted Weaknesses are as follows:

- None

D.8.PRG - Unearned Revenues

Procedure Step: Key Control #1 (Manual)

Prepared By: CJG, 10/30/2023

Reviewed By: SLB, 10/31/2023

Record of Work Done:

Unearned Revenue - Occurrence, Completeness

- **Key Control 1: Occurrence, Completeness: An OFM Statewide Accountant prepares JVs to recognize earned federal revenue and reduce unearned revenues. These JVs are secondarily reviewed by an OFM Statewide Accounting Manager to ensure amounts reported are accurate, complete, and represent revenues that actually occurred.**

State of Washington

The understanding for this system is documented above in the "Controls - [Controls - JV]" step.

1. Confirmation of Key Manual Control:

The start of FY23 had $2,889,968,861.30 in unearned revenue SLFRF funds. We tied this beginning balance to the ending balance for unearned revenue in FY22 (tied to s1washington-fs22 and AFRS here: Line Item Lead Sheet). We received copies of the following JVs that impacted SLFRF unearned revenue during the fiscal year:
JVOFM006 - $88,727,636 - Approved 12/8/22
JVOFM040 - $1,214,541,847 - Approved 3/7/23
JVOFM102 - $681,815,447 - Approved 9/20/23
JVOFM102 - $(88,727,636) - Approved 9/20/23
JVOFM116 - $(17,380,000) - Approved 9/28/23
JVOFM116 - $(1,001,040) - Approved 9/28/23

Per Evelyn Kover, there were a few reversing entries that needed to be made in FY23 to reverse revenue recognition for a FY21 correction done in error (JVOFM006/JVOFM102) and to reduce federal revenue recognized for SLFRF 21.027 FY23 expenses to be covered by FY23 state funds transfer in for FY21 prior period unallowable costs (JVOFM116). Period activity was $1,877,976,254, resulting in an ending balance (remaining unearned revenue) of $1,011,992,606.

All JVs included supporting documentation to support the validity of the entry, including expenditure data, General Ledger Activity Flexible reports for 076-Special Approp to the Governor, copies of the OFM Financial Statement Control Toolbox export showing the hash total, JV number, batch number etc, screen shots of the Toolbox and AFRS upload and release screens, and documentation of the email approval for the JV including the document number, count, hash total and fiscal month.

We confirmed all JVs noted above were prepared by Evelyn Kover and reviewed by Sara Rupe or Brian Tinney, Assistant Director. See testing here: [Unearned Revenue Testing] to see our full tie out to verify revenue recognized as earned in FY23 was supported by expenditures that occurred in the period. **No issues noted**

Noted Weaknesses are as follows:

- none

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum

D.8.PRG - Unearned Revenues

Procedure Step: Risk Assessment
Prepared By: MRF, 7/28/2023
Reviewed By: SLB, 10/31/2023

Record of Work Done:

(1) Inherent Risk (IR):
Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

- Occurrence, Completeness - MAX

(2) Control Risk (CR):
We assessed control risk as follows for each system and relevant assertion:

- **Manual JV - Occurrence, Completeness**

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

- **Occurrence, Completeness - MAX**

(4) Testing Strategy:
We designed our substantive testing strategy based on our assessment of the risk of material misstatement.

Completeness Testing:
- We will review the Federal Grant Award to AFRS to ensure the amount received was correctly identified and reported as unearned revenue.

Occurrence Testing:
- We will run reports in AFRS and review the Federal Disclosure forms to ensure the amounts expended for the year is accurate and unearned revenue is reported correctly.

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

D.8.PRG - Unearned Revenues

Procedure Step:	Substantive Test
Prepared By:	CJG, 10/30/2023
Reviewed By:	SLB, 10/31/2023

Record of Work Done:

We reviewed the total unearned revenue balance to identify the most significant amounts reported in the line item. We noted 75% of the total unearned revenue was recorded in agency 076 for special appropriations to the governor. The unearned revenue is a result of the American Rescue Plan Act (ARPA) and specifically, the SLFRF. We determined review of these funds alone would provide sufficient coverage of the unearned revenue balance. See the "Testing Summary" tab at [Unearned Revenue Testing].

Substantive tests performed to meet the Completeness assertion:

Testing Procedures: We reviewed the US Treasury payments to WA State's at https://home.treasury.gov/system/files/136/Payments-to-States-and-Units-of-Local-Government for CARES funds and https://home.treasury.gov/system/files/136/fiscalrecoveryfunds-statefunding1-508A.pdf for payments related to the American Rescue Plan Act of 2021. We ensured the amount recognized by OFM in AFRS tied to the amount determined by the US Treasury Department. See testing: [Unearned Revenue Testing]

Testing Results: Data was consistent with prior year as no additional funding was received in FY23 for CARES or ARPA funding. We ran reports in ER reporting for OFM - 1050 (GL Activity Flexible by General Ledger) to determine reported CARES funding revenue and the Revenue Activity flexible report for 0760 - Special Approp to determine reported ARPA funding revenue. Both CARES and ARPA revenue reported in AFRS tied to reports from the US Treasury **without exception.**

We noted this year's calculation of unearned revenue included a deferral of funding related to NEUs (Non Entitlement Units). We followed up with Evelyn Kover and learned that OFM had received funding to allocate to NEUs in FY21 and FY22 (a total of $442M), but these funds were not considered unearned revenue in prior years. Previously, they were allocated in GL5152 - Due to Other Governments as the full amount was due to the NEUs. Therefore, we did not include the NEU allocation in our completeness test for unearned revenue. *See "Completeness" tab for additional detail.*

Substantive tests performed to meet the Existence / Occurrence assertion:

Testing Procedures: We ran reports in AFRS and reviewed the Federal Disclosure form data (the SEFA) to ensure the amounts expended for the year are accurate and unearned revenue is reported correctly. See our testing spreadsheet for details. [Unearned Revenue Testing]

Testing Results: All CARES funding (CFDA 21.019) was spent in FY22 so there was no unearned revenue related to this funding in FY23. To ensure the amount reported as unearned for FY23 was correct for ARPA funding, we identified the original CFDA 21.027 allocation (see Unearned Revenue Testing), tied prior year reported earned revenue to the prior year ACFR and ensured amounts tied to OFM's reconciliation (see Unearned Revenue Testing). We obtained the Disclosure Form Data, Disclosure Form to AFRS reconciliation and OFM's summary reconciliation and calculation of unearned revenue spreadsheets from Evelyn Kover, Statewide Accountant.
We ran the SEFA report in enterprise reporting to determine how much was expended in the period for each agency (see Unearned Revenue Testing). We compared these amounts to the amounts reported in AFRS (see Unearned Revenue Testing) and ensured these matched OFM's reconciliations. We subtracted the amount expended in the year what has been recognized as earned up to date to determine the amount to be reported as unearned at fiscal year end.

NEUs (JVOFM116): In FY23, two NEUs returned a portion of the funding to OFM and OFM has submitted applications to the Treasury to have the funds reallocated to the state SLFRF. Currently, there is no official guidance from the federal government on what states should do with returned NEU funding. OFM believes these funds will likely become part of the CSLFRF funds for the state, so they have moved the returned revenue to unearned revenue until a final determination from the Treasury will be made. *We determined the explanation is reasonable.*

We determined the unspent ARPA money was correctly reported as unearned revenue in FY23. **No issues noted.**

State of Washington

D.9.PRG - Accounts Payable

Procedure Step: Summary & Conclusion
Prepared By: CJL, 11/8/2023
Reviewed By: SLB, 11/13/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
The results of substantive tests do not indicate a need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
The quality and quantity of evidence obtained was sufficient and appropriate.

D.9.PRG - Accounts Payable

Procedure Step: Understanding of Line Item
Prepared By: CJL, 7/18/2023
Reviewed By: SLB, 11/13/2023

Record of Work Done:

(1) Prior Audit Exceptions:
We reviewed the prior audit and did not identify any exceptions.

(2) Composition & Change Analysis:

State of Washington

Line Item Leadsheet: [Line Item Lead Sheet].

We inquired with the following:
HCA: Michael Grund, Budget Unit Fiscal Information Data Analyst - Medical Assistance, Cheri Wright, Medicaid Accounting Manager, Brad Killman, Deputy Accounting Section Manager, and Dan Ashby, Section Accounting Manager. They stated that the forecasting methodology has not significantly changed.
DSHS: Carla McKnight, Budget Forecast Chief (MSD), and Julia Mosier, Office Chief (ALTSA/DDA/MSD). They stated that the forecasting methodology has not significantly changed.

The Accounts Payable line item for HCA and DSHS are payable estimates recorded monthly and at year-end, primarily driven by Human Services expenditures, particularly Medicaid, and are based upon The Washington State Medicaid forecast. The forecast is produced and published in February (to support the Governor's budget proposal) and October/November (to support the Legislature's budget proposal) of each year by OFM's Forecasting and Research division (three Senior Forecast Analysts prepare the Medicaid Forecast).

OFM collects and analyzes expenditure and caseload data for the forecast by:
1. Pulling expenditure data from the state accounting system by service (e.g. payments to MCO's, outpatient card, drug rebates) and caseload. The caseload is the number of people in the different eligibility groups such as low-income adults, children, pregnant women, elderly adults, etc.
2. Associating the expenditure data with monthly caseload information from the Caseload Forecast Council (CFC). The expenditures are divided by the number of forecasted enrollees in each monthly caseload, resulting in a historical amount spent per person for each service or managed case payment each month. The historical amounts are used to forecast expenditure trends.
3. Adjusting the forecasted trends for previously authorized program and benefit changes. Some expenditures are not fully reflected in the historical data, but still impact future expenditures. E.g. new managed care rates, updates in FFS rates for existing benefits, etc.

The noted agencies either:
- Consider the Medicaid Forecast in their accrual calculation, primarily using the CFC for their estimated caseload and use their own historical trending (DSHS).
- Use the Medicaid Forecast as the basis of their accrual calculation.

The large majority of the these forecasted expenditures/payable amounts are incurred, but not reported claims. The remaining amounts relate to contracted services for Medicaid-related expenditures (either client or administration related).

We ran interim reports for the agencies and noted the following:
HCA [Line Item Lead Sheet**]:**
The Programs that carry the liability are the following:

- 010 Admin - $82,772,497
  - The majority of this program is from budget unit V90, Medical Assistance Admin; in review of the prior audit, this was primarily associated with contracts for the Medicaid Transformation Demonstration project and Medicaid Administrative Claiming program.
- 153 DBHR - Mental Health - $339,770,955
  - In review of the prior audit, this was associated with Managed Care capitation rates for mental health services, accruals of contracts related to mental health, and accrual of the mental health block grants.
- 200 - Medical Assistance - $581,637,236
  - In review of the prior audit, this was associated with the forecasted expenditures for the budget units (correspond to eligibility groups).

These are expected and in line with our understanding of HCA and the line item as they are Medicaid based (either administrative costs or client-related).

DSHS [Line Item Lead Sheet**]**
The Programs that materially carry the liability are the following:

- 040 Developmental Disabilities Administration - $57,017,370
- 050 Aging and Long-Term Support Administration - $90,741,286

This is expected and in line with our understanding of DSHS and the line item as DDA and ALTSA are administrations associated with Medicaid (other major DSHS administrations such as the Behavioral Health Administration and Economic Services Administration receive fewer benefits or are associated with other Human Services expenditures such as SNAP/TANF).

(3) Updates to Material Account Matrix:
No updates to the Material Account Matrix are necessary. Amounts for the line item are in expected agencies and programs (Medicaid-related).

D.9.PRG - Accounts Payable

Procedure Step:	Controls - HCA Forecasting
Prepared By:	CJL, 6/30/2023
Reviewed By:	SLB, 11/13/2023

Record of Work Done:

Material Balance(s) and Assertions

Internal controls in the Human Services Forecasting address the following balance(s):

- General Fund - Accounts Payable

Payables for a large number of Human Service programs. Most programs are on a cost sharing basis with the Federal Government.

For the following assertions:

- Valuation
- Completeness

HCA Medicaid expenditure forecast is a statistical process which should be performed by a specialist possessing expertise in economics or statistics. Total Medicaid expenditures could be improperly forecasted. As a result, account payable balance are not properly valued and not completely reported on the financial statements.

Gain an Understanding of Internal Controls

We met with the following individuals to discuss controls and procedures regarding the accounts payable estimates:

- Michael Grund, Budget Unit Fiscal Information Data Analyst - Medical Assistance Side - prepares the forecast JVs; additionally involved with decision packages and fiscal notes
- Cheri Wright, Cheri processes the JVs that Michael prepares and uploads
- Brad Killman, Deputy Accounting Section manager - behavioral health and medical assistance area
- Dan Ashby, Section Accounting Manager

To establish a fiscal year-end Medicaid accrual, HCA develops an estimate of all forecast related expenditures for the year and compares it to the forecast-related expenditures already recorded in AFRS.

Fee-for-service providers are allowed to bill for reimbursement up to 12 months after providing services, which causes a lag between the date of service and the date of payment; this is the primary driver of the accounts payable forecast. HCA uses a number of sources to derive the accounts payable line including: lag factors, the June estimate, actual liquidations, drug rebate invoice amounts, and other known expenditures.

Lag factors are produced by the Washington State Medicaid Forecast, produced in February and October of each year. The forecast uses medical expenditures from AFRS/ProviderOne and caseloads reported by the Caseload Forecast Council. The most recent forecast is used by HCA to prepare either the monthly accruals, or the year-end accrual. The forecasts are produced for the different medical services and Medical Eligibility Groups (MEGs), which are used to estimate the monthly incurred but not reported costs for each service. A high level overview of how lag factors are derived are as follows:

The Medicaid Forecast Council has historical data which shows the the lag time between services rendered and payment for each medical service and MEG **(Key Control #1 - Use of OFM Medicaid Forecast - Valuation/Completeness)**. On average, by the fourth month after services are rendered, the majority of costs will be billed and paid (this varies for services, as some have a quick turnaround). E.g. At the end of June, HCA wants to estimate the total costs of services received for a specific MEG/service for the previous January. Based upon historical data, they determine that 85% of the expenditures will have been paid by June. This is sufficient information to estimate the total costs of services by applying the total of January's recorded expenditures by the the lag factor (1/.85) to estimate the total amount. The difference between reported expenditures as of June for January and this "total" amount would be the remaining payable amount for that service/MEG and month.

As noted above, the lag factors are the primary driver for the accounts payable estimates, but in addition to the forecast, HCA considers other factors to determine the estimate amounts including:

- The June estimate - The existing forecasts are produced to be the basis of the budget passed by the Legislature; the June closing projection adjusts the budget further for budget steps and other adjustments made during the budget process, but were not within the original forecasts.

- Actual liquidations - During phase two of fiscal year close, there are a number of invoices paid in July and August for services provided in the closing fiscal year. For services that mature quickly, the short time after FY close is sufficient to achieve maturity and actual liquidation amounts can be used for certain services. These liquidations are used to inform accruals to ensure their accuracy.

- Drug rebates - Some pharmaceuticals purchased through HCA are eligible for federal rebates, which offsets the agency's drug expenditures, but there is procedural delay between the purchase and the rebate receipt. The drug rebate team pulls data quarterly and invoice drug manufacturers. At year end, their most recent quarter date would be around August. The forecast team receives this information to book this specific accrual due to an approximate 6 month lag for the drug rebates.

- Other expenditures - There are certain factors which HCA is aware of that needs to be considered during estimates, e.g. known increases in managed care rates and fee for service rates.

HCA receives the forecasted amounts from the OFM Medicaid Forecast team and uses it as the basis for the accounts payable accruals. The estimated expenditures are broken down into services by MEG, and the HCA Fiscal Information and Data Analyst will run AFRS expenditures reports through month-end/year-end using the most recent forecast. The difference between the forecasted amounts and actual expenditures by grouping is the accrual amount **(Key Control #2 - Calculation of accrual amount between forecasted totals and actual expenditures - Valuation/Completeness).**

How transactions are recorded in AFRS:

After preparing the accounts payable accruals for each service group and service, the Fiscal Information and Data Analyst sends the program accrual workbooks which includes tabs with the forecast data, lag factors, etc. to a Fiscal Analyst. The Fiscal Analyst will prepare a batch workbook for uploading into AFRS. The variances between the forecasted and actuals are recorded at different Program Indexes, Organization Indexes, Allocation codes, and Months of Service fields. The JV is submitted to the Medicaid Accounting Manager for review of the accrual calculations for approval and release into AFRS **(Key Control #3 - Medicaid Accounting Manager review and approval - Valuation/Completeness).**

Key controls are as follows:

- **Key Control #1 (Valuation/Completeness) -** HCA relies on information from the Caseload Forecast Council and OFM's Medicaid Forecast team for the forecasted amounts per medical service and MEG. The forecast factors in the primary driver of accounts payable amounts, time lag factor.
- **Key Control #2 (Valuation/Completeness) -** The HCA Fiscal Information and Data analyst will run AFRS expenditure reports through month-end/year-end using the most recent forecast to calculate the variance between the forecasted amounts and actual expenditures to serve as the accrual amounts.
- **Key Control #3 (Valuation/Completeness) -** The Medicaid Accounting Manager reviews the AFRS JV and supporting documentation for accuracy in calculations and coding for approval and release into AFRS.

Noted Weaknesses are as Follows:
None

D.9.PRG - Accounts Payable

Procedure Step: Key Control #1 (Manual) - CFC/OFM Reliance

Prepared By: CJL, 6/30/2023

Reviewed By: SLB, 11/13/2023

Record of Work Done:

Accounts Payable - Valuation/Completeness

Key Control #1 for Human Services Forecasting (HCA) HCA relies on information from the Caseload Forecast Council and OFM's Medicaid Forecast team for the forecasted amounts per medical service and MEG. The forecast factors in the primary driver of accounts payable amounts, time lag factor.

The understanding for this system is documented above in the "Controls - HCA Forecasting" step.

1. Confirmation of Key Manual Control:

We reviewed the April 2023 accrual MAJV6706 and its accompanying support documents including:

- Program Accrual FM22 Apr 2023.xlsx - This is the support workbook with lag factors, forecast data, and expenditure data used for the final calculations of the accrual
- ForecastFilterFile_2317_D07_M01.csv - This is the OFM forecast data for forecast version D07. This includes relevant forecast information from both OFM (total forecast values) and CFC (eligibles) and the related PerCap values per MEG and Service code

Michael Grund, Budget Unit Fiscal Information Data Analyst - Medical Assistance, walked us through the accrual worksheets used to calculate the monthly AP accruals using the HCA expenditure forecast received in the forecast filter Excel spreadsheet. The filter file is a condensed version of the total forecast showing caseloads (CFC), Percap (OFM), and total forecasted expenditures.

Below is an excerpt of the forecast filter file:

ForecastMeg	Forecast Svc	Month Of Service	Fiscal Year	Budget Unit	Expenditure Source	Forecast Version	Eligible	Total	Federal	State	SNAF	Local	Tobacco	HSA	PerCap
1495	211	1-Apr-23	2023	X50	1495	D07	35,874	$2,198	$1,193	$1,006	$0	$0	$0	$0	$0.06
1495	221	1-Apr-23	2023	X50	1495	D07	35,874	$264,517	$143,237	$121,279	$0	$0	$0	$0	$7.37

Forecast MEG Group 1495 cross references to the MSP QMB (Qualified Medicare Beneficiary) group. The CFC forecast for eligible clients for this grouping is available: https://www.cfc.wa.gov/Monitoring/MS_ADO_QMB.xlsx

We noted that forecasted amount for April 2023 from the February 2023 forecast was 35,874 which coincides with the ForecastFilterFile value, using it as part of the calculation for the PerCap per MEG per service. Ex: service 211 is Inpatient - DRG/Per Diem. At the time of review, the June forecast used for the final accrual was not prepared yet. **No issues noted**

The ForecastFilterFile was summarized in a pivot table by Forecast Service, Forecast MEG, and Month of Service, showing total forecasted expenditures for each combination of the three. The entirety of the data dates back to month of service July 2016. **No issues noted.**

Continuing with the service 211-1495-2304 specific line item, we traced this to the Program Accrual FM22 April 2023.xlsx file for the total forecasted expenditure. This specific service/meg group crosswalks to the following SSO/PI/Alloc/Activity for recording purposes:
M211 H1296 3MAA H011

The Program Accrual FM22 Apr 2023.xlsx file has tabs including:
- Lag Factors from OFM/Lag Factors for vlookup
- X-walks for cross walking Service-MEG-Project Index to SSO-PI-ALLOC-Activity fields for AFRS
- Adjustment Tab - This VLOOKUPs service codes for historical lag factors, depending upon which month's position the service is in; e.g. for service 211, Inpatient - DRG/Per diem, it is a fee for service type expenditure with a historical lag of 4 months; hence the first lag for month of service would go back to 2301 for accrual month 2304, and a lag factor would be applied to this specific service.
- Pvt FC - This is a pivot summary of the ForecastFilterFile, which was filtered for FiscalYear 2023 in this instance.
- Pvt AFRS - This contains a pivot of AFRS expenditures for each SVC-MEG-MOS

No issues noted.

Noted Weaknesses are as follows:
None

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

D.9.PRG - Accounts Payable

Procedure Step: Key Control #2 and #3 (Manual)
Prepared By: CJL, 6/30/2023
Reviewed By: SLB, 11/13/2023

Record of Work Done:

Accounts Payable - Valuation/Completeness

Key Control #2 - The HCA Fiscal Information and Data analyst will run AFRS expenditure reports through month-end/year-end using the most recent forecast to calculate the variance between the forecasted amounts and actual expenditures to serve as the accrual amounts.

Key Control #3 - The Medicaid Accounting Manager reviews the AFRS JV and supporting documentation for accuracy in calculations and coding for approval and release into AFRS.

The understanding for this system is documented above in the "Controls - HCA Forecasting" step.

1. Confirmation of Key Manual Control:

We reviewed the April 2023 accrual MAJV6706 and its accompanying support documents including:

- Program Accrual FM22 Apr 2023.xlsx - This is the support workbook with lag factors, forecast data, and expenditure data used for the final calculations of the accrual
- ForecastFilterFile_2317_D07_M01.csv - This is the OFM forecast data for forecast version D07. This includes relevant forecast information from both OFM (total forecast values) and CFC (eligibles) and the related PerCap values per MEG and Service code

Michael Grund, Budget Unit Fiscal Information Data Analyst - Medical Assistance, walked us through the accrual worksheets used to calculate the monthly AP accruals using the HCA expenditure forecast received in the forecast filter Excel spreadsheet. The filter file is a condensed version of the total forecast showing caseloads (CFC), Percap (OFM), and total forecasted expenditures.

The ForecastFilterFile was summarized in a pivot table by Forecast Service, Forecast MEG, and Month of Service, showing total forecasted expenditures for each combination of the three. The entirety of the data dates back to month of service July 2016.

No issues noted.

Continuing with the service 211-1495-2304 specific line item, we traced this to the Program Accrual FM22 April 2023.xlsx file for the total forecasted expenditure. This specific service/meg group crosswalks to the following SSO/PI/Alloc/Activity for recording purposes:

M211 H1296 3MAA H011

The Program Accrual FM22 Apr 2023.xlsx file has tabs including:

- Lag Factors from OFM/Lag Factors for vlookup
- X-walks for cross walking Service-MEG-Project Index to SSO-PI-ALLOC-Activity fields for AFRS

- Adjustment Tab - This VLOOKUPs service codes for historical lag factors, depending upon which month's position the service is in; e.g. for service 211, Inpatient - DRG/Per diem, it is a fee for service type expenditure with a historical lag of 4 months; hence the first lag for month of service would go back to 2301 for accrual month 2304, and a lag factor would be applied to this specific service.
- Pvt FC - This is a pivot summary of the ForecastFilterFile, which was filtered for FiscalYear 2023 in this instance.
- Pvt AFRS - This contains a pivot of AFRS expenditures for each SVC-MEG-MOS

The calculations for the accruals per SVC-MEG-MOS is performed on three tabs

- Forecast accrual - This tab accrues the expenditure based upon the forecast using a series of conditional statements (valid MOS, Valid Amount, Accrue?) referencing the previous tabs. For MOS 2304, the FC amount for 211-1495-2304 was $2,198, with no expenditures in AFRS. The JV transaction data for this line was: (SVC-Fund-AI-PI-SOBJ-SSOBJ-OI-ALLOC-MOS-Amount): 211-001-HA1-H1296-NB-M211-H710-3MAA-2304 for $2,000 (accruals round to the thousands).
- Lag Accrual - This tab calculates the lag factor based upon actual expenditures for the Service based upon the historical OFM lag factors. As noted above, SVC 211 has a four month lag period, so the calculation to accrue goes back to MOS's before 2301; for FY23, this SVC-MEG had no AFRS expenditures in MOS 2301; the lag factor for 211lag10 is 8.28288989. As there were no expenditures in the MOS 2301, there was no lag factor to accrue.
- Zero Accrual - This tab calculates the adjustment of actual expenditures due to the current MOS that the accrual is being processed in; e.g. the April 2023 accrual is calculated based upon May 2023 update to date expenditure information (to capture all of May 2023). This accrual zeroes out actual expenditures of 2305. This was not relevant for this specific SVC-MEG.

This is performed for the SVC-MEG-MOS combinations, along with other various accruals including Trauma. We confirmed the JV Data for 211-001-HA1-H1296-NB-M211-H710-3MAA-2304 values for the above separate accrual steps.
No issues noted - KC#2 - Accruals are recorded between forecasted and actual expenditures.

The JV document and the backup Program Accrual document were sent by Michael Grund to Angela Nguyen, Fiscal Analyst, for batch document processing. This was sent to Cheri Wright, GL & Medicaid Accounting Manager, on 5/2/2022 and approved by Cheri for release/upload into AFRS, after requesting minor error fixes from Angela.
No issues noted - KC#3 - The Medicaid Accounting Manager reviews the AFRS JV and supporting documentation for accuracy in calculations and coding.

Noted Weaknesses are as follows:
None

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be

effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.]

D.9.PRG - Accounts Payable

Procedure Step: Controls - DSHS Forecasting
Prepared By: CJL, 7/6/2023
Reviewed By: SLB, 11/13/2023

Record of Work Done:

Material Balance(s) and Assertions
Internal controls in the Human Services Forecasting address the following balance(s):
- General Fund - Accounts Payable

Payables for a large number of Human Service programs. Most programs are on a cost sharing basis with the Federal Government.

For the following assertions:
- Valuation: Medicaid expenditures could be improperly forecasted. There is a risk that the account payable balances are not properly valued.
- Completeness: There is a risk that account payable balances are not completely reported on the financial statements.

We met with the following individuals:
- Julia Mosier, ALTSA Chief
- Rick Meyer, External Audit Liaison
- Carla McKnight, Budget Forecast Chief (MSD)
- Kelly James, Cost Allocation Manager (ESA)
- Debra Trickler, Accounting and Internal Control Administrator (ESA)

Gain an Understanding of Internal Controls

State of Washington

DSHS uses an estimate for forecasted human services accounts payable. The agency has centralized accounting through the Office of Accounting Services (OAS) which acts as the liaison with the Office of Financial Management (OFM), as well as providing support and guidance for the various administrations.

Accruals are estimated separately for each program/administration. Depending on the administration overseeing the particular program, the method by which they are estimated varies; however, all of the programs engage in a level of estimation based upon the invoicing timing and payment patterns using excel-based spreadsheets to calculate projections for the outstanding payables. All of the base financial information is from expenditure data from AFRS. The primary drivers for the projections are from the caseload and the per unit costs assigned to budget unit within an administration. Monthly accrual estimates are based upon a variety of factors which include:

- Expenditure trends for the current and prior fiscal years
- Additional information/events that are not within the norm of prior trends (e.g. COVID-19)
- Anticipated rate increases or adjustments

The Budget Office is responsible for the accounts payable forecasting and estimating for ALTSA and DDA. The office has an established accrual workbook which contains a historical repository of expenditure data which is used to to project future expenditures for both administrations **(Key Control #1 - Historical data for lag factors, Completeness/Valuation)**. The workbook is used primarily for the estimated aging of accounts and allows budget staff to compare prior year information to current year information using various table functions for factors that are the primary drivers of the estimate.

Accruals are performed using a year-to-date method at month end, with the prior accrual being automatically reversed in the subsequent month. There is a final fiscal year close true-up around August for phase II close. Accruals factor in the following drivers of the estimates:

- Lag factor/aging of an account - The typical aging period for most billings is about 6 months. For the year-end accrual, data is applied for the months preceding that are not complete, e.g. billings in May would still be outstanding through November. Actuals would be used for those already received in June, but the remainder would be estimated based on the prior year mean for the period, adjusted for any known quantifiable amounts. There is a large range in the period of aging as providers have 12 months to bill expenditures after they occur and have an additional 12 months to make any adjustments to the billing; this varies based upon providers (e.g. nursing home vs individual providers).
- "Other Factors" - These are considered non-standard factors which would adjust the expenditures outside of just the normal lag factor. For example, during FY22 there was an increase in rates due to COVID which continues with the enhanced FMAP for expenditures during FY23. This is reflected in an additional accrual factor.
- Daily per cap - This is calculated based upon actual expenditures divided by Caseload Forecast Council's models for Human Services and divided by the days in a month. This is used as a reasonableness check for estimates based upon prior expenditure data.

After the Budget office prepares the monthly estimate, the workbook is sent to Accounting which reruns AFRS expenditure queries to ensure that the data is updated and is correctly valued within AFRS **(Key Control #2 - Estimate revisions based upon actual expenditures -**

Completeness/Valuation). Formulas in the workbook compare actual expenditures of the period to the current month estimate and the variance is recorded as the accrual amount. Monthly accruals use an XE accrual batch, which is automatically reversed upon subsequent accruals. The year-end accrual uses an SA accrual batch for the hard accrual.

How transactions are recorded in AFRS:
Fiscal/Management Analysts will prepare the accrual JV using the accrual/forecast workbook as the basis for the AFRS batch. The forecasted amounts are broken into Program Indexes, Allocation Codes (MEGS), and months of service to adjust the accounts payable line. This is submitted to Julia Mosier, Management Services Division/ALTSA Office Chief, for review of the data, calculations, and enterprise reporting reports to ensure that the accrual amounts are complete and properly valued **(Key Control #3 - MSD/ALTSA Office Chief approval of accrual JV - Completeness/Valuation).**

Key controls are as follows:

- **Key Control #1 (Valuation/Completeness) -** DSHS uses the Caseload Forecast Council's forecast for caseload and its own 10-year expenditure data to forecast expenditures for medical service and MEG. The forecast factors in the primary driver of accounts payable amounts, time lag factor.
- **Key Control #2 (Valuation/Completeness) -** The Budget office will prepare the accrual calculation workbook with expenditure reports and models through month-end/year-end to calculate the variance between forecasted and actual expenditure amounts for the accrual amount.
- **Key Control #3 (Valuation/Completeness) -** The MSD/ALTSA Office Chief reviews the AFRS JV and accrual/forecast workbook for accuracy in calculations and coding for approval and release into AFRS.

Noted Weaknesses are as Follows:

- None

D.9.PRG - Accounts Payable

Procedure Step:	Key Control #1 (Manual) - Use of CFC forecast and historical data for lag factors
Prepared By:	CJL, 7/6/2023
Reviewed By:	SLB, 11/13/2023

Record of Work Done:

Accounts Payable - Valuation and Completeness
Key Control #1 - DSHS uses the Caseload Forecast Council's forecast for caseload and its own historical expenditure data to forecast expenditures for medical service and MEG. The forecast factors in the primary driver of accounts payable amounts, time lag factor.

The understanding for this system is documented above in the "Controls - DSHS Forecasting" step.

1. Confirmation of Key Manual Control:
We reviewed JVXE0594 (April 2023 accrual), specifically for Budget Unit X01 Nursing Homes. Each budget unit has its own forecasting workbook with historical data. The accompanying X01 workbook had expenditure data going back to FY2016. The data was used in a subsequent tab specifically for an X01 pivot table to analyze the month of service vs expenditures, which averaged the following MOS vs payment:

- Current FM 30.0%
- FM (-1): 57.9%
- FM (-2): 2.9%
- FM (-3): 1.2%

I.e. using historical data, 30.0% of services are paid within the month of service, 57.9% of services are paid in the next month, etc. These are used to calculate a projected lag factor for dollars for the months of service. The model tab of the workbook calculates the anticipated projection by multiplying the projected forecast from the CFC by the forecasted per cap based upon the historical data for each service. **No issues noted**

We noted in our review JVXE0594 (April 2023 accrual), Carla McKnight, Budget Forecast Chief, had the following client amounts in the "Accrual Document" tab within the workbook for budget unit X01 (Nursing Homes):

	Winter Caseload	Winter Forecast	Projection (includes TCCS and COVID)
Jul-2022	7,509	70,053,071	73,758,942
Aug-2022	7,552	70,577,388	74,074,548
Sep-2022	7,577	68,465,873	71,695,633
Oct-2022	7,613	71,738,382	74,627,702
Nov-2022	7,673	70,022,355	71,801,068
Dec-2022	7,668	72,367,592	75,001,112
Jan-2023	7,674	71,887,407	74,831,366
Feb-2023	7,527	63,740,314	68,253,255
Mar-2023	7,653	71,801,487	76,423,545
Apr-2023	7,624	69,269,628	72,304,854
May-2023	7,646	71,835,820	75,866,637
Jun-2023	7,677	69,854,093	71,969,861

The client figures coincided with the CFC forecast for long term care - Nursing homes available at the following:

https://www.cfc.wa.gov/HumanServices_LTC_HCS_NH.htm for their February 2023 forecast. These forecasted clients serve as part of the basis of the percap calculation that the agency uses for reasonableness (valuation/completion) of their forecasted expenditures. **No issues noted.**

We will perform procedures to rely on the work of specialists (OFM Forecast Council and Caseload Forecast Council) - We will assess the competence, capabilities, and objectivity of the outside agency specialists that prepare the forecasts.

Noted Weaknesses are as follows:

- None

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

D.9.PRG - Accounts Payable

Procedure Step: Key Control #2 and #3 (Manual)
Prepared By: CJL, 7/6/2023
Reviewed By: SLB, 11/13/2023

Record of Work Done:

Accounts Payable - Valuation and Completeness
Key Control #2 - The Budget office will prepare the accrual calculation workbook with expenditure reports and models through month-end/year-end to calculate the variance between forecasted and actual expenditure amounts for the accrual amount.

Key Control #3 - The MSD/ALTSA Office Chief reviews the AFRS JV and accrual/forecast workbook for accuracy in calculations and coding for approval and release into AFRS.

The understanding for this system is documented above in the "Controls - [system]" step.

1. Confirmation of Key Manual Control:

We reviewed JVXE0594 (April 2023 Accrual) and noted that on the accrual document tab for budget unit X01, the expended and accrual estimate to date was $732,772,024.32. These figures were from the X01 projection workbook provided separately which models the nursing home expenditures. This total estimate was allocated among the various recipients (allocation field within ER - newly eligible, FMAP, etc.). The allocated amounts were compared to actuals expenditures to date within an Enterprise Reporting report for budget unit X01 totaling $665,382,465 (which were also allocated among the service recipient categories).

The variance between the estimate and actuals were the variance amounts to accrue, totaling $67,389,559.

The monthly accrual has additional budget units for accrual, all of which had a similar variance calculation for the accrual. The recording of the accrual variance is by recipient group (alloc field). We were able to calculate the total of all variance accruals $224,215,049 which were allocated among the various groups with no exception noted.
No issues noted.

Within the workbook was an e-mail chain between Julia Mosier, Office Chief ALTSA/DDA (Approver and Releaser), Jae Chae, Client Services Accounting Manager (Preparer), Angela Kirkendall, Management Analyst 5 (Submitter). **No issues noted.**

Noted Weaknesses are as follows:

- **None**

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.]

D.9.PRG - Accounts Payable

State of Washington

Procedure Step: Risk Assessment
Prepared By: CJL, 7/6/2023
Reviewed By: SLB, 11/13/2023

Record of Work Done:

(1) Inherent Risk (IR):
Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

- Completeness – LOW
- Valuation - LOW

(2) Control Risk (CR):
We assessed control risk as follows for each system and relevant assertion:

- HCA and DSHS Forecasting – Completeness and Valuation

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

- Completeness - Moderate
- Valuation - Moderate

(4) Testing Strategy:
We designed our substantive testing strategy based on our assessment of the risk of material misstatement.

- HCA and DSHS: Rely on the work of specialists - OFM Forecast Council and Caseload Forecast Council (CFC) - We will assess the competence, capabilities, and objectivity of the outside agency specialists that prepare the forecasts **(Valuation/Completeness)**
- HCA/DSHS: We will specifically select the year-end forecasted accruals for the agencies and review them to ensure that:

  - The estimates are based upon caseload data from the CFC **(Valuation/Completeness)**
  - The accrual amounts are based upon forecasted data and actual expenditures from AFRS for the relevant programs **(Valuation/Completeness)**
- HCA/DSHS: **Normal Accounts Payable (Contracts)**
  - We will ~~sample~~ year-end accruals (FM 24/25/~~99~~) to ensure that the valuation of the accrual is properly supported (expected contract amount) **(Valuation/Completeness)**
  - ~~We will sample FM1, FY2024 cash expenditures for material programs to ensure that the month of service efforts were for July 2024, i.e. MOS is not appropriately for FY2023~~ ~~**(Completeness)**~~

Update to testing strategy:

- We considered sampling FM01 cash expenditures in the subsequent fiscal year in our original testing strategy, but did not test them as this testing area did not specifically relate to our risk of inadequacy of forecasting expenditures. We consider our method of specifically testing for the forecasted accruals and reviewing FM24/25 accruals and adjustments to be sufficient to cover the risk of incomplete and incorrectly valued accruals for the agencies.
- We were able to judgmentally select material batches/current documents to get sufficient percentage coverage for the respective agency programs, rather than sample. FM99 is not applicable to a second year in a biennium.

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

D.9.PRG - Accounts Payable

Procedure Step:	Substantive Test - HCA
Prepared By:	CJL, 11/7/2023
Reviewed By:	SLB, 11/13/2023

Record of Work Done:

Substantive tests performed to meet the Valuation assertion:

FM 24/25 Accruals and Adjustments
Population Sourcing and Reconciliation [HCA JV Population Reconciliation] :

We ran queries from the ACFR database for the material balances (Rollup fund FAA, GL_SC JA) for HCA, summarized by fund and program. All amounts were recorded to GL5111, Accounts Payable. We noted material programs as:

- Blank
- 010
- 153
- 157
- 200

These five programs, within fund 001 composed 98% of HCA's accounts payable.

We ran Webi queries for Agency 107, GL5111, for the selected programs programs and funds identified. We reconciled the transaction-level detail in total to the amounts recorded to the ACFR database with no variances noted. We consider the population of transactions to be complete for testing.

JV Document Selection (see program tabs within reconciliation workbook)
We summarized the program data by batch type/fiscal month to identify year-end accruals for the programs (occurring in FM24/25) and other significant transactions related to accounts payable amount. We judgmentally selected JVs (by current doc num) to obtain sufficient dollar coverage within each program (typically 70% or more) based upon the debit and credit values of the batches.

Testing Procedures [HCA Accounts Payables Testing]
For each selected JV, we reviewed JV backup documentation and calculations to ensure that all accruals were properly captured and reductions in the liabilities were appropriate including:

- Accruals of vendor payables - These were typically associated with remaining contracted amounts for services, year-end invoices for incentive payments to third-party administrators/executors. These were supported by invoice and contract reports and logs.
- Accruals/reversals of program expenditures - These were typically supported by calculations based upon enterprise reporting costs for specific program/allocation/project indexes and historical value/effort calculations.
- Payments out of P1 - These were associated with batch AHs; we confirmed payment out of P1 by the reviewing:
  - Material consolidated invoices for managed care payments (Managed Care -> Premium Summary List -> Consolidated Invoice number) and reviewing the check/EFT trace#, date, and total payment amount
  - Material RA/ETRR invoices/numbers for fee for service (Claims -> RA/ETRR List -> RA/ETRR Number (invoice number)) and reviewing the RA/ETRR Number, check number and ETRR/RA date, and payment amount
  - The 1280 report (AFRS batch reconciliation report) for the batches all programs paid.

Testing Results
FM24 and FM25 program accruals and adjustments/payments from accounts payable were correctly valued based upon remaining values of

contracts, anticipated/forecasted expenditures, and actual payments for prior accounts payable accruals. **No issues noted.**

Year-end Forecasted Services Accruals

Testing Procedures [HCA Accounts Payables Testing]
We used HCA's year-end binder [FY23 Close Binder - Final] as the basis/population of the forecasted services accruals which comprised:

- Valued-based purchasing (VBP) Withhold Payout
- Institutions for Mental Diseases (IMD) recoupment
- Section 107 SCHIP
- Health Home Bonus Payments
- COVID Vaccine
- FQHC Reconciliation
- GEMT Settlement
- Drug Rebates
- Liquidations
- Lag/June Estimate

For each forecasted service:

- We vouched the amounts reported on the year-end binder to the recording AFRS JVs and to their supporting calculation documents (separate excel files, AFRS expenditure information within the JV, invoices, etc.) to ensure that the amounts were correctly valued based upon the support. **(Valuation)**

Substantive tests performed to meet the Completeness assertion:
See above for the population sourcing and selection for the separate testing areas.

FM 24/25 Accruals and Adjustments
Testing Procedures [HCA Accounts Payables Testing]
For each selected JV, we reviewed JV backup documentation and calculations to ensure that remaining accrual amount was properly estimated/complete :

- Accruals of vendor payables - These were typically associated with remaining contracted amounts for services, year-end invoices for incentive payments to third-party administrators/executors. We ensured that the remaining accrual amounts were based upon the total contract value attributed to FY23 and the stated invoice amount was the recorded amount
- Accruals/reversals of program expenditures - These were typically supported by calculations based upon enterprise reporting costs for specific program/allocation/project indexes and historical value/effort calculations. We ensured that the remaining accrual calculation was based upon an appropriate estimated forecasted amount.

- Payments out of P1 - These were associated with batch AHs; we confirmed payment out of P1 by the reviewing:
  - Material consolidated invoices for managed care payments (Managed Care -> Premium Summary List -> Consolidated Invoice number) and reviewing the check/EFT trace#, date, and total payment amount
  - Material RA/ETRR invoices/numbers for fee for service (Claims -> RA/ETRR List -> RA/ETRR Number (invoice number)) and reviewing the RA/ETRR Number, check number and ETRR/RA date, and payment amount
  - The 1280 report (AFRS batch reconciliation report) for the batches all programs paid.

Testing Results
FM24 and FM25 program accruals and adjustments/payments from accounts payable were reasonable and in complete amounts based upon remaining values of contracts, anticipated/forecasted expenditures, and actual payments for prior accounts payable accruals. **No issues noted.**

Year-end Forecasted Services Accruals
Testing Procedures:

- We reviewed the explanations of the forecasted amounts to ensure that the accruals were appropriate to include as a year-end accounts payable amount (incurred but not reported services, underpayments based upon reconciliations, invoiced, but not received rebates, and liquidation subsequent to FY close). **(Completeness).**
- For the forecasted services, we traced the base forecasting amounts to the D07 forecast in the forecastfilterfile (CFC/OFM Medicaid forecast amount) to ensure that it was the basis of the gross forecast amount for the specific forecast SVC code. This base forecast is adjusted as necessary with additional information at year end to calculate a more accurate estimation of forecasted expenditures. **(Completeness).**

Testing Results:
The HCA methodology for forecasting service accruals is sufficient and reasonable to appropriately capture all estimated incurred but not reported expenditures for relevant human services expenditures. **No issues noted.**

D.9.PRG - Accounts Payable

Procedure Step:	Substantive Test - DSHS
Prepared By:	CJL, 11/7/2023
Reviewed By:	SLB, 11/13/2023

Record of Work Done:

Substantive tests performed to meet the Valuation assertion:

FM24/25 Accruals and Adjustments:

Population Sourcing and Reconciliation [DSHS JV Population Reconciliation] :
We ran queries from the ACFR database for the material balances (Rollup fund FAA, GL_SC JA) for DSHS, summarized by fund and program. All amounts were recorded to GL5111, Accounts Payable. We noted material programs as:

- 040 (ALTSA)
- 050 (DDA)

These two programs, within fund 001 composed 73.7% of DSHS's year-end accounts payable balance.

We ran Webi queries for Agency 300, GL5111, for the selected programs programs and funds identified. We reconciled the transaction-level detail in total to the amounts recorded to the ACFR database with no variances noted. We consider the population of transactions to be complete for testing.

JV Document Selection (see program tabs within reconciliation workbook)
We summarized the program data by batch type/fiscal month to identify year-end accruals for the programs (occuring in 24/25) and other significant transactions adjusting the accounts payable amount. We judgmentally selected batches (by batch type/num) to obtain sufficient dollar coverage within each program (typically 80% or more) based upon the debit and credit values of the batches.

Testing Procedures [DSHS Accounts Payables Testing and DSHS Accounts Payables Testing]
We reviewed JV backup documentation and calculations to ensure that all accruals were properly valued:

- **Accruals of vendor payables** - These were typically associated with calculated remaining contracted amounts for services and year-end invoices. These were supported by invoice and contract reports.
- **Accruals/reversals of program expenditures** - These were typically supported by calculations based upon enterprise reporting costs for specific program/allocation/project indexes and historical value/effort calculations.
- **Payments out of ProviderOne** - These were associated with batch AHs; we confirmed payment out of P1 by the reviewing:
    - Material RA/ETRR invoices/numbers for fee for service (Claims -> RA/ETRR List -> RA/ETRR Number (invoice number)) and reviewing the RA/ETRR Number, check number and ETRR/RA date, and payment amount

Testing Results:
FM24 and FM25 program accruals and adjustments/payments from accounts payable were correctly valued based upon remaining values of contracts, anticipated/forecasted expenditures, and actual payments for prior accounts payable accruals. **No issues noted.**

Year-End Forecasted Services Accrual:
Testing Procedures [DSHS Accounts Payables Testing]
We identified that Batch SA508, current doc JVSA0764, was the year-end forecasted services accrual for MSD (combination of ALTSA/DDA for office purposes). We obtained the batch workbook, the FY23 Accrual Roll Up June FINAL 2023 8-7-23 calculation workbook, and the budget unit workbooks (which roll-up into the accrual calculations) to recalculate the accrual calculation based upon the office's forecasted amount for the service expenditures and actual expenditures to date with AFRS. The difference between these amounts was the remaining estimated expenditures (incurred but not reported claims/expenditures, primarily attributed to time lag between when a service is incurred and when actual billings/payments occur).

Substantive tests performed to meet the Completeness assertion:
See above for the population sourcing and selection of the separate testing areas.

FM24/25 Accruals and Adjustments:
Testing Procedures [DSHS Accounts Payables Testing and DSHS Accounts Payables Testing]
We reviewed JV backup documentation and calculations to ensure that the remaining accrual value was properly estimated/complete:

- **Accruals of vendor payables** - These were typically associated with calculated remaining contracted amounts for services and year-end invoices. We ensured that the remaining calculation amounts were based upon total contract value attributed to FY23 and the stated invoice amount was the the recorded amount.
- **Accruals/reversals of program expenditures** - These were typically supported by calculations based upon enterprise reporting costs for specific program/allocation/project indexes and historical value/effort calculations. We ensured that the remaining accrual calculation was based upon an appropriated estimated forecasted amount.
- **Payments out of ProviderOne** - These were associated with batch AHs; we confirmed payment out of P1 by the reviewing:
  - Material RA/ETRR invoices/numbers for fee for service (Claims -> RA/ETRR List -> RA/ETRR Number (invoice number)) and reviewing the RA/ETRR Number, check number and ETRR/RA date, and payment amount

Testing Results:
FM24 and FM25 program accruals and adjustments/payments from accounts payable were correctly valued based upon remaining values of contracts, anticipated/forecasted expenditures, and actual payments for prior accounts payable accruals. **No issues noted.**

Year-end Forecasted Services Accrual:
Testing Procedures [DSHS Accounts Payables Testing]
We obtained the batch workbook, the FY23 Accrual Roll Up June FINAL 2023 8-7-23 calculation workbook, and the budget unit workbooks (which roll-up into the accrual calculations) to assess the reasonableness of the estimated forecasted INBR expenditures to capture a complete amount of estimated expenditures. We ensured that the forecasting appropriately:

- Used the actual expenditures within AFRS as the basis for the lag factor calculation (primary attribute of the forecasted amounts and used to "gross up" to estimated expenditures), and
- Used the CFC's winter caseload forecast as a reasonableness check for its own estimating model, comparing the CFC's forecasted Per Cap to its own forecasted Per Cap using a combination of actuals and estimates.

Testing Results:
The MSD overall forecasted methodology is sufficient and reasonable to appropriately capture all estimated incurred but not reported expenditures for relevant human services expenditures. **No issues noted.**

D.9.PRG - Accounts Payable

Procedure Step:	Rely on Specialist - CFC
Prepared By:	CJL, 11/9/2023
Reviewed By:	SLB, 11/13/2023

Record of Work Done:

Assessment of Competence, Capabilities and Objectivity of Specialist
We assessed the competence, capabilities and objectivity of the specialist, specifically considering factors described in the testing strategy.

Competence
The Caseload Forecast for Human and Medical Services is developed by Shidong Zhang, Senior Forecaster. See details below with relevant education and experience:

Shidong Zhang, PhD, Senior Forecaster

- PhD in Econometrics, a Master's Degree in Statistics and a B.S. in Nuclear Physics
- Percap forecast for 11 years (8 years at HCA and 1 year at OFM) before moving to the CFC in 2015 where he has worked on the Medicaid Caseload Forecast.

No concerns noted related to the competence of the specialist.

State of Washington

Capability
Shidong has master user access to ProviderOne (P1) and pulls data directly from the system on a monthly basis. He has worked at HCA, OFM, and CFC so he has an understanding of the entire forecast process and is very knowledgable of the P1 system.

Our office last used Shidong's work in the FY22 ACFR for the accounts payable line item for forecasted human services.

Shidong explained that he can ask for input from Elaine Deschamps, Deputy Director, who had done this forecast for over 10 years before Shidong took it over.

No concerns noted related to the capability of the specialist.

Objectivity
The Caseload Forecast is prepared at the Caseload Forecast Council (CFC) for various programs including Human and Medical Services for the state, and are used primarily for budgeting purposes by the Governor's office and the legislature. Headcounts are used by OFM for use in their Medicaid forecast. The work group includes the CFC Executive Director, several staff at HCA, DSHS, and OFM. Each member of the work group has knowledge of the forecast and would be able to identify if something were unusual in the forecast.

The CFC is independent of HCA and OFM.

No concerns noted regarding objectivity.

Understanding of Specialist's Work and Conclusions
We gained an understanding of the specialist's procedures and conclusions, including the methods and assumptions used, and noted the following:

Forecast assumptions:

- The forecast contains a baseline projection that is typically based on an entry / exit model.
- The baseline trend is generally based on as many months of historical data as are relevant (not influenced by prior policy or outliers). Statistical methods are used to remove outliers from the historical data so that they do not influence the forecast.
- When the legislature makes a policy change (either through the budget or a bill) impacting the Medicaid caseload, this is incorporated in what's called a "step adjustment" in addition to the baseline trend. The technical work group reviews both the baseline trend and the estimates of policy changes.
- Since the data takes time to mature, caseload actuals are adjusted by a "lag factor" or essentially a "forecast" of what the historical data will be when they are fully mature.

- The historical data is correct.
- Data processing remains constant so that the lag process can improve the data quality.

The forecast models are done using SAS business forecasting software.

Based on discussions with the Caseload Forecast Council, OFM, and HCA, these assumptions seem reasonable. No concerns noted.

Evaluation of Specialist's Work

June 2023 CFC forecasts are available on their public website, which includes the tracking of their forecasts (February and June forecasts) to actual caseloads for each service group. These forecasts are used by the OFM Medicaid Expenditure forecast as the basis of the Medicaid Eligibility Groups by Service calculations.

We were able to see the implementation of the caseload numbers from the June forecast in the calculations used by the OFM in the abridged ForecastFilterFile (version D07), provided to HCA. DSHS (ALTSA/DDA) uses the forecasted amounts for the various service groups in their accrual calculations by a comparison to percap expenditures per each budget unit group.

We will use the June caseload data to ensure the amounts used by HCA in their year-end accrual process came from the official caseload forecast.

Data used by the specialist is a direct export of the data for the various budget units, project indexes (which crosswalk from MEGS) from the AFRS for raw financial data, and from ProviderOne for the caseload data used in creating the forecast. In addition to the exported AFRS data and their included query information for the expenditure/financial data, ProviderOne data is reviewed for accuracy and reasonableness in conjunction with the work performed in the Human Services line item [Substantive Test], including tests of verifying processed claims and their clients (eligibility and amount).

Verifying that the specialist's conclusions are reflected in the financial statements:

The CFC caseload numbers are factored into OFM's Medicaid Forecast [Rely on Specialist - OFM Medicaid Forecast] (ForecastFilterFile) to estimate forecasted services expenditures for the entire year. We were able to trace the caseload numbers to the forecast file and the forecast file estimated expenditures as a base to the year-end forecasted services JVs from each agency in substantive testing [HCA Accounts Payables Testing and DSHS Accounts Payables Testing], which are included as a GL 5111 accounts payable amount, which roll-up in total to the gl_sc JA line item [see population reconciliations [HCA JV Population Reconciliation and DSHS JV Population Reconciliation].

D.9.PRG - Accounts Payable

State of Washington

Procedure Step: Rely on Specialist - OFM Medicaid Forecast

Prepared By: CJL, 11/9/2023

Reviewed By: SLB, 11/13/2023

Record of Work Done:

<u>Assessment of Competence, Capabilities and Objectivity of Specialist</u>
We assessed the competence, capabilities and objectivity of the specialist, specifically considering factors described in the testing strategy.
<u>Competence</u>
The Medicaid Forecast is developed by the Medicaid Forecast group. See details below with relevant education and experience:

Edmund Rauser, Senior Forecast Analyst - Medicaid Forecast

- BS in Engineering
- WA License professional engineer cert#40461
- 10 years Medicaid forecast. One year HCA Actuary group. Nine years Research Safety and Health. Ten years Medical device engineering.

Dennis McDermot, Senior Forecast and Research Analyst

- BS Biology and Mathematics, Allegheny College
- MS Mathematics, University of Tennessee
- PhD Ecology, University of Tennessee
- Six year with the Medicaid Forecast team; 10 years experience as epidemiologist for Department of Health

Xingguo Zhang, Senior Forecast Analyst - Medicaid Forecast

- PHD in Economics and Master in Statistics
- SAS advanced certification
- Total of 10 years statistical modeling and data analysis career; 8 years SQL developer experience

Nhan Ho, Senior Forecast Analyst - Medicaid Forecast

- MBA
- BA: Economics, Political Science.
- 16 years of experience in data science and analysis with roles ranging from economic analyst, research analyst, data analyst, and currently as senior forecast and research analyst. 8 years with Medicaid Forecast.

No concerns noted related to the competence of the specialists.

<u>Capability</u>

The Medicaid Forecast is the primary responsibility for the OFM Medicaid Forecast team. They appear to have adequate time and resources dedicated to this forecast. This specialist team's work was used in the FY2022 ACFR without issue. The data they use is pulled directly from AFRS by the team, no concerns noted over access to needed data or information.

Objectivity

The OFM Medicaid Forecast team is independent of HCA since there move to OFM in FY 2016. The forecast models are run for each MEG/service combination and then reviewed by the Medicaid Forecast Team. As an added measure, the Medicaid forecast is reviewed by the Medicaid Forecast work group made up of members from OFM, HCA, DSHS, House Appropriations Commission, and Senate Ways and Means Commission.

Understanding of Specialist's Work and Conclusions

We gained an understanding of the specialist's procedures and conclusions, including the methods and assumptions used, and noted the following:

The specialist uses SAS business forecasting software to create Percap (cost per eligible) forecast models for each Medical Eligibility Group (MEG) and service combination. The most recent four months data is not used in the forecasts as this data is not assumed mature. The Percap forecast is then combined with the caseload forecast to create the ForecastFilterFile that is both the foundation of the State Medicaid budget and used in the HCA expenditure forecast for reporting accounts payable.

Data used by the specialist is a direct export of the data from the AFRS system for raw financial data, and from ProviderOne for the caseload data used in creating the forecast. The ProviderOne data is reviewed by the audit in conjunction with the work performed over the human services line item. In addition, the data used includes the work of the Caseload Forecast Council which is the other specialist relied upon.

The general process and assumptions used by the specialist seem reasonable based on our understanding of the forecast process and underlying data.

Evaluation of Specialist's Work

We obtained the abridged filter file that is used by HCA at to calculate the recorded accounts payable line item. This file incorporates the eligible headcounts based upon the CFC's forecasts and the estimated expenditures per MEG, month of service, budget unit, and service. We will use the forecast council's June forecast to ensure the base amounts used by HCA in their year-end accrual process are based upon the forecast. DSHS uses the medical forecast as a reasonableness check in its calculation own forecasting for their relevant service by comparing the Winter Forecast Per Cap to their own forecasting.

Verifying that the specialist's conclusions are reflected in the financial statements:

OFM's Medicaid Forecast (ForecastFilterFile) is used to estimate forecasted services expenditures for the entire year. We were able to trace the forecast file estimated expenditures as a base to the year-end forecasted services JVs from each agency in substantive testing [HCA Accounts Payables Testing and DSHS Accounts Payables Testing], which are included as a GL 5111 accounts payable amount, which roll-up in total to the gl_sc JA line item [see population reconciliations [HCA JV Population Reconciliation and DSHS JV Population Reconciliation].

E.1.PRG - Cash & Cash Equivalents

Procedure Step: Summary & Conclusion
Prepared By: EZM, 10/20/2023
Reviewed By: SLB, 11/13/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
Our results of substantive test did not indicate we needed to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
We noted the quality and quantity of evidence obtained was sufficient and appropriate.

E.1.PRG - Cash & Cash Equivalents

Procedure Step: Understanding of Line Item
Prepared By: EZM, 5/31/2023
Reviewed By: SLB, 11/13/2023

Record of Work Done:

(1) Prior Audit Exceptions:
Verbal Recommendation: Oversight of Bank Reconciliations.
We noted one March 2022 bank reconciliation balance that did not match the GL balance. The preparer used the incorrect beginning balance during the reconciliation. This resulted in an immaterial variance in dollar amounts ($241). **We recommend the ESD to increase oversight**

related to the preparation of bank reconciliations to ensure it matches to the GL balance.

Finding 2022-001
The Department was unable to completely reconcile their bank accounts to the accounting records at fiscal year end June 30, 2022. Various transactions totaling $128 million were excluded from the reconciliations. Other errors were noted resulting in cash being overstated by $87,905,305. These errors were not corrected in the financial statements. **We recommend the Department perform a thorough review of the bank reconciliations to ensure they are accurate**

We inquired with Tai Ralston, Treasury Manager, and Shelly Peterson, Assistant Treasury Manager, regarding these issues, and they stated that no adjustments had been made to their process as a result of these issues. We will be following up on these issues during testing [Substantive Test].

(2) Composition & Change Analysis:
Line Item Leadsheet: [Line Item Lead Sheet].

We noted the balance included activity from the following funds:
- 620: Unemployment Compensation Account
- 622: Unemployment Compensation Federal Employees' Benefit Payment Account
- 22E: Family and Medical Leave Enforcement Account
- 22F: Family and Medical Leave Insurance Account
- 567: Long-Term Services & Supports Trust Account

We evaluated the funds and determined transactions from fund 620 make up most of the account balance. The Cash & Equivalents line item is mainly composed of cash collected from employers, cash held for the minimum amount of operations (6-10 million), cash held in the trust fund, and cash ready to be expended for unemployment insurance benefits.

The Cash & Cash Equivalents line item is composed of five main cash accounts and four temporary cash accounts that the ESD held during FY22. See below:
- Main Accounts
    - Key Bank Clearance Account (Employer Side)
    - US Bank Clearance Account (Employer Side) **(New)**
    - US Treasury Trust Account
    - Key Bank Benefit Account
    - US Bank Benefit Account **(New)**

- Temporary Accounts
  - State Pandemic Relief Program (PRP) Key Bank Account
  - State Pandemic Relief Program (PRP) US Bank Account **(New)**
  - Lost Wages Assistance (LWA) Key Bank Account
  - Lost Wages Assistant (LWA) US Bank Account **(New)**

We inquired with Tai Ralston, Treasury Manager, on 5/25/2023 about if there were any changes to their bank accounts. She informed us that on July 1, 2022, the Department switched from Key Bank to US Bank for both their main and temporary cash accounts. This occurred because every few years the Department has to go out for bid and US Bank won the bid. The Department has been unable to close their Key Bank accounts due to continuing activity in the accounts. This activity includes the following:

- Employers are still working with old bank account information, so they end up sending payments to the Key Bank accounts (these are immediately transferred to the US Bank accounts)
- Fraud returns because the funds were disbursed using the Key Bank accounts so the money is returned to those accounts
- Tai stated that the Key Bank accounts have small balances and that they are still monitored as regularly as their main US Bank accounts. They are also factored into the monthly bank reconciliations.

(3) Updates to Material Account Matrix:
We updated the risk narrative for the existence assertion to state "There is a risk that reported cash and cash equivalents did not exist as of fiscal year end".

E.1.PRG - Cash & Cash Equivalents

Procedure Step: Controls - Cash Reconciliations

Prepared By: EZM, 6/8/2023

Reviewed By: SLB, 11/13/2023

Record of Work Done:

Material Balance(s) and Assertions
Internal controls in the Cash Reconciliation address the following balance(s):

- Statement of Net Position - Government Wide

  - Cash and Cash Equivalents
- Statement of Net Position - Proprietary Funds
  - Cash and Cash Equivalents (Local Portion)

For the following assertion:
- Existence:
  - There is a risk that reported cash and cash equivalents did not exist as of fiscal year end.

Gain an Understanding of Internal Controls
We met with the following people on 5/25/2023 to update our understanding over cash and cash equivalents:
- Tai Ralston, Treasury Manager
- Shelly Peterson, Assistant Treasury Manager
- Son Pham, Fiscal Analyst 4
- My-Phuong Tran, Fiscal Analyst 3

The Employment Security Department (ESD) held five main cash accounts and four temporary cash accounts during FY23. Cash accounts held with Key Bank and US Bank are managed under eight master accounts. Sub-accounts are separated to isolate transactions between receipts and payments. All sub-accounts are swept to the master account every night. Last, the Department held funds at the US Federal Treasury for the state and federal trust fund. Most cash is held with federal treasury.

The general flow of funds consists of the following:
1. Cash is receipted in the clearance account. Payments are typically from employers for payment of their unemployment taxes. Funds in excess of operating needs are transferred into the trust account.
2. Funds are held in the trust account until needed.
3. Money is transferred out of the trust and temporary accounts to the benefit account for payments to claimants for unemployment benefits.

State month end close occurs on the 10th business day of the following month. Reconciliations are performed shortly after (mid/end-month).

Key and US Bank Clearance Account (Employer Side)
The main purpose of the clearance account was to collect cash from employers, hold a minimum amount for operations, and remit all excess collected funds to the trust accounts held with the US Treasury in a daily transfer.

The clearance account consists of the following accounts:
1. Clearance Master
2. Clearance Disbursement

3. Clearance Deposit

Nightly, the clearance disbursement and clearance deposit accounts are swept into the clearance master account.

Deposits and Lock Box Activity (Rolled Forward for Context Purposes Only - Confirmed with Tai on 6/1/2022)
Unemployment insurance tax premiums that employers pay are deposited into ESD's Clearance Deposit account. ESD uses Key Bank's and US Bank's lock box services to receipt payments. Daily, lock box collection reports are downloaded from Key Bank's and US Bank's online banking module by Sharon Bond, Fiscal Technician. Sharon gives the report to Son Pham, Fiscal Analyst 4. Son reviews the report for errors by reviewing the three report totals and ensured all amounts tied. If the three report totals did not tie, additional research was performed by reviewing individual deposits received. Errors were typically keying errors from the bank or checks received in excess of $10 million (amount limitation). Reviewed lock box collection report totals are entered into an Excel File called "Monthly AFRS JV". The AFRS JV is prepared by Son from the Excel file "Monthly AFRS JV". Shelly Peterson, Assistant Treasurer, or Tai Ralston, Treasury Manager, reviews and approves the JV to ensure deposited cash existed.

Daily Transfers to the Trust Fund (Rolled Forward for Context Purposes Only - Confirmed with Tai on 6/1/2022)
The Clearance account maintains a minimum balance of $6 - 10 million. This was due to automatic refund operations through ESD's Next Generation Tax System (NGTS), claimant payments, and training benefits. The minimum balance was not governed by a Department policy. Funds in excess of $10 million are transferred to the Department's Trust accounts. Cash is reviewed to ensure the Department can make large payments or transfers that typically occur in the beginning of a month.

The cash draw desk prepares the Daily Transfer Worksheet and is monitored by Gary Cox, Fiscal Analyst 4. The Daily Transfer worksheet details the amount to be transferred from the clearance account to the Trust account held by the US Treasury (federal government). The Daily Transfer Worksheet is electronically reviewed and approved by Shelly Peterson, Assistant Treasurer, or Tai Ralston, Treasury Manager, to ensure the calculation is accurate (amounts were not double counted) and accommodated cash needs. Gary enters the approved Daily Transfer into Key Bank's and US Bank's online module to execute the transaction. Account numbers (from Key Bank and US Bank accounts to US treasury Account) are pre-populated without any edit functions. When complete, Gary sends the Daily Transfer Worksheet to Son Pham, Fiscal Analyst 4. Son enters all transfers into the Monthly AFRS JV spreadsheet. Transfers are recorded in the monthly journal voucher.

Review of Reports from NGTS to Review Unemployment Activity (Rolled Forward for Context Purposes Only - Confirmed with Tai on 6/1/2022)
Sharon Bond, Fiscal Technician, downloads the NGTS report 'ACH Admin' daily which reports payments received in NGTS and what the Department expects to receive in the Clearance account. Son Pham, Fiscal Analyst 4, posts the NGTS activity in the "Monthly AFRS JV" to ensure Key Bank and NGTS activity are accurate.

Monthly, Gary Cox, Fiscal Analyst 4, downloads the 'Fund Transfer' report from NGTS. This report isolates funds collected by ESD unemployment funds (fund 620 and 622) on behalf of other funds (funds 119, 120, 134). ESD receives funds for Claimant Placement Project (CPP), penalties, interest, liens, and other similar items. These amounts are remitted in monthly transfers to cash accounts held with the State Treasurer (OST) at the beginning of the following month.

Monthly Reconciliations (Existence)
For reconciliations, the banking desk prepares the clearance account reconciliation. My-Phuong Tran, Fiscal Analyst 3, prepares the reconciliation. She downloads the monthly statement from Key Bank's and US Bank's online bank module. She downloads all six account statements (three from US Bank, three from Key Bank) and reconciles all six to ensure the existence of all cash transactions reported in the general ledger. Supporting documentation included "Monthly AFRS JV," GL balance from AFRS, and other reconciling items support as needed. My-Phuong signs the reconciliation and routes it to Tai Ralston, Treasury Manager, and Shelly Peterson, Assistant Treasurer. Either Tai or Shelly then electronically reviews the reconciliation and indicates reconciling items were accurate with tickmarks to ensure reported cash existed at year end **(Key Control 1 - Existence)**. Tai or Shelly then signs or initials the reconciliation to document the review.

US Treasury Trust Account
The Department remits all excess cash to their US Treasury account. Excess limits are determined internally and based on cash needs. Due to NGTS implementation, the Department determined $6-10 million was the Department's minimum balance needed to maintain Department operations. Minimums aren't expected to change.

The US Treasury account held the state and federal trust accounts. The US Treasury did not prepare traditional statements. In lieu of a monthly bank statement, Shelly Peterson, Assistant Treasury Manager, obtains three reports from TreasuryDirect.gov to verify the accuracy and existence of cash general ledger transactions. The three reports are:
1. Transaction Report: This report detailed all transactions by program.
2. Account Summary: This report detailed all transactions without classification of program.
3. Federal Report: The report detailed only federal program transactions.

Here is a link to the website that the ESD obtains reports from: https://www.treasurydirect.gov/govt/reports/tbp/account-statement/report.html

Transactions (date, amount, classification) from the above reports are vouched to the Excel file "Monthly AFRS JV" workbook. Typically there were a few reconciling items (cash transfers between accounts occurred before the bank's deadline). Shelly prepares the reconciliation from a template. Reconciliations are saved in Excel workbook "GL 1150 to Trust Fund". Reconciling items are typically for the last day of the trust fund draw and benefit returns for special programs like Federal Additional Compensation (FAC), Extended Benefit (EB), and Emergency Employment Compensation (EEC). Tai Ralston, Treasury Manager, reviews the GL 1150 to Trust Fund reconciliation and supporting documentation, which includes Account Settlement Reports from ASAP.gov, reports from Treasury Direct, reports that show amounts sent to AFRS from their benefits payment system, and the Trust Fund Journal **(Key Control 1 - Existence)**.

Key and US Bank Benefit Account

State of Washington

In general, the Benefit Account receives transfers from the Trust Fund account. The Benefit account expends benefits to eligible participants. Trust Fund draws are based on UTAB report data of benefits paid to eligible participants for almost all grant types.

The master benefit account consists of the following accounts:
1. Benefit Master
2. Benefit Warrant Disbursement
3. Benefit ACH & Debit Card Disbursement
4. Benefit EFT
5. Benefit Deposit

UTAB Reports Used to Verify Daily Activity (Rolled Forward for Context Purposes Only - Confirmed w/ Tai on 6/1/2022)
The cash draw desk prepares the daily cash draw report. Gary Cox, Fiscal Analyst 4, performs the daily operations of the cash draw desk. He reviews the General Ledger Posting (UTAB summary report) page which contains a section called "Daily Draw Worksheet". This General Ledger Posting section is sometimes referred to as, "The Cube" by ESD staff. He vouches all amounts to supporting pages with program totals. Gary is the primary person who processes UI draws and the draw amounts are completely reliant on UTAB. Gary also recalculates program totals to ensure the accuracy and classification of the state and federal split of the daily draw.

The daily draw was calculated as the following:
1. State Benefits = State Unemployment Insurance (UI) benefits + Training (TRN) Benefits
2. Federal Benefits = Unemployment Compensation for Ex-Service Members (UCX) + Unemployment for Federal Employees (UCFE)
3. Total US Treasury Trust Draw = State Benefits (see 1 above) + Federal Benefits (see 2 above)

After Gary prepares the daily cash draw, Tai Ralston, Treasury Manager, or Shelly Peterson, Assistant Treasury Manager, also electronically reviews the draw to ensure amounts are calculated correctly and supported by UTAB reports. She signs/initials the draw to indicate her review. Once signed as approved, Gary logs onto ASAP.gov (Automated Standard Application for Payments) and requests the funds electronically. Tai or Shelly reviews the trust fund draw documentation prior to the draw being processed to ensure the proper amounts are correct per the supporting documents. All account numbers and titles are saved in the system and Gary only needs to enter the proper amounts for each draw. Immediately after requesting the funds, Gary logs onto the US Bank website and verifies the funds were deposited in ESD's account.

Transactions Recorded in AFRS (Rolled Forward for Context Purposes Only - Confirmed w/ Tai on 6/1/2022)
Each day, Son Pham, Fiscal Analyst 4, enters the daily total into the Excel spreadsheet "Monthly AFRS JV". Monthly, UTAB data is automatically imported into AFRS on the 6th business day of the following month at a summary level. UTAB imports are reconciled each month by comparing the monthly activity WEBI report to the "Monthly AFRS JV" (daily entry). If needed, she also uses additional UTAB reports to support reconciling items.

State of Washington

Monthly, Son prepares the JV from the "Monthly AFRS JV" Excel workbook. While Son prepares the JV, Tai Ralston, Treasury Manager, simultaneously reviews and posts the JV. For non-UTAB programs, additional manual JVs are required to capture monthly activity and record into AFRS.

Monthly Reconciliations (Existence)
Before state close and after UTAB send the file (5th or 6th business day of the following month), Son Pham, Fiscal Analyst 4, pulls general ledger activity from AFRS (WEBI report) by fund (state benefits Fund 620 and federal benefits Fund 622). AFRS activity is entered into the "Monthly AFRS JV" Excel file. Activity from AFRS is reconciled to the "Monthly AFRS JV" Excel file. If any errors are found, JVs are used to correct the activity in the following month's activity. The accounting desk uses reports from UTAB and reconciles that to the AFRS JV spreadsheet monthly. After the monthly AFRS JV spreadsheet is reconciled then it gets reconciled to bank.

When the AFRS activity is reconciled to the "Monthly AFRS JV" Excel file, My-Phuong Tran, Fiscal Analyst 3, reconciles the ten benefit account statements (five from US Bank and five from Key Bank) using a Department template. She also generates daily and monthly reports from UTAB (see list below) to aid in her reconciliation. Tai Ralston, Treasury Manager, or Shelly Peterson, Assistant Treasury Manager, reviews the reconciliation and indicates reconciling items were accurate with tickmarks to ensure reported cash existed at year end **(Key Control 1 - Existence)**. She signs/initials the reconciliation.

Lastly, after state close (10th business day of the following month), Son pulls the same general ledger activity from AFRS by fund to ensure there were no changes.

Monthly UTAB Reports used in the Benefit Account Reconciliation:
1. Intercepted Money filtered for the month (benefits issued to claimant paid to another source for back taxes or child support)
2. UTAB Repayments (Details) filtered by source (Key Bank Electronic Bill) and reason (returned payment)
3. UTAB Repayments (Details) filtered by source (lock box) and reason (returned payment)
4. General Ledger Posting filtered for cash draws related the end of the month and posted in the following month (dates depended on the month and business days)
5. General Ledger Posting filtered for book transfers related to the end of the month and posted in the following month (dates depended on the month and business days)

Daily UTAB Reports used in the Benefit Account Reconciliation:
6. Issued Funds (Benefit Payments & Refunds) filtered by payment channel (standard paper checks)
7. Issued Funds (Benefit Payments & Refunds) filtered by date (dates depended on the month and business days)

My-Phuong uses a snip it of UTAB to support outstanding checks. The image is saved in the cash reconciliation workbook.

<u>Temporary Key and US Bank Accounts</u>

There are 2 temporary Key Bank accounts that the ESD maintains during FY23. At the beginning of FY23, they switched from using Key Bank to US Bank, and opened two new temporary accounts. Please see below:

- State Pandemic Relief Program (PRP) Account
    - This account was opened during December 2020 due to the extension of pandemic unemployment assistance (PUA) benefits not being signed in time by the federal legislation. Due to the extension not being signed, on December 27, 2020, Governor Jay Inslee authorized the use of federal CARES Act funds (approximately $50 million) to help Washington claimants whose PUA benefits expired on December 26, 2020 and were waiting for federal legislation to extend those benefits. Federal legislation ended up getting signed into law on December 27, 2020, which extended, expanded, and changed the CARES Act provisions. Regardless, claimants eligible for the one-time PRP payment ($550) still received it.
    - Tai stated that currently there a small amount left in this account and it will be closing soon.
    - Monthly Reconciliation: This is similar to the reconciliation for the Key and US Bank Benefit Account (see above), however there are no sub-accounts. Before state close and after UTAB sends the entry to AFRS (5^{th} or 6^{th} business day of the following month), My-Phuong Tran, Fiscal Analyst 3, prepares the bank to AFRS reconciliation, Tai Ralston, Treasury Manager, reviews the reconciliation and indicates reconciling items were accurate with tickmarks to ensure reported cash existed at year end **(Key Control 1 - Existence)**. Tai signs/initials the reconciliation.

- Lost Wages Assistance (LWA) Account
    - This account was opened by the ESD during August 2020 due to the ESD being approved for the LWA program through the Federal Emergency Management Agency (FEMA). LWA is a federal program that adds $300 for each week the program remains federally funded. The ESD started processing LWA payments on September 21, 2020. Approved weeks for the program:
        - August 1 - 29, 2020
        - September 5, 2020
    - Department of Labor deposited the funds (approximately 708 million) from FEMA to their LWA account and the ESD was only able to draw down the funds based on what their actual draws were for the program.
    - They are currently receiving repayments in this account. This account might change from a temporary to permanent account.
    - Monthly Reconciliation: This is similar to the reconciliation for the Key and US Bank Benefit Account (see above), however there are no sub-accounts. Before state close and after UTAB sends the entry to AFRS (5^{th} or 6^{th} business day of the following month), My-Phuong Tran, Fiscal Analyst 3, prepares the bank to AFRS reconciliation, Tai Ralston, Treasury Manager, reviews the reconciliation and indicates reconciling items were accurate with tickmarks to ensure reported cash existed at year end **(Key Control 1 - Existence)**. Tai signs/initials the reconciliation.

How Transactions are Recorded in AFRS:

- Journal Entries: Journal entries were used to record cash received and transfers (i.e. from the Clearing Account to the Trust Fund and from the Trust Fund to the Benefit Account). Journal vouchers were also used to enter adjustments or corrections (Employer Side).

- System Interface: UTAB data posted to AFRS monthly in an automatic journal voucher.

Key Controls are as Follows:

- **Key Control 1:** Tai Ralston, Treasury Manager, reviews reconciliations and indicates reconciling items were accurate with tickmarks to ensure reported cash existed at period end **(Existence)**.

Noted Weaknesses are as Follows:
None.

E.1.PRG - Cash & Cash Equivalents

Procedure Step: Key Control 1 (Existence, Manual)
Prepared By: EZM, 8/17/2023
Reviewed By: SLB, 11/7/2023

Record of Work Done:

Cash and Cash Equivalents - Existence
Key Control 1: Tai Ralston, Treasury Manager, reviewed reconciliations and indicated reconciling items were accurate with tickmarks to ensure reported cash existed at period end **(Existence)**.

The understanding for this system is documented above in the "Controls - Cash Reconciliations" step.

1. Confirmation of Key Manual Control:
We confirmed the control for all three main cash accounts (clearance, trust, and benefit) and the two temporary cash accounts (PRP and LWA). We reviewed the following February 2023 reconciliations:

February 2023 Reconciliations:
1. Clearance Master Account (account numbers ending in 9589 and 1184)
US Bank Balance (9589): $34,631,147.14
Key Bank Balance (1184): $2,608.01
Adjusted GL Balance: $34,633,755.17

Variance: $0.02
Preparation: We noted My-Phuong Tran, Fiscal Analyst 3, prepared this reconciliation.
Review: We noted Tai Ralston, Treasury Manager, made tickmarks and signed off on the reconciliation to document her review. Both US Bank and Key Bank accounts are being included in the reconciliations. ***No issues noted.***

2. Trust Fund Account
Trust Balance: $3,160,344,502.18
Adjusted GL Balance: $3,149,836,301.29 (reconciling item of $10,508,200.89 due to Last Day State Draw)
Variance: $0.00
Preparation: We noted Shelly Peterson, Assistant Treasury Manager, prepared this reconciliation.
Review: We noted Tai Ralston, Treasury Manager, made tickmarks and signed off on the reconciliation to document her review. ***No issues noted.***

3. Benefit Master Account (account number ending 9530 & 3855) (Each account has a separate reconciliation)
US Bank Balance: $47,210,031.95
Key Bank Balance (3855) (per account statement): $127,169.76
US Bank Adjusted GL Balance: $47,216,526.76 (reconciling item of $6,494.81 due to Customer Initiated Outgoing Fedwire(s))
Key Bank Adjust GL Balance: $127,169.76
Variance: $0.00
Preparation: We noted My-Phuong Tran, Fiscal Analyst 3, prepared both reconciliations.
Review: We noted Tai Ralston, Treasury Manager, made tickmarks and signed off on both reconciliations to document her review.

See UTAB reconciliation at: [Key Control 7 (Reconciliations - Manual)].

4. State Pandemic Relief Program (PRP) Account (account number ending 9639)
US Bank Balance: $1,360.00
Key Bank Balance (per account statement) (0229): $0.00
Adjusted GL Balance: $1,371.00 (reconciling items of $11.00).
Variance: $0.00
Preparation: We noted My-Phuong Tran, Fiscal Analyst 3, prepared this reconciliation.
Review: We noted Tai Ralston, Treasury Manager, made tickmarks and signed off on the reconciliation to document her review. ***No issues noted.***

5. Lost Wages Assistance (LWA) Account (account number ending 9621)
US Bank Balance: $2,662,674.93

Key Bank Balance (8181) (per account statement): $0.00
Adjusted GL Balance: $2,597,312.01 (reconciling items of $65,362.92 due to transfers from 9530)
Variance: $0.00
Preparation: We noted My-Phuong Tran, Fiscal Analyst 3, prepared this reconciliation.
Review: We noted Tai Ralston, Treasury Manager, made tickmarks and signed off on the reconciliation to document her review. ***No issues noted.***

Noted Weaknesses are as follows:

- None.

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

E.1.PRG - Cash & Cash Equivalents

Procedure Step: Risk Assessment
Prepared By: EZM, 6/8/2023
Reviewed By: SLB, 11/7/2023

Record of Work Done:

(1) Inherent Risk (IR):

Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

- Existence - MAX

(2) Control Risk (CR):

We assessed control risk as follows for each system and relevant assertion:

- **Cash Reconciliations** – Existence

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

- Existence – MAX

(4) Testing Strategy:
We designed our substantive testing strategy based on our assessment of the risk of material misstatement. We plan to perform the following tests:

- We do not plan to send cash confirmations to third parties. As an alternative, we plan to obtain month-end reports from TreasuryDirect.gov for the trust account. We expect the trust account to hold the majority of the Department's cash.
- We also plan to test cash reconciliations for other bank accounts (i.e. clearance, trust benefit, PRP, and LWA) depending on if the amounts are significant. We will test all reconciling items above the floor.

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

E.1.PRG - Cash & Cash Equivalents

Procedure Step:	Substantive Test
Prepared By:	EZM, 11/13/2023
Reviewed By:	SLB, 11/15/2023

Record of Work Done:

Finding Follow-Up

We inquired with Tai Ralston, Treasury Manager, and Shelley Peterson, Assistant Treasurer, on 6/7/2023 regarding the $87.9 million overstatement in Cash & Cash Equivalents. This overstatement was due to three variances we found during our review of the Trust Fund, Benefit Master, and Clearance Master Account reconciliations, which we've listed below:

1. There was a $93.2M overstatement in the Benefit Master Account, due to amounts that were excluded from the final reconciliation - one was a "Transfer from Key Bank to U.S Benefit Bank for Go-Live" of $33.2M, the other was a "Prior Borrow from Trust Fund not recorded" of $60M.
2. There was a $5.9M understatement in the Trust Fund Account, due to November and December 2020 adjustment items of $5.1M and $800K, respectively, which were excluded from the reconciliations because ESD was unsure where the amounts were from.
3. There was a $539K overstatement between the amount of Cash & Cash Equivalents in the financial statements, and what we were able to substantiate through documentation we received from ESD.

Tai informed us that the Department posted JVs into AFRS to correct this overstatement. We requested copies of the JVs in order to determine whether ESD had corrected the overstatement.

We reviewed the spreadsheet sent to us by Tai [Trust Fund and Benefit Master Account Adjustments], and determined that adjustments were made to cash to correct the $87.9 million variance, which was brought down to $3,714. Since this variance is below the floor we will not take exception with it. We will compare ESD's GL balance to ESD's bank reconciliations during our testing and we will take exception with any variances identified during testing. See existence testing below.

Substantive tests performed to meet the Existence assertion

We obtained the year-end reconciliations for the following accounts:
1. Trust Account held with the US Department of Treasury
2. Benefit Master Account held at US Bank and Key Bank
3. Clearance Master Account held at US Bank and Key Bank
4. Pandemic Relief Account held at US Bank
5. Lost Wages Assistance Account held at US Bank

See: [Cash & Cash Equivalents Testing]. We performed the following required and additional procedures:

Required Procedure:

1. Confirm cash and investment account balances with bank and/or brokerage.

- We did not perform formal cash confirmations. We performed additional procedures noted below and documented at: [Cash & Cash Equivalents Testing]. During those procedures, we reviewed documentation for alterations or modifications. We did not note any alterations or modifications to any documentation. In addition to the procedures performed below, we obtained the Employment Security Department's (ESD) June 30, 2023 trust fund account statement from the U.S. Treasury's website, TreasuryDirect.

Additional Procedures:

1. Trace (or compare summed) bank balances per statements to reconciliations.

- We vouched bank balances presented on each reconciliation to the respective bank statement. ***No issues noted.***

2. Trace (or compare summed) book balances per reconciliations to the general ledger or financial statements.

- We compared the bank reconciliation balances to the general ledger balances as reported in the ACFR database. See: [Cash & Cash Equivalents Testing], tabs, "Existence" and "Testing", for tying the general ledger balances as reported in the ACFR database to the financial statements. Through testing we determined the following:
  - We noted that there was a reconciling item of $(78,358,840) that was not initially included in the June 2023 Trust Fund Account reconciliation, but ESD determined it should have been. We ultimately determined that this amount shouldn't have been included in the reconciliation.
  - We noted that other reconciling items, totaling $44,298,608, also should not have been included in their respective reconciliations.
  - We determined that the Cash & Cash Equivalents balance was understated by $16,573,418. **See issue and AOM link in the conclusion.**

3. Scan the reconciliation for reasonableness. Look for unusual, unexpected or vaguely described reconciling items, lack of support or detail, very large reconciling items, very old reconciling items, and missing or extra elements that would indicate that the reconciliation was being performed incorrectly.

- We re-performed the ESD's cash reconciliations. We reconciled bank balances to the general ledger. We listed all reconciling items and descriptions at: [Cash & Cash Equivalents Testing], see tab, "Existence". We vouched all items greater than the floor to the source documentation. See tab "Testing". Through testing we determined the following:
  - We noted that there was a reconciling item of $(78,358,840) that was not initially included in the June 2023 Trust Fund Account reconciliation, but ESD determined it should have been. We ultimately determined that this amount shouldn't have been included in the reconciliation.
  - We noted that other reconciling items, totaling $44,298,608, also should not have been included in their respective reconciliations.
  - We determined that the Cash & Cash Equivalents balance was understated by $16,573,418. **See issue and AOM link in the conclusion.**

4. Foot the reconciliation for accuracy.

- We footed the reconciliations. We noted ESD's reconciliations of the Trust Fund, Benefit Master, and Clearance Account footed without exception. See: [Cash & Cash Equivalents Testing], tab "Existence". ***No issues noted.***

5. Trace deposits in transit to the subsequent month's bank statements, considering reasonableness of the in-transit period.

- See procedure 3 above.

6. Trace outstanding checks to cash disbursement journal.

- Outstanding checks were below the floor. We passed further testing.

7. Check that any other reconciling items are valid and have been properly accounted for (ex: large debit or credit memos).

- See procedure 3 above.

8. Check reconciliation against prior and/or subsequent reconciliations for reasonableness of amounts and items included and to trace reconciling items from the previous and/or subsequent period.

- We reviewed cash testing from the prior year (FY22) to determine reasonableness. We determined the reconciliation was reasonable compared to prior year.

E.2.PRG - Receivables (Net of Allowance)

Procedure Step:	Summary & Conclusion
Prepared By:	MEC, 10/31/2023
Reviewed By:	SLB, 11/13/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?

Our results of substantive test did not indicate we needed to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
We noted the quality and quantity of evidence obtained was sufficient and appropriate.

E.2.PRG - Receivables (Net of Allowance)

Procedure Step: Understanding of Line Item
Prepared By: MEC, 6/23/2023
Reviewed By: SLB, 11/7/2023

Record of Work Done:

(1) Prior Audit Exceptions:

Management Letter: See FY2022 Management Letter here [ACFR 2022_Management Letter_HCA-ESD-OFM]

Receivables
The Employment Security Department (ESD) calculates the amount of unpaid unemployment insurance premiums due from employers. Occasionally, ESD overpays claimants. Overpayments are assessed when benefits are retroactively determined to be incorrectly paid. This can happen due to a claimant receiving conditional payment while the claim is being reviewed, the claimant not providing additional information, errors, and various other reasons. In these instances, receivables (net of the amounts estimated to be uncollectible) should be reported in the general ledger at fiscal year-end.

ESD did not reconcile receivables from overpaid claimants back to amounts due to the other (federal) governments. This caused ESD to overstate the balance due to other governments by approximately $4.3 million.

ESD calculated estimated uncollectible receivables from employers to be a negative number. From 2018 to 2021, the estimated amounts have been positive and significantly higher. ESD was unable to quantify the error or determine how it occurred.
We recommended ESD:

- Reconcile receivables with amounts due to other governments and make adjustments to the state's accounting system as necessary

- Modify its methodology to ensure estimated uncollectible amounts are reasonable

Finding: See FY2022 Finding here: [ACFR 2022 Finding Internal Controls Over Financial Reporting]
- ESD inaccurately calculated the allowance for doubtful receivables related to claimant over payments.

We recommended ESD:
- Review the calculation of the allowance for doubtful receivables to ensure the correct data has been used

We will be following up on these issues during testing.

(2) Composition & Change Analysis:
Line Item Leadsheet: [Line Item Lead Sheet].

We noted the balance included activity from the following funds:
- 620: Unemployment Compensation Account
  - OFM Account description: The first priority is to provide services to eligible participants within the state; second priority is to provide substitute services or program support; and last priority is the direct payment of funds to the federal government.
    - Authority: RCW 50.16.010

- 622: Unemployment Compensation Federal Employees' Benefit Payment Account
  - OFM Account description: Local fund outside the state treasury used to account for funds received from the federal government to cover benefits paid by the state for eligible unemployed federal workers. Per the Federal Employment Security Act (Title V).
    - Authority: RCW 43.88.195

- 22E: Family and Medical Leave Enforcement Account
  - OFM Account description: Account is used to administer and enforce family and medical leave policies.
    - Authority: RCW 50A.05.080

- 22F: Family and Medical Leave Insurance Account
  - OFM Account description: Account is used for the family and medical leave insurance program.
  - Authority: RCW 50A.05.070

We evaluated the funds and determined transactions from fund 620 and 622 make up 80% of the account balance. The Receivables (Net of Allowance) line item is mostly composed of the receivables from employers (NGTS - taxes) and claimants (UTAB - overpayments).

We also identified that the funds did see some significant changes year over year (FY2021 to FY2022):

- 620: Unemployment Compensation Account:
  - GL1312 (Accounts receivable) increased 21% or $75M.
  - GL1319 (Other receivables) increased 39% or $127.5M.
- 622: Unemployment Compensation Federal Employees' Benefit Payment Account:
  - GL1319 (Other receivables) increased 201%.
  - GL1349 (Allowance for Uncollectible Other Receivables) increased 99%.
- 22E: Family and Medical Leave Enforcement Account:
  - The amount in GL1381 (Premium Estimated Receivables) increased by 171%, however it was a very small amount at $2,090.
- 22F: Family and Medical Leave Insurance Account:
  - The amount in GL1381 (Premium Estimated Receivables) increased by 69%, or $127 Million.

We would expect to see increases in accounts receivable due to increases in overpayment assessments sent to individuals and pandemic related unemployment assistance fraud at the Department. The agency currently has a backlog of fraud claims they are working through.

We inquired with Tai Ralston, Treasury Manager, on May 23, 2023 and she stated that there were no significant changes from FY22 to FY23 in regards to the receivables (net of allowance) line item processes or procedures in the Treasury department, however we identified that the agency is currently applying federal waivers to some assessed over payments that occurred during the pandemic between February 2, 2020 and September 4, 2021. The first round of these waivers were applied at the end of March 2023, with automatic waivers and write-offs to specific types of overpayments. Tai was unable to provide us with more information about these waivers as she said the Department does not decide which overpayments get waivers.

There is an overpayment waiver request form on the ESD website that can be submitted by those assessed with overpayment notices, and these are being manually reviewed by ESD staff for consideration which will take time. Due to the implications of this waiver to write-offs and accounts receivable, it is likely that we will see some significant changes to this line item for FY2023.

(3) Updates to Material Account Matrix:

The account description reflects the significant transaction streams or account balances relevant to the risk. We removed the following risk from the matrix "There is a risk that insurance premium receivables and over payments are incorrectly calculated". This is because the valuation risk is more related to the allowance calculation.

E.2.PRG - Receivables (Net of Allowance)

State of Washington

Procedure Step: Controls - UTAB
Prepared By: MEC, 6/21/2023
Reviewed By: SLB, 11/7/2023

Record of Work Done:

Material Balance(s) and Assertions

Internal controls in the UTAB address the following balances:

- Statement of Net Position - Proprietary Funds
  - Receivables (net of allowance)
- Statement of Net Position - Government Wide
  - Other Receivables (net of allowance for uncollectible)

For the following assertions:

- **Existence:** There is a risk that reported insurance premium receivables do not represent valid uncollected amounts due from employers and claimant over payments and/or fraudulent payments at year end.
- **Valuation:** There is a risk that a reasonable allowance for uncollectible accounts has not been established.

Gain an Understanding of Internal Controls

We met with the following people on May 23, 2023 to update our understanding over UTAB receivables:

- Tai Ralston, Treasury Manager
- Shelley Peterson, Assistant Treasury Manager
- Son Pham Fiscal Analyst
- Jay Summers, Audit Liaison

General Information:

Claimant over-payments are tracked in GL 1319 and tracked by fund (620 – federal or 622 – state).

Over payments were governed by the following:

- RCW 50.20.190 - Recovery of benefit payments (http://app.leg.wa.gov/rcw/default.aspx?cite=50.20.190)
- WAC 192-220-045 - How is the fraud penalty calculated? (http://apps.leg.wa.gov/wac/default.aspx?cite=192-220-045)
- RCW 50.24.200 - Charge-off of uncollectible accounts (https://app.leg.wa.gov/rcw/default.aspx?cite=50.24.200)
- RCW 50.32.020 - Filing of benefit appeals (https://app.leg.wa.gov/rcw/default.aspx?cite=50.32.020)

- SAAM 85.54.55 – Receivables (https://www.ofm.wa.gov/sites/default/files/public/legacy/policy/85.54.htm)

Overpayment Penalties and Interest (UTAB Receivable - Valuation)
See understanding of UTAB benefits at: [Understanding of Line Item]

Over payments of unemployment benefits occur when someone received benefits that they are later found to have been ineligible to receive. This can happen if someone receives more benefits than they were entitled to. For example:

- A claimant was paid on a conditional basis while their case was under review and the review subsequently finds that they were not entitled to receive benefits.
- A claimant does not respond to requests for more information during a 10 day window. Benefits will stop and the amount already paid out will become due back to ESD.

Claimants are able to appeal and provide the requested information which, if approved, will negate the overpayment assessment letter.

When over payments are identified, the Department mails the claimant an overpayment assessment letter which details the amount of the overpayment and states that the claimant has 30 days to appeal the overpayment determination or provide additional information to the Department. Over payments were also classified as fraudulent and non-fraudulent.

The ESD website indicates that ESD sent overpayment assessments out in error to people that recently reported fraud on the ESD online reporting tool or the Office of Special Investigations and to individuals that have not applied for or received unemployment recently. The website explains that the ESD unemployment benefits computer system sends overpayment letters automatically when claimants need to repay benefits.

Repayment of Over payments
When over payments are identified, benefit recipients are not expected to repay the full amount due immediately. UTAB calculates the minimum monthly payment depending on the type of overpayment (fraud or non-fraud). The calculation is:

Fraud:

- The weekly benefit amount client was receiving at the time the overpayment occurred, or 3% of the overpayment balance, whichever is greater.
- Interest is assessed at 1% per month on the balance, the interest begins the day the overpayment is established.

Non-Fraud

- One third of the weekly benefit amount, 3% of the overpayment balance, or $25.00, whichever is greater.
- Interest is assessed at 1% per month on the balance, on accounts at least a portion of two payments past due.

If the account is delinquent, UTAB calculates the minimum monthly payment by totaling the minimum monthly payment, accrued interest and past due amount.

When a client has an existing overpayment and begins claiming benefits, offsetting the principal balance will occur when:
1. The account is at least a portion of two payments past due; or
2. The overpayment is due to a UI Claim cancellation; or
3. The overpayment balance equals the New Balance Available (NBA) left on the UI Claim

Benefits will be offset at 50% of the weekly benefits payable for each week claimed for Non-Fraud over payments.

Offsetting occurs at 100% of the weekly benefits payable for each week claimed for the following:
1. Fraud Over payments; or
2. The overpayment is due to a UI Claim cancellation; or
3. The overpayment balance equals the NBA left on the UI Claim

If the client sends in the full overdue amount, current monthly payment, and total interest owed to bring the account current, offsetting will stop as long as the client continues to keep the account current.

Monthly Review of UTAB Receivable Data (Existence/Valuation)
UTAB automatically posts receivable activity (accounts receivable) to AFRS monthly (6th business day after the end of the month). Activity is posted in summary. To review the automatic post, Son Pham, Fiscal Analyst 4, runs a general ledger query from Web Intelligence (WebI) system. The report is exported into an Excel workbook titled "New AFRS File," tab "Receivable Activity." Son takes a screen shot of UTAB report "Aging Receivables" as of the last day of the month. She pastes the UTAB screen shot in the New AFRS File Excel workbook, tab "Receivable Activity". Son ties totals from the UTAB aging report to the general ledger. If exceptions are noted, the Fiscal Analyst 4 prepares an adjusting journal voucher. When complete, Son notifies Tai Ralston, Treasury Manager. Tai reviews the Excel workbook "New AFRS File" to ensure the receivables post from UTAB is accurately calculated, and receivables exist. Everyone uses an individual checklist for their respective responsibilities **(Key Control 1 – Manual - Existence/Valuation).**

The process described above is the same process for fraud receivables.

Calculation of Allowance for Doubtful Accounts (Valuation, Manual)
The allowance for doubtful accounts estimate is prepared from historical receipt trends tracked in UTAB. Monthly, Tai Ralston, Treasury Manager, reviews repayments by revenue source and aging. The UTAB report is called "Age of Account Payments," and documented in the Excel workbook "AgeOfAccountPayments_YrEnd." The aging report is broken out by 90 day increments (i.e. 0-90 days, 91-180 days, 181-365 days, 366-730 days, 731-1,095 days, and 1,096 and more days). Collection percentages are calculated by dividing the total receipts for each aging bucket by the total

receipts collected. Monthly percentages for each aging bucket are averaged to determine the collection percentages for the fiscal year. This is calculated on tabs "age of accounts 2021-22" and "Historical Percentage" in the AgeOfAccountPayments_YrEnd workbook. The percent calculations are later used to estimate how much would be collected and how much would likely be written off.

Balances that were past due are tracked in the UTAB report "Uncollectible Balances." The Uncollectible Balances report tracks all repayment plans that are delinquent for 180 days or more. This report does not track the age of the initial repayment plan, but status of the repayment plan. Shelly Peterson, Assistant Treasury Manager, multiplies the total uncollectible balances by the annual average collection percentages for each respective aging bucket. This is calculated on tab "Quick Glance" in the AgeOfAccountPayments_YrEnd workbook. The difference between the total uncollectible balances from the UTAB report and the expected repayment by aging category was the expected and likely write-off amount.

The uncollectible multiplying factor is determined by dividing the expected write off amount by total receivables (Age of Account Payments UTAB report). The multiplying factor is updated annually to reflect current collection practices and historical trends as calculated by the expected write-offs.

Shelly prepares a journal voucher based on the Excel workbook. Tai Ralston, Treasury Manager, reviews and approves the journal voucher. She reviews the Excel formulas to ensure amounts were accurately calculated **(Key Control 2 – Valuation, Manual)**. See below for GL coding (reversing JV):

- State (Fund 620) GL 1349/6505
- Federal (Fund 622) GL 1349/5151

Tai also reviews the total allowance for doubtful accounts and the allowance as a percentage to total accounts receivable to determine consistency and reasonableness.

For fraud receivables they take the total UTAB receivables and determine what portion is related to fraud. They reduce the fraud receivable amount by any items still in process as of June 30, 2023. This amount is divided by the receivables amount to determine the percentage that will be determined uncollectible. The journal voucher preparation and review process is the same as described above.

<u>Charge Off Criteria</u>
UTAB automatically writes off balances (daily and yearly write-offs). Daily, UTAB reviews receivables and charged off balances that met the following criteria:

- Amounts less than $25.00;
- No payment has been received within the past six months;
- The claimant did file or opened a claim within the last three months;
- If a lien was attached to the determination, the system automatically released the lien and sent notification to the county.

UTAB also reviews receivables annually and writes off balances that met the following criteria:

- Over payments were ten years or older or the overpayment was less than $100 (total includes principal, penalty, interest, court cost, and surcharge);
- No repayments were made within the last 15 months;
- If a lien was attached to the determination, the system automatically released the lien and sent notification to the county.

The annual review excludes over payments that were in suspense (by ESD, the business, stay of collection, prosecution, or request from the attorney general), out of state over payments, and balances greater than $0 for current ESD employees.

How transactions are recorded in AFRS:

- Accounts receivable data (monthly) is automatically posted to AFRS on the sixth business day after month-end.
- Year-end accounts receivable balances and related allowance for uncollectible accounts are posted to AFRS via journal voucher.

Key controls are as follows:

- **Key Control 1 (Manual):** The Treasury Manager and Fiscal Analyst 4 review the Excel workbook "New AFRS File" (GL query run through WebI), tab "Aging Receivables" to ensure accounts receivable (including fraud) recorded in UTAB were accurately calculated and imported into AFRS from UTAB. To document the above control, the Fiscal Analyst 4 and the Treasury Manager use a month-end checklist that noted their respective initials that indicated preparation or review as a part of the reconciliation process **(Existence/Valuation)**.
- **Key Control 2 (Manual):** The Treasury Manager reviews and approves the JVs and related support to ensure the allowance for doubtful accounts (including fraud) was accurately calculated based on historical collection data and the correct percentage **(Valuation)**.

Noted Weaknesses are as follows:

- None.

<u>E.2.PRG - Receivables (Net of Allowance)</u>

Procedure Step: Key Control 1 UTAB (Manual)

Prepared By: MEC, 7/6/2023

State of Washington

Reviewed By: SLB, 11/13/2023

Record of Work Done:

Key Control 1 (Manual): The Treasury Manager and Fiscal Analyst 4 review the Excel workbook "New AFRS File" (GL query run through WebI), tab "Aging Receivables" to ensure accounts receivable (including fraud) recorded in UTAB were accurately calculated and imported into AFRS from UTAB. To document the above control, the Fiscal Analyst 4 and the Treasury Manager use a month-end checklist that noted their respective initials that indicated AFRS/ UTAB reconciliation preparation or review **(Existence/Valuation)**.

The understanding for this system is documented above in the "Controls - UTAB" step.

1. Confirmation of Key Manual Control:
UTAB receivables were automatically posted via journal voucher from UTAB to AFRS. We requested the March 2023 month end Excel workbook "New AFRS File" (GL query run through WebI), to ensure accounts receivable, including fraud amounts were recorded in UTAB, and were accurately calculated and imported into AFRS from UTAB. To document the above control, the Fiscal Analyst 4 and the Treasury Manager use a month-end checklist that note their respective initials that indicated reconciliation preparation or review. We obtained the Treasury checklist (monthly duties schedule) for 2023 and identified that it had been filled out for the year up to May of 2023 with journal voucher preparation, review, and approval information for each GL account and each bank account reconciliation done in FY23 so far.

We obtained the "New AFRS File March 2023" excel spreadsheet from Tai Ralson, Treasury Manager. There was a tab in the spreadsheet titled, "Receivable Activity". This tab included the March 2023 Webi "Agency Wide Management Report by Date" (process date 4/17/2023). On this report GL 1319 "other receivables" totaled $2,197,149.72 in funds 620 and 622. GL 1349 "Allowance for uncollectible other receivables" was $1,646,561.12 for funds 620 and 622. There was detail below that which indicated the GL1319 and 1342 February ending balances, and the March ending balance after the adjustments noted above from the WEBi report.

Below that, there was a reconciliation of these balances to the adjustments from the UTAB report. There was a variance of $1,345,416 in GL 1319 and the variance in GL 1342 was zero:

	GL1319	GL1349
Feb Ending TB	1,548,400,131.86	(1,483,029,015.52)
March	(2,197,149.72)	1,646,561.12
	1,546,202,982.14	(1,481,382,454.40)
Utab	(1,561,964,939.01)	1,481,382,454.40

Excess Repayment	17,107,372.84	
Variance	$ 1,345,415.97	-

We inquired with Tai Ralston, Treasury Manager, about the UTAB/AFRS receivables variance and it was attributed to timing differences that can cause a monthly out of balance. Any variances are reviewed but not adjusted monthly. The main adjustment process is done at year end to calculate the allowance adjustment, which will be reviewed and confirmed for key control 2.

Below that, there were screen shots of UTAB reports provided comparison between the WEBI report and UTAB.

- The screen shot of the UTAB "Aging Receivables-details" report ending 3/31/2023 totaled $1,561,964,939.01. This was composed of 7 years of receivables beginning in 2017. The revenue types were broken out and listed as "Receivable Fraud Open Balance (Uncollectible debt)", Receivable Interest Open Balance, Receivable Interest Open Balance (Uncollectible Debt), Receivable Penalty Open balance, Receivable Penalty Open Balance (Uncollectible Debt) ,Receivable Principal Open Balance, and Receivable Principal Open Balance (Uncollectible debt).
- The screenshot of "Aging Receivables-details" report for the Revenue Type= Excess Repayment (Repayment Balance) was composed of 7 years of receivables beginning in 2017 and totaled $17,107,372.84.
- Another screen shot was included that broke down the Uncollectible Balance of $1,481,382,454.40 by activity and revenue type: Fraud, Interest, Penalty, or Principal.

No issues noted.

Noted Weaknesses are as follows:

- None

2. Preliminary Control Risk Assessment

Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test of Key Manual Control:

Not applicable - we are not planning to rely on controls and therefore do not need to test controls; control risk will be assessed at maximum.

State of Washington

E.2.PRG - Receivables (Net of Allowance)

Procedure Step:	Key Control 2 UTAB (Manual)
Prepared By:	MEC, 10/3/2023
Reviewed By:	SLB, 11/13/2023

Record of Work Done:

Key Control 2 (Manual): The Treasury Manager reviews and approves the JVs and related support to ensure the allowance for doubtful accounts (including fraud) was accurately calculated based on historical collection data and the correct percentage **(Valuation)**.

The understanding for this system is documented above in the "Controls - UTAB" step.

1. Confirmation of Key Manual Control:

We obtained journal vouchers and related support for the year end UTAB allowance for doubtful accounts adjustment. Tai Ralston, Treasury Manager, prepared the JVs on 8/3/2023. Kim Green, Deputy CFO, reviewed and approved the JVs on 8/29/2023. We received an email between Kim and Tai, dated 8/29/23, that detailed the review and approval. The JVs were uploaded by Son Pham, Fiscal Analyst, on 8/29/2023 and released by Tai Ralson on the same date.

We received a 38 page pdf packet of the journal entries and calculations performed to book the allowance adjustment to GLs 1319 and 1349, which distinguished between fraud and non fraud receivables in funds 620 (state) and 622 (federal). There were numerous screen shots from the UTAB system of cube reports run on 7/1/2023 at 5:07 am included as support for the numbers used in the calculation. Additionally, there were screen shots of ER General Ledger Trial Balance reports included as support for amounts used in the calculations.

We also received an Agency Wide Management Report by Date for June that detailed UT receivable activity batches in fund 620 & 622 for the month of June 2023 for GLs 1319 & 1349. There was a calculation performed under these reports in the pdf we received that identified a variance of (6.1 million) between the UTAB system and AFRS, which was attributed to 6.2 Million in "Fraud in suspense- not resolved at 6/30/2023". The final variance was $101,158.99, which is below the floor for the opinion unit. *No further control work is necessary.*

Note: The percentage used to book the non-fraud allowance was identified as 32% and the percentage used to book the fraud allowance was identified on the support as 98%.

- We were also provided with historical data from UTAB used to obtain the percentage used in the calculation, and we requested this information in excel to use for our testing.

We determined that the agency is using historical data and system reports to calculate the amounts for the journal entries to record allowance adjustments, and that these journal entries are reviewed and approved by ESD management prior to upload and release by ESD staff.

Noted Weaknesses are as follows:

- None

2. Preliminary Control Risk Assessment
Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test of Key Manual Control:
Not applicable - we are **not** planning to rely on controls and therefore do not need to test controls; control risk will be assessed at maximum.

E.2.PRG - Receivables (Net of Allowance)

Procedure Step:	Controls - NGTS
Prepared By:	MEC, 7/10/2023
Reviewed By:	SHW, 1/22/2024

Record of Work Done:

Material Balance(s) and Assertions [Interim Planning Material Account Matrix**]**
Internal controls in the NGTS address the following balances:

- Statement of Net Position - Proprietary Funds
  - Receivables (net of allowance)

- Statement of Net Position - Government Wide
    - Other Receivables (net of allowance for uncollectible)

For the following assertions:
Existence:
- There is a risk that reported insurance premium receivables do not represent valid uncollected amounts due from employers and claimant over payments and/or fraudulent payments at year end.

Valuation:
- There is a risk that reasonable allowance for uncollectible accounts has not been established.

Gain an Understanding of Internal Controls
We met with the following people on 5/23/2023 to update our understanding over NGTS receivables:
- Tai Ralston, Treasury Manager
- Shelley Peterson, Assistant Treasury Manager
- Son Pham Fiscal Analyst
- Jay Summers, External Audit Manager/Audit Liaison

Source of Guidance
- Penalties for Late Reports and Contributions: RCW 50.12.220

General Accounts Receivable Information - NGTS
Employers file quarterly hour and wage information for their respective employees. Reports are due one month after the end of the calendar quarter (i.e. April, July, October, and January). Accounts receivable statements are mailed monthly for balances greater than $5.00.

Basic Tax Calculation (Valuation)
Receivable balances are based on payroll data provided by employers and the employers respective unemployment tax rates as reported on quarterly tax reports. Reports are typically prepared online through the Next Generation Tax System (NGTS) and Employment Account Management Services (EAMS). The calculation is automatically calculated through the online reporting system. Tax rates are determined annually in the fall and notices are mailed to employers in December.

Rates are based on industry rates for new employers and historical information for established employers. Calculations for established employers comprised of the following:
- Unemployment Insurance Tax (Includes Social Cost)
- Employment Administrative Fund Tax

State of Washington

For a full understanding of premiums & assessments and related control confirmation see: [Premiums & Assessments].

Accounts Receivable Monthly and Year-End JVs (Existence, Manual)
Accounts receivable balances, employer account activity, and payments are managed in NGTS. NGTS receivable information is dynamic and does not produce historical information on reports. As such, the Treasury Department use and review a monthly SQL query to post and report accounts receivable. Query results are saved in an Excel workbook called, "Monthly NGTS Receivables". Query results are summarized by employer class in a pivot table. Query totals are reduced by amounts reported in future periods (all employer classes who reported amounts not due yet) and select employer class codes.

NGTS has an AR report that they compare to a SQL query. They do this monthly.

See below for the employer class codes that are excluded:
- 150 - State Agencies
- 153 - ESD
- 154 - Not-for-Profits and Local Governments

Journal vouchers book the incremental change to the AFRS receivable balance. Adjustments are made to increase or decrease accounts receivable GL 1312 with an off-set to accrued revenue. The transaction code used to increase receivables and increase accrued revenue is 012 (GL 1312/3205). The transaction code used to decrease receivables and decrease accrued revenue is 020 (GL 3205/1312). The monthly journal vouchers are typically prepared by Son Pham, Fiscal Analyst 4, and reviewed by Shelly Peterson, Assistant Treasury Manager **(Key Control 1 - Manual - Existence/Valuation)**.

The Employment Security Department (ESD) also uses additional queries to record period-end or year-end receivables. These receivables are for Q2 assessments (April - June) that are determined or estimated after June. See below for the queries used and a brief description:

1. Added: Second Quarter Assessments:
   - This query is ran to capture assessments due for the second quarter (April-June) and due July 31st on the employer's quarterly report. This query is ran at the end of August (day before phase 2 close) to allow for as many employers as possible to complete their reporting and reduce ESD calculated assessments. This report is re-ran in late September or early October to ensure no significant changes of assessments as reported by employers reporting wages and hours.

2. Subtracted: Second Quarter Assessments Paid in June:
   - This query lists all employers that filled and paid their second quarter assessments before 6/30/2021. Since payment is made prior to year end, ESD removed this from their receivable balance.

3. Added: Estimated Assessment for Second Quarter Based on First Quarter Return Data (wages and hours):
    - This query is ran at the end of August (day before phase 2 close) to reduce the amount of estimated assessments. NGTS automatically calculates assessments for employers who reported wages in the first quarter of the year (January - March), but did not report wages for the second quarter (April - June).

4. Added: Estimated Assessments for Second Quarter not Previously Liable:
    - This query estimates the number of new employers who did not establish an employer account or file any quarterly returns. These estimates are based on the employer's industry average unemployment insurance tax. The number of estimated new employers is based on the previous year's actual new employers. Estimated new employers are charged the average filling amount. The average filling amount is determined by the Labor Market and Performance Analysis (LMPA) department.

Query results are summarized by employer class in a pivot table. Query totals are reduced by amounts reported in future periods (all employer classes who reported amounts not due yet) and select employer class codes. See below for the employer class codes that are excluded:

- 152 - State Agencies
- 153 - ESD
- 154 - Not-for-Profits and Local Governments

Adjustments are made to increase or decrease accounts receivable with an off-set to accrued revenue. The transaction code used to increase receivables and increase accrued revenue is 012 (GL 1312/3205). The transaction code used to decrease receivables and decrease accrued revenue is 020 (GL 3205/1312). Year-end journal journal vouchers are prepared by Shelly Peterson, Assistant Treasury Manager, and reviewed by Tai Ralston, Treasury Manager **(Key Control 1 - Manual - Existence/Valuation)**.

<u>Allowance for Doubtful Accounts Year-End Adjustments (Valuation, Manual)</u>
The Department reviews allowance for doubtful accounts by reviewing revenues, collections, and write-offs. They expect the allowance for doubtful accounts to reflect the Department's actual write-offs. ESD calculates the allowance using the foloowing queries: by: determines they would review the allowance for doubtful accounts using two methods. See below for details over each method.

- Query 1: Write-Offs Totals (CUA) – Annual with Average
    - The first query produces the amounts determined (certified) uncollectible by fiscal year. The report also aggregates annual uncollectible balances and produces the average yearly uncollectible amount. ESD uses a five year average. The five year average is considered as the basis for the allowance for doubtful accounts.
- Query 2: Detailed Write-Offs

- The second query provides all the detailed write offs to ensure the accuracy of the annual query amounts. Amounts and assessment types are reviewed to ensure the average write-off amounts included NGTS related transactions. The query details the following information:
  - ESD Number
  - Legal Business Name
  - Transaction Date
  - Payment Method
  - Assessment Type
  - Write-Off Applied To (Account Where Write-Off Was Applied)
  - ASM Amount
  - CUA (Certified Uncollectible Amount)
  - Qtr/Year (When the Tax Assessment Was Earned)
  - Class (ESD Employer Class)
  - Ownership Structure
  - Transaction Type

If there is anything questionable in these queries Shelly or Tai reach out to the NGTS team.

ESD does not use sub-object 'WC' with GL code 6515 'Bad Debt Expense' as prescribed by SAAM Manual 75.70.10 for proprietary accounts. SAAM prescribes use of WC when the uncollectible revenue is in an unbudgeted proprietary type account that does not have an allowance account set up. RCW 50.16.010 limits any expenditures in fund 620, and the fund balance is classified as restricted in the ACFR Proprietary/Government wide SNP in GL 9545. SAAM 85.54.55.f states: When the write off involves the receivable of federal or private/local revenues, agencies should contact their assigned OFM Accounting Consultant for guidance on the accounting entries.

Son Pham, Fiscal Analyst 4, aggregates the results from option 1 and 2 in an Excel workbook called "NGTS Allowance Calculation Template.xlsx". Son and Tai Ralston, Treasury Manager, work with the Office of Financial Management (OFM) to determine which option is the best support for determining the allowance for doubtful accounts. This is determined after year-end.

Adjustments are made to increase or decrease allowance for doubtful accounts with an off-set to accrued revenue. The transaction code used to increase the allowance for doubtful accounts and decrease accrued revenue is 122 (GL 3205/1342). The transaction code used to decrease allowance for doubtful accounts and increase accrued revenue is 122R (GL 1342/3205). The journal voucher is prepared by Son and reviewed by Shelly Peterson, Assistant Treasury Manager, or Tai **(Key Control 2 - Manual - Existence/Valuation)**. Tai recalculates the allowance as part of her review.

Collections (Roll Forward of Historical Information For Single Audit and Context)

State of Washington

Collections activities are executed within ESD by the collections division. Monthly statements are automatically mailed for all account balances. All collections efforts are tracked in NGTS in the Collection Plan module by tax agents. When employers did not or could not pay, the collections team had the following goals: get payment in full, establish a payment plan, execute a warrant or lien (property lien), bank garnishment, or legal judgement.

The summary of collections processed were as follows:

1. First Collection Attempt:
Tax collectors emailed or called the employer to remit a full or partial payment. If the Department could not obtain an active phone number or email, the tax collector ran a skip trace. The tax collector provided 3 working days for response on account that did not reach a live person either by phone or through email response. If there is no response then they would issue a Notice and Order of Assessment (NOA) if not previously done so.

2. Second Collection Attempt (30 Days after First Collection Attempt):
Once 30 days has passed the NOA has expired and the tax collector will review the account. If the balance is still due and there has been no response from the employer for payment or a Deferred Payment Contract (DCP) then the tax collector will issue a Notice to Withhold and Deliver (NWD). After 25 days if there is no response or payment then they will send a no response letter.

3. Third (56 Days after First Collection Attempt) and Subsequent Collection Attempts (66 Days after First Collection Attempt):
Once 56 days has passed the tax collector will review the account for a NWD response/payment. If there is no payment then the tax collector will do a quick review to verify there is no new information that may have been added both internally and externally from new reports, work requests, or contract from other units. If there is nothing found during the review then the tax collector issues a lean or warrant over identified employer assets (i.e. business or personal bank accounts). If there are attachable wages the tax collector will check in 5 days for warrant filing. Once the warrant is coded then the tax collector initiates the wage garnishment. If contractor bonds were identified, the tax collector issued a warrant with a NOA to make a claim against the bond.

4. Fourth (66 Days after First Collection Attempt):
Once 66 days have passed that tax collector will finalize wage garnishment. They will also review for any other advanced collection action (submit for audit, notice to Furnish Board, injunction, or new bank for garnishment).

If all collection efforts resulted in no communication with the employer and no assets existed, the tax collector reviewed the employer's account to be classified as uncollectible. If collection attempts failed, accounts were reviewed for classification as 'uncollectible.' Collections were considered possible until the employer's business ceased operations. Accounts classified as uncollectible required the employer account closed in NGTS.

In NGTS, the tax collector completed the digital certification of uncollectible accounts. This form summarized and documented all procedures performed to determine the account could not be collected on. Summarized collection information included the following: business information, collection actions taken, and reason for status determination. When completed, the tax collector submitted the digital certification electronically in NGTS. Approvals were based on the amount written off. See below for the approval thresholds:

- Collections Supervisor: $1 - $2,500
- Collections Supervisor and Program Manager: $2,501 - $10,000
- Collections Supervisor, Program Manager, and the Deputy Director: Greater than $10,000

How transactions are recorded in AFRS:

- Transactions are recorded in NGTS. NGTS data is queried and recorded in AFRS monthly and at year end by general journal vouchers prepared by Son Pham, Fiscal Analyst 4, and reviewed by Shelly Peterson, Assistant Treasury Manager.

Key controls are as follows:

- **Key Control 1 (Manual):** The Treasury Manager reviews journal vouchers to record the incremental change to the NGTS accounts receivable balance. The Assistant Treasury Manager reviews the monthly schedule of accounts receivable prepared by the Fiscal Analyst and supporting query results to ensure receivables were calculated correctly and existed as of month and year-end **(Existence/Valuation)**.
- **Key Control 2 (Manual):** The Treasury Manager or Assistant Treasury Manager reviews journal vouchers to record the incremental change to the allowance for doubtful accounts. The Treasury Manger reviews the quarterly Allowance for uncollectible accounts receivable schedule prepared by the Fiscal Analyst and the supporting query results for option number 1 and 2 to ensure the estimate reflected operations and historical trends **(Existence/Valuation)**.

Noted Weaknesses are as follows:

- None.

E.2.PRG - Receivables (Net of Allowance)

Procedure Step: Key Control 1 NGTS (Manual)

Prepared By: MEC, 7/10/2023

Reviewed By: SLB, 11/13/2023

State of Washington

Record of Work Done:

Key Control 1 (Manual): The Treasury Manager reviews journal vouchers to record the incremental change to the NGTS accounts receivable balance. The Assistant Treasury Manager reviews the monthly schedule of accounts receivable prepared by the Fiscal Analyst and supporting query results to ensure receivables were calculated correctly and existed as of month and year-end **(Existence/Valuation)**.

The understanding for this system is documented above in the "Controls - NGTS" step.

1. Confirmation of Key Manual Control:

We requested and obtained journal voucher to record the incremental change to the NGTS accounts receivable balance for March of 2023. We reviewed AFRS journal voucher 54021803 prepared and uploaded on 4/5/2023 by Son Pham, Fiscal Analyst, and reviewed and released by Shelly Peterson on the same date.

The explanation of the journal entry was listed as "To record fund 620 financial transaction for the month of March 2023". The total for the JV was $49,507,819.38 and contained various entries to GLs 1110, 3210, 5191, and receivables. All entries were in fund 620, revenue source 0471 (Unemployment Compensation Contributions). The amount booked to 1312/3205 accounts receivable/accrued revenue was a decrease in employer A/R in the amount of $4,935,786.57 using trans code 020, and the amount booked to decrease allowance for uncollectible accounts 1342/3205 was $3,675,183.23 using trans code 122 R.

We were provided with the support (also prepared by Son Pham) for these adjustments on the Journal voucher:

- A clearance Journal detailing a line for each day of the month of March with columns for amounts from specific NGTS Tax Accounting reports and another report detailing bank deposits received. and ACH debits. These sheets were both totaled at the bottom, and the The difference to AFRS was noted as $0 on each sheet. There were check marks for each totaled column indicating review.
- Another sheet with detail of daily payments and disbursements was included that showed the prior month ending balance and the daily totals and the ending balance for the month of March was also included. At the bottom of this sheet was a section titled " Clearance Monthly AFRS to Webi GL 1110 Reconciliation which was tied to the US Bank ending balances with a difference of $0.02.
- A schedule of Accounts Receivable for the month ending March 2023, which showed the change in A/R GL 1312 from the previous month. It contained screen shots of reports and pivot tables identifying the March 2023 receivable balance of $87,310,744.71 after the JV#54021803 that booked the decrease of 4,935,786.57 was uploaded. There was also a check mark indicating review. This amount tied to the Journal entry.
- A schedule of Allowance for uncollectible accounts receivable for the quarter ending 3/31/23 - Fund 620 GL1342. It identified the general ledger balance at 12/31/22 and at 3/31/23 after the adjustment to the GL (which was the difference between the two amounts). It contained screen shots of reports and pivot tables identifying the makeup of the balance by quarter. To arrive at the adjusted amount, the the current quarter (Q1) and previous two quarters plus any future quarter amounts were subtracted from the balance. The difference

between the previous months balance and the new balance was $3,675,183.23, which we tied to the journal. There was also a check mark indicating review.

No issues noted.

Noted Weaknesses are as follows:

- **None**

2. Preliminary Control Risk Assessment

Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test of Key Manual Control:

Not applicable - we are not planning to rely on controls and therefore do not need to test controls; control risk will be assessed at maximum.

E.2.PRG - Receivables (Net of Allowance)

Procedure Step:	Key Control 2 NGTS (Manual)
Prepared By:	MEC, 9/20/2023
Reviewed By:	SHW, 1/22/2024

Record of Work Done:

Key Control 2 (Manual): The Treasury Manager or Assistant Treasury Manager reviews journal vouchers to record the incremental change to the allowance for doubtful accounts. The Treasury Manger reviews the quarterly Allowance for uncollectible accounts receivable schedule prepared by the Fiscal Analyst and the supporting query results to ensure the estimate reflected operations and historical trends **(Existence/Valuation)**.

The understanding for this system is documented above in the "Controls - NGTS" step.

<u>1. Confirmation of Key Manual Control:</u>
We obtained journal vouchers 54025819 (to record NGTS Allowance as of 6/30/2023) and 54002806 which adjusted the NGTS allowance for doubtful accounts to calculated five-year average of uncollectible (written-off) receivables. We noted the journal vouchers were prepared by Son Pham, Fiscal Analyst, on 8/30/2023 and physically signed as reviewed and approved by by Tai Ralston, Treasury Manager, on 8/30/2023. The Treasury Manager made tickmarks on the journal vouchers indicating her view of the calculation, review of the journal to AFRS and NGTS, and adjustment calculations.

We reviewed the journal voucher support and noted the Assistant Treasury Manager averaged write-offs or amounts certified as uncollectible from 2019 through 2022. The average as of 06/30/2023 was $3,829,742.46. We also noted the workpapers, which included the 2023 NGTS Allowance Calculation spreadsheet with tabs the included both journal entries, the "option 2 write off average" tab, a detail write off report from 2019 through 2023 from NGTS, and a tab showing the effect of the Journal to AFRS on GL1342. This tab included the June 2023 beginning balance in GL1342, the amount recorded to increase the allowance for Uncollectible A/R, and the Allowance year end adjustment to bring the balance to the amount calculated on the option 2 write off average" tab. ***No issues noted.***

Noted Weaknesses are as follows:

- None

<u>2. Preliminary Control Risk Assessment</u>
Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted <u>no matters</u> involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

<u>3. Control Risk at LOW - Test of Key Manual Control:</u>
Not applicable - we are not planning to rely on controls and therefore do not need to test controls; control risk will be assessed at maximum.

<u>E.2.PRG - Receivables (Net of Allowance)</u>

Procedure Step: Risk Assessment

State of Washington

Prepared By: MEC, 8/16/2023
Reviewed By: SLB, 11/13/2023

Record of Work Done:

(1) Inherent Risk (IR):
Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

- Existence (UTAB & NGTS) - **MAX**
- Valuation (UTAB & NGTS) - **MAX**

(2) Control Risk (CR):
As documented in other steps, we assessed control risk as follows for each system and relevant assertion:

- **UTAB** - Existence & Valuation:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

- **NGTS** - Existence & Valuation:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

- Existence (UTAB & NGTS) - **MAX**
- Valuation (UTAB & NGTS) - **MAX**

(4) Testing Strategy:
We designed our substantive testing strategy based on our assessment of the risk of material misstatement. We plan to perform the following

tests:

- **UTAB** Accounts Receivable - Including Fraud
  - We will select a sample of accounts receivable reported as of 6/30/2023 and review existence through subsequent payments made on repayment plans or pursuit of legal action (liens, garnishments, etc.) **(Existence)**.
- **UTAB** Allowance for Doubtful Accounts - Including Fraud
  - We will recalculate the allowance for doubtful accounts to ensure the ESD followed the correct process **(Valuation)**.
- **NGTS** Accounts Receivables
  - We will select a sample of accounts receivable from one or more of the 6/30/2023 queries that make up the accounts receivable balance. We will review existence through subsequent payments **(Existence)**.
- **NGTS** Allowance for Doubtful Accounts
  - We will recalculate the allowance for doubtful accounts to ensure the ESD followed the correct process **(Valuation)**.

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

E.2.PRG - Receivables (Net of Allowance)

Procedure Step: Substantive Test

Prepared By: RKM, 12/1/2023

Reviewed By: SHW, 1/24/2024

Record of Work Done:

UTAB and NGTS (funds 620 & 622) receivables made up 74% of the total net receivables line item, with the remaining 26% composed of fund 22F - Family Medical Leave and Insurance Account. We determined testing funds 620 and 622 provided us with sufficient audit coverage.

- Receivables [Line Item Lead Sheet]
  - We will select a sample of accounts receivable that existed as of 6/30/2023 and review existence through subsequent payments made on repayment plans or pursuit of legal action (liens, garnishments, etc.) **(Existence)**.

- We will recalculate the allowance for doubtful accounts to ensure the ESD followed the correct process **(Valuation)**.

Substantive tests performed to meet the Existence assertion:
UTAB Accounts Receivable Testing: [FS Sampling - UTAB AR Testing]
We tested the UTAB report "Aging Receivables - Detail" for completeness against the screen shot of the UTAB report "Aging Receivables - Detail" through 6/30/2023 ran on 7/1/2022 by ESD. To ensure we could rely on UTAB's accounts receivable aging report for sample testing, we compared the "Aging Receivables - Detail" (created on 7/1/2023) with AFRS GL balances 1319 Other Receivables for fund 620 and 622 through 6/30/2023 run from Enterprise reporting.

- We removed revenue types that included pending descriptions, added fraud receivables that were not applied to claims yet, and excluded fraud receivables in process. After these adjustments we noted the UTAB AR total was different than the GL total. The difference we noted was $548,531. The difference noted on the was attributed to report timing. See **issue** at: [V: ESD UTAB Receivables to AFRS Reconciliation]. **See AOM link in the conclusion above.**
  - **We determined we could rely on the UTAB report data for testing purposes.** See tab, "Completeness UTAB Data" at: [FS Sampling - UTAB AR Testing]. ***No issues noted.***

Regular Receivables:
Our regular receivables population consisted of over payments (by claimant) and revenue source. Due to the size of the population and the high level of detail provided by UTAB, we determined random sampling would be the most effective and efficient test. We used the TeamStore sampling spreadsheet to determine our sample size. Our sample was based on an expected misstatement rate of 0%, a tolerable misstatement rate of 7.5% and a high assurance level. Our planned sample included 39 items. We exported the UTAB report "Aging Receivables - Detail" through 6/30/2023 and noted that we were not able to export the full population due to the size limitation of the UTAB detail reports. We downloaded a report with the "maximum number of detailed rows that could be displayed" by the system and selected from the transactions contained in it. We determined that the following revenue types made up the majority of the balance:

- 5% Receivable Interest Open Balance
- 14% Receivable Interest Open Balance (Uncollectible Debt)
- 81% Receivable Principal Open Balance (Uncollectible Debt)

Our random sample pulled only the Receivable Principal and Interest Open Balance (Uncollectible Debt) types of revenue transactions from the UTAB detail report.

We reviewed the following documentation in the UTAB system to determine existence of receivables as of 06/30/2023:

- Monthly Overpayment Letters/Determination Letters sent to claimants to record the receivable amount for the month of June, July, or August 2023.
- Repayment plans created for the claimant
- Liens filed against the claimant

- Garnishments from claimant's bank or employer
- Repayments in subsequent periods

We determined that all 39 receivables existed based on documentation in the UTAB system. **See tab, "FS Substantive Sample - Regular" at**: [FS Sampling - UTAB AR Testing]. *No issues noted.*

Fraud Receivables:
To obtain our fraud receivables population, we used the cube version of the UTAB Aging Receivables report, dated 7/1/2023, to export a detail report of the fraud receivables at 6/30/2023. Due to the size of the population and the high level of detail provided by UTAB, we determined random sampling would be the most effective and efficient test. We used the TeamStore sampling spreadsheet to determine our sample size. Our sample was based on an expected misstatement rate of 0%, a tolerable misstatement rate of 7.5% and a high assurance level. Our planned sample included 39 items. We exported the UTAB report "Aging Receivables - Detail" through 6/30/2023 and noted that we were not able to export the full population due to the size limitation of the UTAB detail reports. We downloaded a report with the "maximum number of detailed rows that could be displayed" by the system and selected from the transactions contained in it. We determined that the following revenue types made up the majority of the balance:

- 4% Receivable Interest Open Balance
- 9% Receivable Interest Open Balance (Uncollectible Debt)
- 87% Receivable Principal Open Balance (Uncollectible Debt)

Our random sample pulled all of these revenue types for testing. We identified that our sample pulled 38 instances of "ID theft" and one other fraud which was related to an incarcerated individual in another state. We also identified that some fraud was recovered through banks on 7/1/2020 for 14 samples, leaving only penalty and interest balances on the account.

We reviewed the accounts for the following documentation in the UTAB system to determine existence of reported receivables as of 06/30/2023:

- Monthly Overpayment Letters/Determination Letters sent to claimants to record the receivable amount
- Repayment plans created for the claimant
- Liens filed against the claimant
- Garnishments from claimant's bank or employer- N/A
- Repayments in subsequent periods/fraud recovery

We determined that all 39 fraud receivables existed based on documentation in the UTAB system. **See tab, "FS Substantive Sample - Fraud" at: [**FS Sampling - UTAB AR Testing**].** *No issues noted.*

NGTS Accounts Receivable Testing
We reviewed the composition of NGTS receivables in our reconciliation at: [FS Sampling NGTS AR Testing]. Tab, "Completeness NGTS Recon". We

noted SQL Query #1 - Liable Q2 Amounts Assessed for Q2 totaled approximately $371.4M or about 78% of the total accounts receivable balance (fund 620 GL 1312). We obtained the SQL query results from Tai Ralston, Treasury Manager, and tied the report total to our reconciliation. Amounts tied without exception.

We noted our population included 325,647 assessments or employer accounts. We determined random sampling would be the most effective and efficient test. We used the Financial Audit Substantive Sample testing spreadsheet to determine our population based on an expected misstatement rate of 0%, 7.5% tolerable misstatement rate, and a high assurance level. Our sample population totaled 39 assessments or employer accounts. We randomly selected the 39 samples.

We reviewed Q2 assessments in NGTS and ensured the amount tied to the query results. We determined the existence of the receivable as of June 30, 2023 by tying the amount of the assessment to the subsequent payment, collections documentation, or application of credits on account. See testing at: [FS Sampling NGTS AR Testing]. We noted several payments resulted in a +/- $.01 difference which resulted to a total misstatement (known plus likely) of $41 as calculated by the substantive or dual purpose statistical sample spreadsheet. This misstatement is below the Unemployment Insurance opinion unit floor. ***No issues noted.***

Substantive tests performed to meet the Valuation assertion:

UTAB Accounts Receivable Testing

We recalculated payments in UTAB at: [Premiums & Claims]. We determined this work was sufficient to ensure UTAB was calculating overpayments correctly.

NGTS Accounts Receivable Testing

We recalculated premiums in NGTS at: [Premiums & Assessments]. We determined this work was sufficient to ensure NGTS was calculating premiums correctly.

UTAB Allowance for Doubtful Accounts

See testing here: [Allowance for Doubtful Accounts Testing - UTAB**]**

Non Fraud Allowance:

The UTAB non-fraud allowance for doubtful accounts is based on monthly collection data by aging category and the year-end amounts. We based our recalculation steps on the Department's desk manual. We performed the following steps:

1. Determine the annual average collection history by aging category.
    - First, we obtained the "Age of Account Payments" report from UTAB for each month in the fiscal year. This report totaled collections by revenue source and aging category of the repayment plan. We recorded the total amounts receipted for each aging category for every month of fiscal year ended June 2023. We averaged the totals and determined the average amount receipted as a percent for each aging category.
2. Determine how many past-due repayment plans will likely be collected.

- UTAB also tracked repayment plans that were not being repaid (no payments for 180 days or more). This data was reported on UTAB report "Uncollectible Balances". We multiplied the total Uncollectible Balances (less any previous aging category balances) by the respective annual average aging category percent. This determined the amount expected to be eventually collected.

3. Determine the amount of repayment plans that are likely to be written off in a dollar value and percent
   - The amount expected to collected less the total uncollectible balance was the amount expected to written off. The amount expected to be written off was divided by the total uncollectible balances to determine the expected write-offs or multiplying factor (percent). The multiplying factor was rounded down to the nearest percent to reflect the long collection cycle for some repayment plans; however, the Department eventually received some or all of the balance outstanding.
4. Multiply the amount expected to be written off by total regular accounts receivable (for each fund).
   - Last, we multiplied the regular accounts receivable balance by fund by the multiplying factor to determine the allowance for doubtful accounts for each fund. We calculated the same multiplying factor as the Department without exception.

See tab, "Non-Fraud Allowance" at: [Allowance for Doubtful Accounts Testing - UTAB].

Fraud Allowance:
During FY23 the ESD also calculated an expected fraud uncollectible estimate. This was due to the fraud that occurred during FY20 in regards to the unemployment benefits. ESD worked with OFM to determine the percentage that would be the allowance for fraud receivables. They took the total UTAB receivables and determined the portion related to fraud. Once they determined that they took the fraud receivables amount and reduced it by any items still in process as of June 30, 2023. Once they had this amount they divided it by the receivables amount to determine the percentage that was determined uncollectible. We calculated 98% to be the allowance for fraud. This tied to ESD's percentage without exception. We reviewed the UTAB allowance calculation document and supporting documentation provided by Tai Ralston, Treasury Manager, to verify that the percentage seemed reasonable for the fraud allowance for doubtful accounts. We determined that 98% is a reasonable estimate.

See tab, "Fraud Allowance" at" [Allowance for Doubtful Accounts Testing - UTAB].

We determined the ESD inaccurately calculated the entire UTAB allowance for doubtful accounts. There was an error in calculating the year-end adjustment. This caused Allowance for Uncollectible Other Receivables (GL 1349) to be overstated by approximately $330.5M. This also caused Other Receivables (GL 1319) to be understated by the same amount. See **issue** at: [V: ESD UTAB Allowance for Doubtful Accounts (Part of Finding 2023-01) See ISS.26]. **See AOM link in the conclusion above.**

Blanket Waiver Applications:
During our testing we were informed that the ESD submitted blanket waiver applications to the USDOL on April 4, 2023 and October 9, 2023 based on the following guidance: UIPL No. 20-21, Change 1. See tab, "Waivers" at [Allowance for Doubtful Accounts Testing - UTAB]. There will be a subsequent events note disclosure related to the blanket waiver applications submitted. We will review the disclosure during RP&D and determine if a matter of emphasis is necessary in our report.

NGTS Allowance for Doubtful Accounts
ESD used option #2 for their NGTS allowance for doubtful accounts as of 06/30/2023. This method was based on bad debt write-offs or balances determined certified uncollectible amounts (CUA). ESD used a five year average (fiscal year end June 2019 through 2023) to determine what the allowance for doubtful accounts should be for fiscal year 2023. This method was consistent with the NGTS allowance calculation used in prior years.

We obtained the detailed (transaction level) CUA data for fiscal year 2023. See tab "Option 2-Write Off Details" in our testing at [Allowance for Doubtful Accounts Testing - NGTS]. We noted the data was isolated to NGTS revenue streams (i.e. assessment types). We used the data to create a pivot table that summarized the amounts determined certified uncollectible and the date when written off. After we manually added the correct fiscal year the Excel pivot table automatically summarized the dates by fiscal year.

See tab "SAO NGTS CUA Summary" in our testing at [Allowance for Doubtful Accounts Testing - NGTS]. We used the summary level data to recalculate the amount of CUA's for each fiscal years ended 2019 through 2023. See tab "NGTS Allowance Testing" in our testing at [Allowance for Doubtful Accounts Testing - NGTS]. We recalculated the average CUA for fiscal year ended 2023 and used a five year average. **The average tied to GL 1342 without exception.**

However, it was determined that the certified uncollectible amount (CUA) used in the calculation in FY22 should not be negative. We were unable to quantify the FY22 error due to ESD not being able to determine how this error occurred, which resulted in an exception and a recommendation to ESD:

- *The certified uncollectible amount used to calculate the NGTS allowance was negative. From 2018 to 2021 the amount has been positive and significantly higher. We were unable to quantify the error due to the Department not being able to determine how this error occurred. We don't expect this error to have a significant financial impact since the Department uses a five year average for their allowance estimate.* ***We recommended that the Department to modify their methodology to ensure the certified uncollectible amount is not negative.***

We identified that ESD used the same negative calculation from FY22 as the CUA amount in the FY23 allowance calculation. This appears to be due to using the same detailed (transaction level) CUA data for fiscal year, which is historical data from the NGTS system that also contained the updated FY23 quarterly information. Using the report documented on the "Option 2-Write Off Details" tab that ESD used in their calculation, we ran pivot tables for FY21 through FY23 to compare the last three years by transaction type. We identified that there were four types of transactions represented in the data and that there were very large changes in Write off transactions and Reverse Write off transactions:

Transaction Type	2021	2022	2023
Allocation	259.38	(152.95)	510.51
Assessment Transaction	(13,340.71)	(270.50)	(14,677.37)

Reverse Write Off	(300,852.63)	(187,204.22)	(3,338,714.37)
Write-off Transaction	4,373,355.09	59,877.10	3,545,083.91
Grand Total (CUA Amount)	**$ 4,059,421.13**	**$ (127,750.57)**	**$ 192,202.68**

The methodology for the NGTS Allowance for Doubtful Accounts is dependent on the collections division following the regular collection process and completing CUA forms timely on every later account. Since this did not happen during FY22 and FY23 the methodology would result in an understatement of the allowance, understatement of bad debt expense, and a corresponding overstatement of the receivable.

We reached out to ESD for an explanation. We met with Jay Summers, Audit Liaison and Denise Craig, UI Tax & Wage Employer Services Manager, on 9/29/2023 for an explanation. Denise let us know that the year over year changes were due to several causes related to the Pandemic, staffing levels, and timing. She informed us that the collections team was not actively pursuing collections during FY22, and that they were reassigned duties in the claims center working on other accounts. She let us know that there were still write offs occurring due to the automatic NGTS system write offs that occur for collectible balances under $50. Collections resumed their work in December of FY23 resulting in the increase in write off transactions. Reverse write offs also increased due to the collections department assessing penalties on previously written off accounts such as liens and other collections charges and then writing them off again.

Our inquiry matches our understanding of the situation during the pandemic and explains the change in numbers. Based on this explanation and our work we determined the allowance is low and contrary to our expectations. In particular, the amount of write-offs during FY22 and FY23 are unreasonable low compared to historical levels.

We determined ESD has taken corrective action regarding our management letter from FY22. We verified that data and calculations used in the calculation of the allowance were accurate and agreed to accounting records. However, there is a control weakness since they are still in the process of ensuring the data they use for the methodology is complete. See issue at: [V: ESD Certified Uncollectible Amount**]. See AOM link in the conclusion above.**

Basis for LOR: Since collections data would only be affected by pandemic workload during FY21-23, the resulting misstatement is somewhat mitigated by the calculation being a 5-year average. Based on consideration of a reasonable upper limit for the potential misstatement using historical (pre-pandemic) levels of write-offs, we determined the amount of the likely misstatement is not significant. Therefore, no further work is necessary to estimate a precise range for the misstatement.

E.3.PRG - Premiums & Assessments

Procedure Step: Summary & Conclusion

State of Washington

Prepared By: SBG, 10/11/2023
Reviewed By: SLB, 11/7/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
The results of substantive tests do not indicate a need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
The quality and quantity of evidence obtained was sufficient and appropriate.

E.3.PRG - Premiums & Assessments

Procedure Step: Understanding of Line Item
Prepared By: SBG, 4/18/2023
Reviewed By: SLB, 11/7/2023

Record of Work Done:

(1) Prior Audit Exceptions:
- None

(2) Composition & Change Analysis:
Line Item Leadsheet: [Line Item Lead Sheet].

We noted the balance included activity from the following fund:
- 620: Unemployment Compensation Account

State of Washington

Fund 620 makes up the entire account balance. We do not expect to see any major changes to this line item. The transactions that are included in this line item are the premiums received from the employers. We will rely on work performed at the fund level to substantiate at the government-wide level.

Insurance Premiums at the Employment Security Department (ESD) are revenues from Unemployment Insurance (UI) taxes. Employers in the state of Washington pay for unemployment insurance through unemployment taxes; workers do not pay unemployment taxes. Unemployment tax rates are recalculated each year using a formula specified in RCW 50.29.025. See permanent document at [FW ESD Contacts (re SAO inquiry re RCW 50.29.025)] for additional information related to RCW 50.29.025 and the information provided by the Assistant Attorney General (AAG) over there being two RCWs within this section [(as amended by 2011 c 3) and (as amended by 2011 c 4)]. The tax rates are based on the employer payment and reporting data from the state's fiscal year even though the tax rates are in effect from January through December. The state unemployment insurance tax consists of two components, the experience-rated tax and the social-cost tax.

The employer's experience-rated tax is based on the amount of unemployment benefits paid to former employees over the past four years and the payroll size. It's determined by taking the benefit charges associated with the employer and dividing that by the total wages paid by the employer. Each employer is then assigned to one of 40 rate classes based on this number. They move up or down these classes based on their past experience.

The social-cost tax recovers costs from the previous year that can't be attributed to a specific employer. In prior years, ESD determined the flat social-cost tax by dividing the total social cost by the total taxable payroll. Based on the assigned rate class, the employer was assigned to one of twenty one social rate multipliers as specified in RCW 50.29.025. However, during FY22 Senate Bill 5873 made changes to the flat social tax rates assigned by Senate Bill 5061 (during FY21). For rate year 2011 and thereafter, the calculation may not result in a flat social cost factor that is more than one and twenty-two one-hundredths percent except for:

- Rate year 2021 the calculation may not result in a flat social cost factor that is more than five-tenths percent (.5%)
- Rate year 2022 the calculation may not result in a flat social cost factor that is more than five-tenths percent (.5%)
- Rate year 2023 the calculation may not result in a flat social cost factor that is more than seven-tenths percent (.7%)
- Rate year 2024 the calculation may not result in a flat social cost factor that is more than eighty-five one-hundredths percent (.85%)
- Rate year 2025 the calculation may not result in a flat social cost factor that is more than nine-tenths percent (.9%)

The flat social cost is then multiplied by the assigned multiplier to determine the total social-cost tax for each employer. This social-cost tax is added to the experience-rate tax to determine the employer's total UI tax rate. There are also delinquent tax rates that are added on to the experience-rated tax and social-cost tax for employers who did not pay their total taxes the prior year.

According to ESD's Website - Determining Your Tax Rates. The 2023 average total tax rate is 1.43%, an increase from 2022's 1.30%. According to ESD's Website - Taxable Wage Base. During FY23, employers will pay taxes on the first $67,600 of each employee's wages. This increased from

$62,500 in 2022.

On a quarterly basis, employers file and pay their UI Taxes through one of the following methods:

- Original paper forms that are sent to a Retail Lockbox
    - A special request must be made for these paper forms
- Electronic filing through the Employer Account Management Services (EAMS)
- ePay
- Automatic Clearing House (ACH) electronic payment

Tax Calendar			
Quarter One (Q1)	January Q4 taxes due 1/31	February	March Q1 ends 3/31
Quarter Two (Q2)	April Q1 taxes due 4/30	May	June Q2 end 6/30
Quarter Three (Q3)	July Q2 taxes due 7/31	August	September Q3 end 9/30
Quarter Four (Q4)	October Q3 taxes due 10/31	November	December Q4 end 12/31

The transactions that are included in this line item are the premiums received from the employers. Insurance premiums are under fund 620 - Unemployment Compensation Account with Source 71 - Unemployment Compensation Contribution. ESD uses the Next Generation Tax System (NGTS) for calculating and collecting all premiums.

On 4/18/23, we inquired with Jeff Robinson, Labor Market Analysis/UI Research & Forecasting Manager, about significant changes. Jeff stated that the only significant change was in FY22, related to the social-cost rate changing due to Senate Bill 5873. There were no new legislative changes that affected rates for FY23.

(3) Updates to Material Account Matrix:

- None

E.3.PRG - Premiums & Assessments

State of Washington

Procedure Step: Controls - NGTS

Prepared By: SBG, 5/3/2023

Reviewed By: SLB, 11/7/2023

Record of Work Done:

Material Balance(s) and Assertions

Internal controls in the NGTS address the following balance(s):

- Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds
  - Premiums and Assessments
- Statement of Activities - Government Wide
  - Unemployment Compensation - Charges for Services

For the following assertions:

- Completeness: There is a risk that all reported revenues occurring in the fiscal period were not reported.
- Valuation: There is also a risk that insurance premium revenues and penalties and interest are not reported and calculated at the correct amounts. As a result revenues may be incorrectly valued and/or incomplete.

Gain an Understanding of Internal Controls

Assigning Tax Rates

On 4/18/23, we met with Jeff Robinson, Labor Market Analysis/UI Research & Forecasting Manager, to update our understanding over premiums and assessments (assigning tax rates).

Initially new employers are assigned a North American Industry Classification system (NAICS) rate by the Labor Market and Performance Analysis (LMPA) based on the industry average for the business activity of the applicant. After two years of providing timely wage reports and payments the employer will qualify for a lower experience rate. LMPA calculates the taxable wage base used by every employer and the social flat cost rate for the year applicable to each employer's tax rate based on state law within RCWs. During FY21 Senate Bill 5061 assigned the flat social tax rate of .5%. During FY22 Senate Bill 5873 made changes to the flat social tax rates assigned by Senate Bill 5061. For rate year 2011 and thereafter, the calculation may not result in a flat social cost factor that is more than one and twenty-two one-hundredths percent except for:

- Rate year 2021 the calculation may not result in a flat social cost factor that is more than five-tenths percent (.5%)
- Rate year 2022 the calculation may not result in a flat social cost factor that is more than five-tenths percent (.5%)
- Rate year 2023 the calculation may not result in a flat social cost factor that is more than seven-tenths percent (.7%)
- Rate year 2024 the calculation may not result in a flat social cost factor that is more than eighty-five one-hundredths percent (.85%)

- Rate year 2025 the calculation may not result in a flat social cost factor that is more than nine-tenths percent (.9%)

Senate Bill 5873 also gave many small employers with 10 or fewer employees in fourth quarter 2021 more relief on their social tax rate in 2023.

- Employers in rate classes 8 to 40 will get the social tax rate for rate class 7.
- Employers in rate classes 1 to 7 will stay at their social tax rate.

LMPA relies on a computer generated report (Jeff called this report the LMPA_AAW) to completely and accurately identify financial activity pulled to calculate the Taxable Wage Base and Social Cost tax rate. The financial activity report used in calculating the rates is produced by the Quarterly Census of Employment and Wage (QCEW) unit of the Employment Security Department (ESD). The QCEW unit collects the quarterly Unemployment Insurance tax reports from employers and then processes/verifies and edits the wage and employment records. Wage and employment information is used as the basis for calculating the average annual wage and contribution amount. To ensure accurate insurance premium revenues, the taxable wage base and the Flat Social Cost factor for the year is determined using the computer generated financial activity report or calculated in accordance with RCWs **(Key Control 1 - Valuation)**.

Tax rates are calculated by NGTS as specified in RCW 50.29.025. NGTS calculates the Employer's experience-rated tax (component of total employer tax rate) based on the amount of unemployment benefits paid to former employees over the past four years and the payroll size. It's determined by taking the benefit charges associated with the employer and dividing that by the total wages paid by the employer. Each employer is then assigned to one of 40 rate classes based on this number. Employers are notified of their UI tax rate in December of each year. The data used for calculating UI annual tax rates are based on employers' account information as of September 30th. The UI tax rate for an employer is dependent on several factors; the employer's benefit ratio, delinquent balance, social cost rate, legislative limit, and Employer Assistant Fund. Once the rate has been calculated, the system determines the amount which should have been billed (received in payment), as the employer would have calculated the taxes owed the same as the system. Tax rates are calculated by NGTS as specified in RCW 50.29.025 **(Key Control 2 - Valuation).**

Payments

After the employer is registered and has paid employees, the employer reports employee wages and hours to ESD electronically through Employer Account Management Services (EAMS). EAMS is a program that collects the wage data that is then uploaded into NGTS for payment (not considered significant accounting systems). Paper tax & wage reports are mailed to the ESD mail room or to the retail lock box. Payments for Insurance Premiums due are submitted through e-pay or mailed to the retail Lockbox or ESD mailroom. State agencies make up the rest of the collections.

On a quarterly basis, employers file and pay their UI Taxes through one of the following methods:

- Original paper forms that are sent to a Retail Lockbox
    - A special request must be made for these paper forms
- Electronic filing through the Employer Account Management Services (EAMS)

- ePay
- Automatic Clearing House (ACH) electronic payment

Tax Calendar			
Quarter One (Q1)	January Q4 taxes due 1/31	February	March Q1 ends 3/31
Quarter Two (Q2)	April Q1 taxes due 4/30	May	June Q2 end 6/30
Quarter Three (Q3)	July Q2 taxes due 7/31	August	September Q3 end 9/30
Quarter Four (Q4)	October Q3 taxes due 10/31	November	December Q4 end 12/31

The transactions that are included in this line item are the premiums received from the employers. Insurance premiums are under fund 620 - Unemployment Compensation Account with Source 71 - Unemployment Compensation Contribution. ESD uses the Next Generation Tax System (NGTS) for calculating and collecting all premiums.

How Transactions are Recorded in AFRS:
<u>Treasury's Reconciliation</u>
On 4/19/23, we met with the following people to update our understanding over premiums and assessments (treasury's reconciliation):

- Shelly Peterson, Assistant UI Treasury Supervisor
- My-Phoung Tran, Fiscal Analyst
- Tai Ralston, Treasury Manager
- Son Pham, Financial Analyst 4

ESD's current process is to perform NGTS reconciliations daily except on Tuesday when no bank statement is available. The daily NGTS reconciliation is performed by Tina Drew, Tax Specialist 4. The reconciliation starts with the NGTS report, Daily Bank Deposit Worksheet. This report itemizes the different deposit sources, payments, the amount posted by the bank, and the receipts posted in NGTS. Tina reconciles the Daily Bank Deposit Worksheet to Key Bank activity (BAI2 report). Differences between bank deposits and NGTS are calculated and shown in a column. These differences, are due to timing differences between the bank and NGTS (i.e. payment didn't post so they have to make an adjustment to a different day). To reconcile these differences the dates of the NGTS reports are revised to reflect the bank’s deposits.

Son posts the NGTS activity (from the BAI2 report) in the “Monthly AFRS JV” spreadsheet to ensure Key Bank, AFRS, and NGTS activity are accurate. A bank reconciliation is then performed by My-Phuong Tran, Fiscal Analyst 3, to ensure the deposits posted by the bank agrees to the NGTS receipts and all items expected are received by the ESD **(Key Control 3 - Completeness/Valuation).**

The current process is to review the BAI2 report on a daily basis and post to the UC Clearance Journal. At the end of the month, the Treasury Department, then uploads the total in the JV to AFRS fund 620 using the AFRS toolbox. Tai or Shelly Peterson, Assistant Treasurer, reviews the reconciliation by comparing the supporting documentation, daily deposits, to the total recorded in AFRS. A review is performed between the bank deposits recorded to AFRS. The ESD determines the amount of accrued revenue to recognize during their accounts receivable process and books the entry to the AR and accrued revenue as part of the monthly journal voucher, based on a SQL run by Treasury. Tai reviews this entry as well before it is entered into AFRS **(Key Control 4 - Completeness/Valuation).**

In 2018/2019 ESD decided to not have an interface between NGTS and AFRS for receipts. UI Treasury developed a process prior to this decision to be able to reconcile NGTS to AFRS. They use a series of SQLs and pre-defined reports out of the NGTS Reporting Service.

Note: Key Control 3 addresses NGTS to bank and Control #4 addresses the work arounds being used by Treasury to post to AFRS.

Key Controls are as Follows:

- **Key Control 1 (Automated)** - The taxable wage base and the Flat Social Cost factor for the year is determined using the computer generated financial activity report or calculated in accordance with RCWs, to ensure that insurance premiums and assessments are calculated correctly using these factors **(Valuation).**
- **Key Control 2 (Automated)** - Tax rates are calculated by NGTS as specified in RCW 50.29.025 **(Valuation).**
- **Key Control 3 (Manual)** - A reconciliation is performed to ensure the deposits posted by the bank agrees to the NGTS receipts and all items expected are received by the ESD **(Completeness/Valuation).**
- **Key Control 4 (Manual) -** Tai Ralston reviews the reconciliation by comparing the supporting documentation, daily deposits, to the total recorded in AFRS. A review is performed between the bank deposit recorded to AFRS. The ESD determines the amount of accrued revenue to recognize during their accounts receivable process and books the entry to the AR and Accrued revenue as part of the quarterly journal voucher **(Completeness/Valuation).**

Noted Weaknesses are as Follows:

- None

E.3.PRG - Premiums & Assessments

State of Washington

Procedure Step: Key Control 1 (Automated)

Prepared By: SBG, 5/9/2023

Reviewed By: SLB, 11/7/2023

Record of Work Done:

Key Control 1 (Automated): The taxable wage base and the Flat Social Cost factor for the year is determined using the computer generated financial activity report or calculated in accordance with RCWs, to ensure that insurance premiums and assessments are calculated correctly using these factors **(Valuation).**

The understanding for this system is documented above in the "Controls - NGTS" step.

1. Confirmation and Testing of Key Automated Control:
On 4/18/23, we spoke to Jeff Robinson, Labor Market Analysis/UI Research & Forecasting Manager, to discuss the identified key control.

We identified a computer generated report (Jeff called this report the LMPA_AAW) used by the Employment Security Department (ESD) which it relies on to completely and accurately identify the financial activity. The financial activity report is pulled by the Quarterly Census of Employment and Wages (QCEW) Unit of ESD (Jeff obtained us this report from Molly Webster, Management Analyst 5). The QCEW collects the quarterly unemployment insurance tax reports from employers and then processes/verifies the wage and employment records. This information is then used as the basis for calculating the average annual wage.

We confirmed that the data total by quarter sums in total to that used for the year within the calculations related to Key Control 1.

We verified that the query pulled the appropriate data from the database by examining the field of the source data totaled that on the report by the specific sources listed within the query. We determined this to be reasonable, because no sources outside of the query were pulled into the totals used.

Taxable Wage Base:
The taxable wage base is the maximum amount of an employee total wages that is taxable under the unemployment insurance program. The maximum amount is set each year based on the average annual wage for contribution purposes (AAWCP) for the previous year. By state law, the amount of wages subject to tax for each individual shall be 115 percent of the wages subject to tax for the previous year rounded to the next lower $100, except that the amount shall not exceed 80 percent of the "average annual wage for contributions purposes" for the second

preceding calendar year rounded to the next lower $100.

Beginning January 1, 2023, employers will pay unemployment taxes on the first $67,600 paid to each employee. The calculation is as follows based on an Average Annual Wage in 2021 of $84,578:

- round down (115% times $62,500) = $71,800
  - This exceeds the 80% maximum
- round down (80% times $84,578) = $67,600

See details of our recalculation on tab, "AAWCP" at: [Yearly Rates Recalculation]. ***No issues noted.***

Total Taxable Wage Base for the Year:
2023 - $67,600
2022 - $62,500
2021 - $56,500
2020 - $52,700
2019 - $49,800
2018 - $47,300
2017 - $45,000
2016 - $44,000
2015 - $42,100
2014 - $41,300
2013 - $39,800
2012 - $38,200
2011 - $37,300
2010 - $36,800
2009 - $35,700
2008 - $34,000
2007 - $31,400
2006 - $30,900
2005 - $30,500

Social Flat Cost Factor:
The flat social tax rate is set using RCW 50.29.025.

The flat social cost factor is run for a rate year by dividing the total social cost by the total taxable payroll. The division shall be carried to the second decimal place with the remaining fraction disregarded unless it amounts to five hundredths or more, in which case the second decimal place shall be rounded to the next higher digit. The flat social cost factor shall be expressed as a percentage.

If, on the cut-off date, the balance in the unemployment compensation fund is determined by the commissioner to be an amount that will provide more than ten months of unemployment benefits, the commissioner shall calculate the flat social cost factor for the rate year immediately following the cut-off date by reducing the total social cost by the dollar amount that represents the number of months for which the balance in the unemployment compensation fund on the cut-off date will provide benefits above ten months and dividing the result by the total taxable payroll. Prior to June 30, 2021, for rate year 2011 and thereafter, the calculation may not result in a flat social cost factor that is more than one and twenty-two one-hundredths percent.

During FY22, Senate Bill 5873 became law and stated that for rate year 2011 and thereafter, the calculation may not result in a flat social cost factor that is more than one and twenty-two one-hundredths percent except for rate years:

- 2021 the calculation may not result in a flat social cost factor that is more than five-tenths percent (.5%)
- 2022 the calculation may not result in a flat social cost factor that is more than five-tenths percent (.5%)
- 2023 the calculation may not result in a flat social cost factor that is more than seven-tenth percent (.7%)
- 2024 the calculation may not result in a flat social cost factor that is more than eighty-five one-hundreths percent (.85%)
- 2025 the calculation may not result in a flat social cost factor that is more than nine-tenths percent (.9%)

Note: When the trust fund has at least 15 months of benefits but less than 17 months, the minimum shall be .25%.

We confirmed that the Flat Social Cost factor for the year is determined in accordance with the RCW guidelines and Senate Bill. See calculation of the Social Cost Factor on tab, "Flat Social Cost" at: [Yearly Rates Recalculation]. ***No issues noted.***

Noted Weaknesses are as follows:

- None.

2. Preliminary Control Risk Assessment

Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW – Test General Controls:

Not applicable - we are not planning to rely on automated controls and therefore do not need to test general controls; control risk will be assessed at maximum.

E.3.PRG - Premiums & Assessments

Procedure Step: Key Control 2 (Automated)
Prepared By: SBG, 6/8/2023
Reviewed By: SLB, 11/7/2023

Record of Work Done:

Key Control 2 (Automated): Tax rates are calculated by NGTS as specified in RCW 50.29.025 **(Valuation).**

The understanding for this system is documented above in the "Controls - NGTS" step.

1. Confirmation and Testing of Key Automated Control:
We reviewed the NGTS screens and re-performed the calculations for the employer below:

Association of Independent School Admission Professionals, ESD Number 000-789175-00-7.

First, we reviewed the Experience Rating & Benefit Charging - Tax Rates tab. The screen showed the 2023 tax rate was established in December 2022. The Total Employer Tax Rate was set at .27, based on various factors (social cost and EAF). See below for the various factors:

- Total UI Tax Rate: .27
  - Social Cost: .24
  - EAF (Employment Administrative Fund): .03
- Rate Method: RATE-CLASS-01

Note: Tax rates are based on the calendar year.

We then reviewed the Employer Tax Account Quarter History - Q1/2023 Tax and Wages Quarter Summary/Details - Taxable Screen, which provided the following information:

- Total Employer Tax Rate: .27
- Processed Date: 4/21/23

- Report Received Date: 4/21/23
- Report Type: Tax/Wage
- Report Source: EAMS Single
- Gross Wages: $9,005.85
- Excess Wages (Over Taxable Wages Base of Out-of-State): $0
- Taxable Wages: $9,005.85
- UI Tax Amount: $21.61
- EAF Amount: $2.70
- Total Amount: $24.31

Note: The employer paid the total amount on 4/28/23.

Our Recalculation:
$9,005.85 x .0027 tax rate = $24.31

There were no exceptions in the recalculation. We have determined that NGTS calculated the employer's total tax due accurately. ***No issues noted.***

Noted Weaknesses are as follows:

- None

2. Preliminary Control Risk Assessment

Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW – Test General Controls:

Not applicable - we are not planning to rely on automated controls and therefore do not need to test general controls; control risk will be assessed at maximum.

E.3.PRG - Premiums & Assessments

State of Washington

Procedure Step: Key Control 3 (Manual)
Prepared By: SBG, 5/3/2023
Reviewed By: SLB, 11/7/2023

Record of Work Done:

Key Control 3 (Manual): A reconciliation is performed to ensure the deposits posted by the bank agrees to the NGTS receipts and all items expected are received by the ESD **(Completeness/Valuation).**

The understanding for this system is documented above in the "Controls - NGTS" step.

<u>1. Confirmation of Key Manual Control:</u>
On 4/26/23, we obtained the reconciliation information from Tina Drew, Tax Specialist 4.

To perform the reconciliation between NGTS and the bank, Tina pulls the Daily Bank Deposit Worksheet into her work queue. After she has reconciled all the items, she clicks the <approve> button which will complete her process and remove the item from her queue.

During our review, we noticed that she verifies that the total bank deposit amount agrees between the Daily Bank Deposit Worksheet and the bank statement. This verification is important as it will confirm that the bank's total deposit for the day is complete and accurate in NGTS.

We selected the date of 3/14/2023 to: (1) determine whether the reconciliation was completed (that is no variance between NGTS and the bank) and (2) verify total deposit on Daily Bank Deposit Worksheet agrees to bank statement and agrees to NGTS. The amount reported on the Daily Bank Deposit Worksheet was $774,137.55. The amount on the Key Bank statement was reported as $766,907.37. The amount of ACH dishonored (returned ACH transaction) was $7,230.18. The variance between the Daily Deposit Worksheet and the Key Bank statement was due to Key Bank returning checks and not having the ACH dishonored amount in it's statement, but having that amount reported in the Daily Bank Deposit Worksheet. The ACH dishonored amount equals the variance between the Daily Bank Deposit Worksheet and the Key Bank statement. ***No issues noted.***

Noted Weaknesses are as follows:
- None

<u>2. Preliminary Control Risk Assessment</u>
Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test of Key Manual Control:
Not applicable - we are not planning to rely on controls and therefore do not need to test controls; control risk will be assessed at maximum.

E.3.PRG - Premiums & Assessments

Procedure Step:	Key Control 4 (Manual)
Prepared By:	SBG, 5/3/2023
Reviewed By:	SLB, 11/7/2023

Record of Work Done:

Key Control 4 (Manual): Tai Ralston, Treasury Manager, reviews the reconciliation by comparing the supporting documentation, daily deposits, to the total recorded in AFRS. A review is performed between the bank deposit recorded to AFRS. The ESD determines the amount of accrued revenue to recognize during their accounts receivable process and books the entry to the AR and Accrued revenue as part of the quarterly journal voucher **(Completeness/Valuation).**

The understanding for this system is documented above in the "Controls - NGTS" step.

1. Confirmation of Key Manual Control:
On 4/23/23, we obtained the information on how journal vouchers are prepared and reviewed before being uploaded into AFRS, from Tai Ralston, Treasury Manager.

Accrued Revenue
Tai showed us the "Monthly AFRS JV" spreadsheet that they use as support for recording the monthly journal entry for the month ending February 2023. There are two tabs showing the following:

- Schedule of Accounts Receivable which calculates the amount of receivables accrued for the month.

- The Allowance for Uncollectible Accounts for the quarter, which shows how much allowance for uncollectible accounts should be accumulated as of the quarter ending 3/31/2023. *This will be recorded on the March JV.*
- The amounts determined for the Accounts Receivable and Allowance for Uncollectible Accounts entry ultimately result in a change in the Accrued revenues for the period.

We verified that the amount listed on the February 2023 UC Clearance Journal matched the amounts reported on the JV. Son Pham, Fiscal Analyst, reconciles the total month's cash receipts to the Clearance Account. The JV totals were traced to the UC Clearance Journal. No exceptions were noted.

We agreed the amount of $168,976.47 in the journal voucher to the spreadsheet and bank statement provided. ***No issues noted.***

Noted Weaknesses are as follows:

- None

2. Preliminary Control Risk Assessment

Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test of Key Manual Control:

Not applicable - we are not planning to rely on controls and therefore do not need to test controls; control risk will be assessed at maximum.

E.3.PRG - Premiums & Assessments

Procedure Step: Risk Assessment

Prepared By: SBG, 6/8/2023

Reviewed By: SLB, 11/7/2023

Record of Work Done:

State of Washington

(1) Inherent Risk (IR):
Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

- Valuation - **MAX**
- Completeness - **MAX**

(2) Control Risk (CR):
We assessed control risk as follows for each system and relevant assertion:

- **NGTS** - Valuation

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

- **NGTS** - Completeness

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

- Valuation **- MAX**
- Completeness - **MAX**

(4) Testing Strategy:
We designed our substantive testing strategy based on our assessment of the risk of material misstatement. We plan to preform the following tests:

- Completeness:
  - We will select a sample of bank reconciliations and ensure that bank deposits are complete and tie to NGTS.
  - We will review the year-end bank statement reconciliation through our testing of the cash and cash equivalents balance.

- Valuation: We will review the employer wage reports (in NGTS) for a select sample of employers and recalculate the tax rate and premiums due for those employers. Additionally, we will review the amount estimated for accrued revenues through our testing of our account receivable balance.

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

E.3.PRG - Premiums & Assessments

Procedure Step:	Substantive Test
Prepared By:	SBG, 10/11/2023
Reviewed By:	SLB, 11/7/2023

Record of Work Done:

Substantive tests performed to meet the Completeness assertion:

We used the Nonstatistical Sample of Population 365 or less spreadsheet with a tolerable misstatement and assurance levels dictated by the material balance workpaper for a planned sample size of 24. We haphazardly selected a sample of 24 business days throughout FY23, excluding days that fell on a weekend or a state/federal holiday.

We obtained Daily Bank Deposit Worksheet Reconciliations (from NGTS) and Key Bank Statement screenshots to ensure that bank deposits (revenue) are complete. We ensured that the bank deposits coming through Key Bank agreed to amounts reported within NGTS.

See substantive testing at: [FS Sampling - NGTS Deposits Testing]. *One issue noted was below the floor.*

We also reviewed the year-end bank reconciliation through our testing of the cash and cash equivalents balance. See record of work done at: [Substantive Test].

Substantive tests performed to meet the Valuation assertion:

We performed the following procedures to determine whether revenues were reported at properly valued or calculated amounts:

<u>Delinquent Employers Testing:</u>
We used the Financial Audit Substantive Statistical Sample spreadsheet with a tolerable misstatement and assurance levels dictated by the material balance workpaper for a planned sample size of 57. We haphazardly selected a sample of 57 delinquent employers. We reviewed the employer tax rate transaction to determine whether revenue transaction were correctly calculated. We recalculated the employers UI tax rate in effect for the 2023 Fiscal Year. The employer had two UI tax rates in effect for the year. One for the period of July 1, 2022 through December 31, 2022 and a second for the period of January 1, 2023 to June 30, 2023. This is due to tax rates being assigned based on calender year.

The Employer's UI Tax rates are automatically calculated by NGTS and employers are notified of their rates in December of each year. The UI tax rate for an employer is dependent on several factors:

- Employer's Benefit Ratio
- Delinquent Balance
- Social Cost Rate
- Legislative Limit
- Employment Administration Fund (EAF) Tax Rate

During testing, we determined the following factors of the Employers UI rate through verification or recalculation based on NGTS:

- Employer's Benefit Ratio (Experience Rating)
    - Amount of unemployment benefits paid to former employees over the past 4 years and payroll size. It's determined by taking the benefit charges associated with the employer and dividing that by the total wages paid by the employer. Each employer is then assigned to one of 40 rate classes based on this number.
    - Social Cost Rate
    - Delinquent Balance
    - EAF Tax Rate

Using the data obtained at [<u>Population Methodology</u>], we were able to recalculate the recorded amount of charges. For delinquent employers we used the formula of Taxable Wages * Total Tax Rate to recalculate premiums. We compared this recalculation to another recalculation of premiums from within NGTS where we verified that tax rates and the amounts of payments were correct. See substantive testing performed at: [<u>FS Sampling - Premiums & Assessments Testing</u>]. Tabs, "Delinquent NGTS Testing" and "Delinquent Testing Detail". ***No issues noted.***

<u>Non-Delinquent Employers Testing:</u>
We used the Financial Audit Substantive Statistical Sample spreadsheet with a tolerable misstatement and assurance levels dictated by the material balance workpaper for a planned sample size of 57. We haphazardly selected a sample of 57 non-delinquent employers. We reviewed the employer tax rate transaction to determine whether revenue transaction were correctly calculated. We recalculated the employers UI tax rate in effect for the 2023 Fiscal Year. The employer had 2 UI tax rates in effect for the year. One for the period of July 1, 2022 through December 31, 2022 and a second for the period of January 1, 2023 to June 30, 2023. This is due to the tax rates being assigned based on the calender year.

Tax rates are calculated every calendar year. The Employers UI Tax rates are automatically calculated by NGTS and employers are notified of their rates in December of each year. The UI tax rate for an employer is dependent on several factors:

- Employer's Benefit Ratio
- Delinquent Balance
- Social Cost Rate
- Legislative Limit
- EAF Tax Rate

During testing, we determined the following factors of the Employers UI rate through verification or recalculation based on NGTS:

- Employer's Benefit Ratio (Experience Rating)
    - Amount of unemployment benefits paid to former employees over the past 4 years and payroll size. It's determined by taking the benefit charges associated with the employer and dividing that by the total wages paid by the employer. Each employer is then assigned to one of 40 rate classes based on this number.
- Social Cost Rate
- Delinquent Balance
- EAF Tax Rate

Using the data obtained at [Population Methodology], we were able to recalculate the recorded amount of charges. For delinquent employers we used the formula of Taxable Wages * Total Tax Rate to recalculate premiums. We compared this to a recalculation of premiums from within NGTS where we verified that tax rates and the amounts of payments were correct. See substantive testing performed at: [FS Sampling - Premiums & Assessments Testing]. Tabs, "Non-Delinquent NGTS Testing" and "Non-Delinquent Testing Detail". ***No issues noted.***

Accrued Revenue:
We reviewed the amount estimated for accrued revenues through our testing of the accounts receivable (net of allowance) balance. See record of work done at: [Substantive Test].

Note: Penalties and Interest are reported under Miscellaneous Revenue and are not part of this line item.

E.3.PRG - Premiums & Assessments

Procedure Step: Population Methodology
Prepared By: PS, 9/18/2023

State of Washington

Reviewed By: JMT, 9/19/2023

Record of Work Done:

Import NGTS Data

IT Audit emailed Jay Summers, ESD External Audit Manager, to request for NGTS data. This included the NGTS wage data, tax rate data, and employer data.

An email was sent on 4/5/2023 to request fiscal year 2023 data. ESD provided the NGTS data for quarters 1, 2, and 3 in text format to us on 5/25/2023. The files were sent to SAO via the WaTech secure file transfer site (mft.wa.gov). Files were saved to the SAO network drive and imported into SQL database. We have confirmed the record count of each file received to the record count provided by ESD staff. No exception. We performed procedures at Reasonableness_NGTS_2023_9months and determined that the data are reasonable.

ESD provided the NGTS data for the entire fiscal year, in text format, to us on 8/15/2023. The files were sent to SAO via the WaTech secure file transfer site (MFT.wa.gov). Files were saved to the SAO network drive and imported into SQL database. We have confirmed the record count of each file received to the record count provided by ESD staff. No exception. We performed procedures at Reasonableness_NGTS_2023_EntireYear and determined that the data are reasonable.

Document Test Objective and Methodology

Team FA submitted helpdesk 62254 to request for a population of delinquent employers and a population of non-delinquent employers.

The following describes the steps taken to meet the test objective:

- Create a table of delinquent employers from the Tax Rate file, those with DelinquentTaxRate field of greater than zero.
- Create a table of non-delinquent employers from the Tax Rate file, those with DelinquentTaxRate field equal to zero.
- Add details to delinquent and non-delinquent employers by joining to the NGTS wage table or tax rate table.
- Create a summary table of delinquent employers from the detail table.
- Create a summary table of non-delinquent employers from the detail table.

As we perform our testing, we will make adjustments to this plan as necessary.

Queries

The queries written to complete the testing can be seen at Testings_NGTS_2023.

Reasonableness
The reasonableness of test results has been performed and documented in the above queries. Based upon our checks, we consider our test results to be complete and reasonable.

Results
Test results were provided to Team FA, through an Excel spreadsheet titled, ***!2023_Tax_Rates_Populations.xlsx***. The results provided contain CONFIDENTIAL DATA.

A population of FY2023 delinquent employers, with details.	38254 records
A population of FY2023 delinquent employers, summary.	19183 records
A population of FY2023 non-delinquent employers, with details.	374900 records
A population of FY2023 non-delinquent employers, summary.	191960 records
A population of Q4-FY2023 delinquent employers, with details.	1872 records
A population of Q4-FY2023 delinquent employers, summary.	955 records
A population of Q4-Y2023 non-delinquent employers, with details.	10902 records
A population of Q4-FY2023 non-delinquent employers, summary.	8100 records
A population of FY2023 delinquent employers, with details (updated for the FY).	38254 records
A population of FY2023 delinquent employers, summary (updated for the FY).	19182 records
A population of FY2023 non-delinquent employers, with details (updated for the FY).	374916 records
A population of FY2023 non-delinquent employers, summary (updated for the FY).	191948 records

E.3.PRG - Premiums & Assessments

Procedure Step: Permanent File

Prepared By: SBG, 4/19/2023

Reviewed By: SLB, 11/7/2023

Record of Work Done:

State of Washington

Perpetual Note
As it relates to the contribution rates determined by ESD, we noted that RCW 50.29.025, prescribes the procedures of the department in calculating their Contribution Rates. We noted there were two separate sections of the same RCW as legislature had enacted two acts amending the same section during the same year. As such, we inquired of our Assistant Attorney General (AAG) to determine the appropriate RCW which the Department should be following.

Per our inquiry, we are documenting the conclusion which the Department should be following RCW 50.29.025 (as amended by 2011 c 4).

We have included the correspondence as support within the attached email at: [FW ESD Contacts (re SAO inquiry re RCW 50.29.025)], documenting this conclusion and our understanding.

E.4.PRG - Premiums & Claims

Procedure Step: Summary & Conclusion
Prepared By: EZM, 10/9/2023
Reviewed By: RKM, 12/15/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
The results of substantive tests do not indicate a need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
The quality and quantity of evidence obtained was sufficient and appropriate.

E.4.PRG - Premiums & Claims

Procedure Step: Understanding of Line Item

State of Washington

Prepared By: EZM, 5/24/2023
Reviewed By: SLB, 11/14/2023

Record of Work Done:

(1) Prior Audit Exceptions:

Exit Item **–** We found that the Department does not perform a full reconciliation between NGTS and UTAB to verify wages and hours agree. The automated process only identifies records that are in NGTS and not in UTAB but does not confirm that all the records in UTAB are also in NGTS. In addition, since the query used to identify missing records in UTAB only pulls records for the past 30 days, there is the possibility that missing records will not update UTAB and after 30 days will not be identified by the process as missing.

- We continue to recommend the Department implement a formal process to fully reconcile NGTS and UTAB for wages and hours.

We inquired with Deb Calcote and Amanda Rouse on 5/8/2023 about this exit item and we were told that there has been no significant change in their process, and there are no current plans to change it.

From Finding 2022-001:
We found the following errors in the financial statements:

- Because we used a statistical sampling method to randomly select the payments we examined in the audit, we estimate the unassessed overpayments to be $7.7 million, which was not recorded as an accounts receivable in the financial statements. This error was not corrected in the financial statements.
- We also estimate that ESD should have reported $382 million in claims expense in prior periods. This error was corrected in the financial statements.
- We estimate appealed claims totaling $150 million and claims flagged for further review totaling $55 million were not accrued and reported in fiscal year 2022. The error, totaling $150 million, was corrected and the error totaling $55 million was not corrected in the financial statements.

We recommended that ESD:

- Establish an effective, consistent process for verifying wages and attempt to collect unallowable PUA benefit payments.
- Report claims on an accrual accounting basis to ensure they are reported in the proper period.

We will follow-up on this finding during testing at: [Substantive Test].

(2) Composition & Change Analysis:

Line Item Leadsheet: [Line Item Lead Sheet].

We noted the balance included activity from the following funds:

- 620: Unemployment Compensation Account
- 622: Unemployment Compensation Federal Employees' Benefit Payment Account

We evaluated the funds and determined transactions from fund 622 make up most of the account balance. We do not expect to see any major changes to this line item. The Premiums & Claims line item is composed of the payments made by warrant and direct deposit to recipients of unemployment insurance benefits. We expect this balance to agree with the Unemployment Compensation benefit expenditures issued by the Unemployment Tax and Benefits (UTAB) platform, and recorded in AFRS. Unemployment payments include unemployment for all eligible recipients.

The primary control systems covering the relevant assertions is UTAB. Activities performed by UTAB include:

- Interfacing with NGTS
- Making an initial determination of eligibility
- Calculating benefit amounts
- Issuing payments to claimants

UI benefit payments are made out of the trust fund. See below for the benefit types:

- Regular Unemployment Compensation (State and Federal: UCFE, and UCX)
  - Weekly Benefit Amount (WBA): Dependent on state law.
  - Duration: 26 weeks maximum, or until the claimant reaches the end of the benefit year.
  - This program is for claimants that are out of work due to not fault of their own.
- Pandemic Emergency Unemployment Compensation (PEUC)
  - WBA: Based on regular unemployment compensation.
  - Duration: 13 weeks.
  - PEUC was a federal program created in response to the COVID-19 pandemic. It provided additional benefits through Sept. 4, 2021, to workers who:
    - Exhausted their regular UI claim with a benefit year that ended on or after the week ending July 6, 2019.
    - Have left work through no fault of their own.

State of Washington

        - Are able to work, available for work, and actively seeking work as directed.
- Extended Benefits (EB)
    - WBA: Based on regular unemployment compensation.
    - Duration: On December 13, 2021, federal law reduced the number of EB benefits from 20 to 13 weeks.
    - This program was triggered by a high unemployment rate in Washington. Claimants can get Extended Benefits only after their regular unemployment benefits and other extensions, like PEUC, have run out.
    - Due to the lower unemployment rate in Washington state, the U.S. Department of Labor has notified ESD that Washington's Extended Benefits program was ended on March 13, 2021.
- Pandemic Unemployment Assistance (PUA)
    - WBA: Calculated by state accordance in [Unemployment Insurance Program Letter (UIPL) No. 16-20]
    - Duration: February 2, 2020 to September 4, 2021 (up to 39 weeks)
    - PUA is a benefit program that provides a financial safety net to many people who do no qualify for regular unemployment, including:
        - Self-employed people
        - Independent contractors
        - Part-time workers (with fewer than 680 hours)
    - To be eligible for this program the claimant must have a COVID-19 related reason.
- Federal Pandemic Unemployment Compensation (FPUC)
    - WBA:
        - $600 (until July 25, 2020)
        - $300 (until September 4, 2021)
    - Duration:
        - $600: March 29, 2020 to July 25, 2020
        - $300: January 2, 2021 to September 4, 2021
    - FPUC was an additional amount that was added to the claimant's weekly benefit.
- Lost Wages Assistance (LWA)
    - WBA: $300
    - Duration: Weeks ending August 1, 2020 to September 5, 2020
    - ESD was approved for the LWA program through the Federal Emergency Management Agency (FEMA). LWA was a federal program that added $300 for each week the program was federally funded. If the claimant received unemployment benefits for the approved weeks and they were unemployed or working fewer hours due to disruption by COVID-19, then they were eligible for the benefits.
- Pandemic Relief Payments (PRP)
    - Amount: $550
    - Duration: One-time payment for week ending November 21, 2020

    - On December 27, 2020, Governor Jay Inslee authorized the use of federal CARES Act funds to help Washington claimants whose PUA benefits expired on December 26, 2020 and were waiting for federal legislation to extend those benefits. Federal legislation was signed into law on December 27, 2020 which extended, expanded, and changed the CARES Act provisions. Regardless, claimants eligible for the one-time Pandemic Relief Payment still received it.
- Shared Work
    - WBA: $201 - $844
    - Duration: 1 year
    - Shared Work allows the employer to reduce a claimant's hours by as much as 50 percent, while the claimant collects benefits to replace a portion of their lost wages.
- Trade Readjustment Allowances (TRA)
    - WBA:
        - Dependent on petition number.
    - Duration:
        - Dependent on petition number.
    - This program assists workers who have become unemployed as a result of increased imports from, or shifts in production to, foreign countries. The goal of the Trade Act programs is to help trade-affected workers return to suitable employment as quickly as possible.
- Reemployment Trade Adjustment Assistance (RTAA)
    - WBA:
        - Dependent on petition number.
    - Duration:
        - Dependent on petition number.
    - This program assists workers who have become unemployed as a result of increased imports from, or shifts in production to, foreign countries. The goal of the Trade Act programs is to help trade-affected workers return to suitable employment as quickly as possible.
- Disaster Unemployment Assistance (DUA)
    - WBA: Dependent on gross wages. It is calculated using the same formula as regular UI.
    - Duration: January 5, 2022 - July 9, 2022
    - DUA provides temporary benefits to people who lost or experienced interruptions in employment or self-employment as a direct result of a major disaster and don't qualify for regular UI. There was a declaration of a major disaster on January 5, 2022.
- Mixed Earners Unemployment Compensation (MEUC)
    - WBA: Extra $100 a week for eligible programs
    - Duration: December 27, 2020 - September 4, 2021

- ESD is implementing MEUC retroactively. Claimants are considered a mixed earner if they are using both self-employment and employment to apply for unemployment benefits.

Note: Several programs have ended, however we left information for the programs due to the Department still paying out benefits retroactively.

(3) Updates to Material Account Matrix:
We made the following updates to the Material Account Matrix:

- We updated the Rights & Obligations risk to state, "There is a risk that the claimant's employment information and identification verification was not performed to ensure the claimant was eligible for benefits".
  - We updated this risk because the previous risk mentioned the fraud that occurred in FY20, and since this fraud happened a few years ago, we've decided to no longer include it in the risk. We're also updating this risk to reflect that we'll be performing ID verification testing for both our PUA and non-PUA samples.
- We updated the Completeness risk to state, "There is a risk that all benefit payments that occurred in the fiscal period were not reported".
  - We updated this risk because the previous risk mentioned the fraud that occurred in FY20, and since this fraud happened a few years ago, we've decided to no longer include it in the risk.
- We updated the Valuation risk at state, "There is a risk that regular and federal benefit payments may not be calculated correctly".
  - We updated this risk to include regular and federal benefit payments.

E.4.PRG - Premiums & Claims

Procedure Step: Controls - UTAB
Prepared By: EZM, 6/21/2023
Reviewed By: SLB, 11/14/2023

Record of Work Done:

Material Balance(s) and Assertions

State of Washington

Internal controls in the Unemployment Tax and Benefit (UTAB) system address the following balance:

- Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds
- Premiums and Claims
- Statement of Activities - Government Wide
- Unemployment Compensation - Expenses

For the following assertions:

- Completeness:
  - There is a risk that all benefit payments that occurred in the fiscal period were not reported.
- Rights & Obligations:
  - There is a risk that the claimant's employment information and identification verification was not performed to ensure the claimant was eligible for benefits.
- Valuation:
  - There is a risk that regular and federal benefit payments may not be calculated correctly.

Gain an Understanding of Internal Controls

Benefit Calculations and Recordings

We met with the following people on 5/8/2023 to update our understanding over premiums and claims (benefit calculations and recordings):

- Deb Calcote, IT Systems Manager
- Amanda Rouse, System Business Analyst
- Jay Summers, External Audit Liaison

Employers file quarterly wage reports that identify the employee name, social security number, the number of hours worked, and the amount paid. This information is entered into the Next Generation Tax System (NGTS). Employer wage data is automatically populated into UTAB from NGTS which is used as a component within UTAB to calculate the amount of premiums and claims to be paid to those claiming unemployment benefits. Once a day an automated process runs that compares wage records in NGTS to UTAB. Any records that were not received in UTAB are sent back through the regular update process until it is accepted **(Key Control 1 - Automated - Valuation).** Individuals can file for unemployment benefits either through an agent, online, or by using an automated phone system. The claim, including name and social security number, is automatically populated into UTAB. If there is a problem with the information received, or if information is missing, the application will be completed by phone between the claimant and a TeleCenter employee. UTAB automatically uses the data from NGTS to determine if the claimant meets the eligibility requirements before calculating benefit amounts. The UTAB system determines if claimants meet the hourly eligibility requirements (at least 680 hours) to receive UI benefits **(Key Control 2 – Automated - Valuation - Rights & Obligations).** After an individual files for unemployment benefits, the claimant must file a weekly claim at the beginning of the next week in order to begin receiving benefits.

There is a 2-day hold on all benefit payments (excluding claims filed through the Interactive Voice Response phone system) before payment goes out. Through UTAB and their Fraud Unit, the ESD run initial and weekly claims through the discovery process before payment goes out. The discovery process is when claims are run through a variety of cross matches and queries, both internal and with other agencies and partners to identify and flag suspicious claims for identity verification **(Key Control 3 - Automated - Rights & Obligations).** Payments are paused on flagged claims until the identity case is resolved. Payment is paused on flagged claims until the identity case is resolved. Claims with no responses or insufficient information to verify a claimant's identity will be denied, preventing payment.

UTAB sends a Request for Separation Information (RSI) form when a claim is filed to the last employer (only covered employment), and any employer that has a separation issue and does not meet purge requirements **(Key Control 4 - Automated - Rights & Obligations)**. The ESD did not send a RSI form for PUA claims. This is because there was no federal requirement for verifying wages until December 2020. As of December 2020 ESD has been retroactively verifying self or partial employment wages through documentation provided by the claimant. Also, per the Unemployment Worker Handbook the ESD verifies the information that the claimant provides with the employer. Claimants do not receive benefits if they have been disqualified due to a job separation, a job refusal, unavailability for work, or other issues.

Also, UTAB maintains the eligibility determination (the Unemployment Worker Handbook describes eligibility requirements). Then, the claimant must file a claim each week until they want the benefit to stop. The UTAB system properly assesses claimant's eligibility based on claimant's responses to the questions asked during weekly filing **(Key Control 5 - Automated - Rights & Obligations)**. If an answer requires follow up a questionnaire is sent to the claimant, a code is recorded in UTAB, and benefit is paid. If no reply is received, ESD assumes claimant is not eligible and claimant will be asked to repay benefit.

When a claimant is being approved they are classified under the one (or many) of the following unemployment programs:

- Regular Unemployment Compensation (UC - State Trust Fund Funded)
- Unemployment Compensation for Federal Employees (UCFE - Federally Funded)
- Unemployment Compensation for Ex-Service Members (UCX - Federally Funded)
- Pandemic Emergency Unemployment Compensation (PEUC)
- Extended Benefits (EB)
- Pandemic Unemployment Assistance (PUA)
- Federal Pandemic Unemployment Compensation (FPUC)
- Lost Wages Assistance (LWA)
- Pandemic Relief Payments (PRP)
- Disaster Unemployment Assistance (DUA)
- Mixed Earners Unemployment Compensation (MEUC)
- Shared Work

- Trade Readjustment Allowances (TRA)
- Reemployment Trade Adjustment Assistance (RTAA)

Note: Several programs have ended, however we left information for the programs due to the Department still paying out benefits retroactively.

ESD's COVID-19 Information web page provides details about eligibility requirements and changes in regards to federal UI programs. See more details about federal aid for unemployment insurance benefits at: [Controls - UTAB/Treasury's Reconciliation].

The employee information for unemployment compensation for UCFE and UCX is manually input into UTAB based on the information provided to ESD from the Federal Claims Control Center. The Federal Claims Control Center is responsible for receiving the wage reports from other states and the Military. The calculation for the unemployment benefits is determined by the same process as described below.

The weekly benefit amounts are determined by the Labor Market and Performance Analysis (LMPA) division of ESD for the fiscal year based on the prior calendar year wage information then provided to UTAB programmers to input into the system. The total amount of maximum benefits payable on the claim is found by taking the lesser of 1/3 of the total gross wages in all four quarters of the base year or 26 times the weekly benefit amount (WBA) determined, per RCW 50.20.120 and Unemployment Worker Handbook. Claims that have an effective date after April 22, 2005 have a WBA equal to three and eighty-five one-hundredths percent of the average quarterly wages of the individual's total wages during the two quarters of the individual's base year in which such total wages were highest. From which information the UTAB system automatically and accurately calculates the unemployment benefit payment amounts **(Key Control 6 – Automated - Valuation).** ESD employees cannot modify the benefit payment amount but can affect the benefit amount by modifying the wage data in NGTS. This can only be done by staff who work with employer tax data and employers are informed of any changes made to past data.

The UTAB system makes systematic decisions regarding claimant eligibility based on claimant inputs or inputs by staff on behalf of claimants. UTAB follows rules defined by ESD to ensure all eligible claimants receive benefits. Denied claims are eligible for a redetermination decision and a formal appeal process is in place to ensure claimants are not incorrectly denied benefits. A redetermination is preformed by an adjudicator to determine if the denial needs to be changed. If an adjudicator decides to still deny the claim then the claimant has the option to go through a formal appeal. A non-monetary decision has to go through a manual process, however a monetary decision is automatic since it's an automatic system calculation in UTAB. If it's a non-monetary reasoning (able/available and separation) for the denial then the claimant can go straight to the appeal. If the reasoning is monetary then the claim has to go through a re-determination before an appeal may be filed.

Trust Fund Draw Process

We met with the following people on 5/25/2023 to update our understanding over premiums and claims (trust fund draw process):

- Tai Ralston, Treasury Manager

The trust fund draw process is the basis for how benefit payments are input into the accounting system (AFRS). The trust fund draw documentation is what is relied on to upload the different benefit types in AFRS.

The cash draw desk prepares the daily cash draw report. Gary Cox, Fiscal Analyst 4, performs the daily operations of the cash draw desk. He reviews the General Ledger Posting (UTAB summary report) page which contains a section called "Daily Draw Worksheet". The General Ledger Posting section is sometimes referred to as, "The Cube" by ESD staff. He vouches all amounts to supporting pages with program totals. Gary is the primary person who processes UI draws and the draw amounts are completely reliant on UTAB. Gary also recalculates program totals to ensure the accuracy and classification of the state and federal split of the daily draw.

The daily draw was calculated as the following:
1. State Benefits = State Unemployment Insurance (UI) benefits + Training (TRN) Benefits
2. Federal Benefits = Unemployment Compensation for Ex-Service Members (UCX) + Unemployment for Federal Employees (UCFE)
3. Total US Treasury Trust Draw = State Benefits (see 1 above) + Federal Benefits (see 2 above)

After Gary prepares the daily cash draw, Tai Ralston, Treasury Manager, or Shelly Peterson, Assistant Treasury Manager, also electronically reviews the draw to ensure amounts are calculated correctly and supported by UTAB reports. She signs/initials the draw to indicate her review. Once signed as approved, Gary logs onto ASAP.gov (Automated Standard Application for Payments) and requests the funds electronically. All account numbers and titles are saved in the system and Gary only needs to enter the proper amounts for each draw. Immediately after requesting the funds, Gary logs onto the Key Bank website and verifies the funds were deposited in ESD's account.

<u>Year-End Accrual</u>
Last year, we identified an issue related to Premiums & Claims accruals that ultimately became a part of larger finding. Tai stated that ESD will be performing a yearly estimate for claim accruals for FY23. She said that the estimate will be determined by getting claim data from UTAB (either a report or query) and applying estimated weekly benefit amount and average length of claims.

How Transactions are Recorded in AFRS:
We met with the following people on 5/25/2023 to update our understanding over premiums and claims (how transactions are recorded in AFRS):

- Tai Ralston, Treasury Manager

Each day, Son Pham, Fiscal Analyst 4, enters the daily total into the Excel spreadsheet "Monthly AFRS JV". Monthly, UTAB data is automatically imported into AFRS on the 6th business day of the following month at a summary level. UTAB imports are reconciled each month by comparing the monthly activity WEBI report to the "Monthly AFRS JV" (daily entry). If needed, she also uses additional UTAB reports to support reconciling items. Manual JVs are done to make any adjustments to AFRS.

Monthly, Son prepares the JV from the "Monthly AFRS JV" Excel workbook. While Son prepares the JV, Tai Ralston, Treasury Manager, simultaneously reviews and posts the JV. For non-UTAB programs, additional manual JVs are required to capture monthly activity and record into

AFRS.

Monthly, the Treasury Department preforms a reconciliation of UTAB to WEBI reports and the trial balance from AFRS. This is when adjustments will be posted to ensure AFRS data is accurate and complete. After this is complete, the banking desk performs a reconciliation of AFRS to Key Bank and US Bank. While these reconciliations are performed for every month it is often not completed until 30-60 days after month end. This is because any discrepancies are investigated and corrected until the differences for the month are within a "tolerable" level of variance. Once the reconciliation is complete Tai or Shelly Peterson, Assistant Treasury Manager, reviews the reconciliation to ensure the AFRS data is accurate and complete **(Key Control 7 - Manual - Completeness)**.

Monthly UTAB Reports used in the Benefit Account Reconciliation:
1. Intercepted Money filtered for the month (benefits issued to claimant paid to another source for back taxes or child support)
2. UTAB Repayments (Details) filtered by source (Key Bank and US Bank Electronic Bill) and reason (returned payment)
3. UTAB Repayments (Details) filtered by source (lock box) and reason (returned payment)
4. General Ledger Posting filtered for cash draws related the end of the month and posted in the following month (dates depended on the month and business days)
5. General Ledger Posting filtered for book transfers related to the end of the month and posted in the following month (dates depended on the month and business days)

Daily UTAB Reports used in the Benefit Account Reconciliation:
6. Issued Funds (Benefit Payments & Refunds) filtered by payment channel (standard paper checks)
7. Issued Funds (Benefit Payments & Refunds) filtered by date (dates depended on the month and business days)

Key Controls are as Follows:

- **Key Control 1 (Automated):** UTAB wage and hour data, which is used to calculate the benefits paid to claimants is automatically populated by NGTS. Once a day an automated process runs that compares wage records in NGTS to UTAB. Any records that were not received in UTAB are sent back through the regular update process until it is accepted **(Valuation)**.
- **Key Control 2 (Automated):** The UTAB system determines if claimants meet the hourly eligibility requirements (at least 680 hours) to receive UI benefit **(Rights & Obligations)**.
- **Key Control 3 (Automated):** Through UTAB and their Fraud Unit, the ESD run initial and weekly claims through the discovery process before payment goes out. The discovery process is when claims are run through a variety of cross matches and queries, both internal and with other agencies and partners to identify and flag suspicious claims for identity verification **(Rights & Obligations)**.
- **Key Control 4 (Automated):** When a claim is filed, UTAB sends a Request for Separation Information form to the last employer (only covered employment), and any employer that has a separation issue and does not meet purge requirements **(Rights & Obligations)**.

- **Key Control 5 (Automated)**: The UTAB system properly assesses claimant's eligibility based on claimant's responses to the questions asked during weekly filing **(Rights & Obligations)**.
- **Key Control 6 (Automated):** The UTAB system automatically and accurately calculates the unemployment benefit payment amounts **(Valuation)**.
- **Key Control 7 (Manual):** The Treasury Manager or Assistant Treasury Manager reviews reconciliations and indicates reconciling items were accurate with tickmarks to ensure AFRS data is accurate and complete **(Completeness).**

Noted Weaknesses are as Follows:
- None.

E.4.PRG - Premiums & Claims

Procedure Step: Key Control 1 (Electronic Interface - Automated)

Prepared By: DLE, 10/3/2023

Reviewed By: SLB, 11/14/2023

Record of Work Done:

Premiums and Claims - Valuation
Source:
Satyanarayana Marrapu, ESD Contractor (NGTS Developer)
Goutham Chodapuneedi, ESD Contractor (NGTS Database Specialist)
Craig Brewer, ESD UTAB Architect
Robert Parris, ESD NGTS Business Analyst
Jay Summers, ESD External Audit Liaison

Key Control 1 (Automated): UTAB wage and hour data, which is used to calculate the benefits paid to claimants is automatically populated by NGTS. Once a day an automated process runs that compares wage records in NGTS to UTAB. Any records that were not received in UTAB are sent back through the regular update process until it is accepted. **(Valuation)**

The understanding for this system is documented above in the "Controls - UTAB" step at Controls - UTAB. The following provides additional background and details for the daily process:

Confirmation and Testing of Key Automated Control:
Background:
Wage data is used as a component within the Unemployment Tax and Benefit (UTAB) system to calculate the amount of claims to be paid to those claiming unemployment benefits. To correctly calculate the benefits to be paid to a claimant (*Assertion: Valuation*), UTAB must have complete and accurate wage data. The wage data is imported into UTAB from an interface with the ESD's Next Generation Tax System (NGTS). To gain assurance that the wage records in UTAB is complete, ESD created an SSIS (SQL Server Integration Services) package that runs daily and compares the previous 30 days' wage records in NGTS with UTAB using the wage record's primary key. (Note: The primary key is a field in the database table that contains a unique value identifying each wage record.) The primary key cannot be NULL, so if there is a wage record in NGTS there will be a primary key assigned. If there is a primary key in NGTS that is not in UTAB, the automated process will identify this record and route the NGTS wage data for this record, including hours worked, to a queue table and through the regular update process until it is accepted into UTAB. In addition, if there are missing records identified, an email will be sent to ESD contractors to notify them. The SSIS package that runs the automated process was implemented in April 2018.

On 9/13/2023, we met with the following ESD staff/contractors via Teams:

Satyanarayana Marrapu, ESD Contractor (NGTS Developer)
Goutham Chodapuneedi, ESD Contractor (NGTS Database Specialist)
Robert Parris, ESD NGTS Business Analyst
Craig Brewer, ESD UTAB Architect
Luisa Wilderman, ESD UTAB Tech Lead
Jay Summers, ESD External Audit Liaison

We discussed the process described in the background section above and ESD staff and contractors stated that the process as described above is accurate. They stated it had not changed from the previous year.

We asked if this process would identify wage records that are in UTAB that are not in NGTS. Craig said no it would not. He further stated that NGTS is the system of record so the official wage records are what is in NGTS not UTAB. If there was a question regarding the accuracy of the benefit calculation, NGTS would be the source of wages.

We followed up on the FY2022 Exit Item:

> *The Employment Security Department does not perform a full reconciliation between NGTS and UTAB to verify wages and hours agree. The*

automated process only identifies records that are in NGTS, but not in UTAB and does not confirm that all the records in UTAB are also in NGTS. In addition, since the query used to identify missing records in UTAB only pulls records for the past 30 days, there is the possibility that missing records will still not update UTAB after 30 days and at that point will not be identified by the process as missing.

We continue to recommend the Department implement a formal process to fully reconcile NGTS and UTAB for wages and hours.

ESD staff responded that the Department decided not to implement a formal process because they feel what they have is sufficient.

Testing of automated control:
To determine whether the SSIS package identifies records in NGTS that are not in UTAB we performed the following:

1. We observed Goutham run a SQL query to generate a list of all the NGTS wage records that have uploaded into the UTAB test data warehouse over the last 30 days See screen print #1 for query at NGTS-UTAB Testing confidential client.
2. We haphazardly selected two records (fstrTransactionKey 286302102 and 286319807) from the list to delete from the UTAB production data warehouse. We observed as Goutham deleted two records out of the UTAB test data warehouse. See screen print #2 for query to delete records at NGTS-UTAB Testing confidential client
3. Goutham ran a 'select' query to search for these records in the table to verify the records were deleted. There were no results. See screen print #3 at NGTS-UTAB Testing confidential client.
4. We observed Goutham run the SSIS packet to compare the NGTS records to UTAB to identify records that are missing from the UTAB database. See screen prints #4 at NGTS-UTAB Testing confidential client.
5. We verified the SSIS process identified the two missing records and added related NGTS details to be updated in UTAB (See screen print #5 at NGTS-UTAB Testing confidential client).
6. Satyanarayana provided us with an email that demonstrates that notifications are sent to Satyanarayana and Goutham when the process identifies missing records. (See screen print #6 at NGTS-UTAB Testing confidential client)

Based on our testing, we conclude the automated process to identify missing records in UTAB is working as expected. As explained in the attachment, we did not verify the file was processed by the UTAB job to update UTAB as these records already exist in the UTAB system and will update the data warehouse via the daily refresh process. To avoid the unnecessary burden on ESD, we will not perform further testing. We have assurance that this part of the process works as intended because if it did not the same missing records would show up each day for 30 days and would be detected by the NGTS team.

To test that the process was in place for the entire audit period (7/1/2021 - 6/30/2022) we performed the following:

1. On 9/13/2023, we requested a log file showing the SSIS package processed daily from 07/01/22 through 9/13/2023. Satyanarayana provided us with a log report which was generated on 9/14/2023 with a specified range of 7/1/2022 -

9/14/2023. See report at NGTS-UTAB Wage Confidential Client (Purpose/Conclusion: To document the daily log for NGTS to UTAB wage compare job) We reviewed the report to determine whether the SSIS package runs daily. We noted the following:

- The earliest date on the Excel report is 9/14/2022. Satyanarayana explained that the system report only holds one year of data from the date the report is generated. We do not consider this to be high risk that we were unable to verify the job ran 7/1/2022-9/13/2022 because the job pulls 30 days of records to compare. Therefore, we are able to see that the job on 9/14/2022 compared records going back to 8/15/2022. Therefore, only 46 days were unable to be verified. It is unlikely the job did not run at any time within the 30 day window that included each of those particular days. No exception.
- The job consistently ran at 8:45 am daily.
- The report shows that 22 jobs failed. On six of these days where the failed, the job was rerun successfully. Satyanaraynana explained that usually ESD does not take action when the job fails since it will sync up all transactions on the following day. This response is reasonable given that the job pulls the past 30 days of wage records from NGTS to compare with UTAB. No exception.
- There was no log for 60 days in the test period as follows: 12/17/2022 and 12/18/2022, and every weekend from 2/25/2023 - 9/10/2023. Goutham explained that the process did not run 12/17/2022 and 12/18/2022 because ESD needed to modify the batch configuration to resolve Azure Service Bus Technical issues. The change to resolve the Azure issues was performed 12/19/2022. In addition, the UTAB group confirmed they only process the NGTS files on weekdays, so ESD changed the schedule to stop running on weekends starting 2/25/2023. No exception.

2. Goutham displayed the properties for the code that runs the SSIS package. See screen print at NGTS-UTAB JobProperties Client. The properties show the create date is 07/22/2021, that the job was modified 12/19/2022, and that it was last executed on 09/13/2023. The last run date (9/13/2023) was the day we met with ESD, which was expected since the job runs at 8:45 am and would have ran that morning. We asked what changes were made on 12/19/2022. Goutham responded they modified the batch configuration due to message size limitation with Azure Service Bus. This issue is discussed above. This was not a change that impacts the comparison between NGTS and UTAB process. No further work necessary.

Based on our testing documented above, the SSIS package was identifying and processing missing wage records for FY2023. We provided ESD a recommendation regarding the lack of a full reconciliation between NGTS and UTAB to verify wage and hours agree. Since the SSIS package used to identify missing records in UTAB only pulled records for the past 30 days, there is the possibility that missing records would still not update UTAB after 30 days. In addition, this process does not identify records in UTAB that are not in NGTS.

Noted Weakness is as follows:

The Department does not perform a full reconciliation between NGTS and UTAB to verify wages and hours agree. The automated process identifies records that are in NGTS and not in UTAB but does not confirm that all the records in UTAB are also in NGTS. In addition, since the query used to identify missing records in UTAB only pulls records for the past 30 days, there is the possibility that missing records will not update in UTAB and after 30 days will not be identified by the process as missing. *Without a full reconciliation between NGTS and UTAB performed on a periodic basis, there is a risk that UTAB data could be incomplete or inaccurate resulting in incorrect eligibility determinations or benefit calculations.* We continue to recommend the Department implement a formal process to fully reconcile NGTS and UTAB for wages and hours on a periodic basis. V: ESD Lack of Reconciliation for UTAB to NGTS

We determined the risk of a material misstatement as a results of this weakness is low due to the process ESD has in place to identify and populate UTAB with missing records. NGTS is the system of record and if records were missing in UTAB, ESD would look to NGTS to determine actual wages and hours work.

Communication of weakness
On 9/13/2023, we spoke with Raj Maynock, Team FA, via Teams regarding the results of our testing and the repeated weakness. Raj stated that level of reporting will be determined by Team FA and communicated to ESD at the end of the audit work. We also determined at this meeting to create a FAWF memo for consideration of further follow up regarding this weakness during an accountability audit. We created a FAWF memo at NGTS-UTABInterface_FAWF. We communicated the repeat weakness to Jay Summers, External Audit Liaison, on 10/3/2023 via email, and let him know that Level of Reporting will be determined at a later date and communicated at the end of the audit at ESD.

2. Preliminary Control Risk Assessment
Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW – Test General Controls:
Not applicable - we are not planning to rely on automated controls and therefore do not need to test general controls; control risk will be assessed at **maximum**.

E.4.PRG - Premiums & Claims

Procedure Step:	Key Control 2 (System Calculation - Automated)
Prepared By:	EZM, 5/22/2023
Reviewed By:	SLB, 11/14/2023

Record of Work Done:

Premiums and Claims - Rights & Obligations

Key Control 2 (Automated): The UTAB system determines if claimants meet the hourly eligibility requirements (at least 680 hours) to receive UI benefits **(Rights & Obligations).**

The understanding for this system is documented above in the "Controls - UTAB" step.

1. Key Automated Control Confirmation and Testing:

The initial eligibility requirement for unemployment insurance (UI) benefits is that claimants must have worked at least 680 hours in their base year. A claimant can file for UI benefits through an agent, online, or by using an automated phone system. UTAB determines if the claimant is eligible or not based on hours and wage data in the system. NGTS is the system of record for wage and hours data, submitted by employers.

On 5/8/2023, Amanda Rouse, Business Systems Analyst (UTAB), provided us information from UTAB. The screens we saw are the ones the agents would use when claimants call. We tested three scenarios:

1. Claimant has worked less than 680 hours during base year, and
2. Claimant has worked more than 680 hours during base year, and
3. Claimant has worked 680 hours during base year.

Amanda had a claimant for each scenario indicated above. See below:
1. We reviewed the Monetary Determination section of UTAB, Benefit Summary tab. The case number was 0-071-953-543. UTAB showed 240 hours in the base year and was listed as "Monetarily Ineligible". Weekly Benefit Amount (WBA) showed $0.
2. We reviewed the Monetary Determination section of UTAB, Benefit Summary tab. The case number was 0-071-935-205. UTAB showed 2,070 hours in the base year and was listed as "Monetarily Eligible". WBA showed $815.
3. We reviewed the Monetary Determination section of UTAB, Benefit Summary tab. The case number was 0-071-808-141. UTAB showed 680 hours in the base year and was listed as "Monetarily Eligible". WBA showed $526.

For the three scenarios above, UTAB appropriately assessed eligibility of each claimant tested. ***No issues noted.***

This key control is applicable to regular UI benefits. This does not apply to Pandemic Unemployment Assistance (PUA) benefits. PUA is a separate benefit program that provides a financial safety net to many people who do not qualify for regular unemployment, including:

- Self-employed people
- Independent contractors

- Part-time workers (with fewer than 680 hours)

This program ended in September 2021. ESD had a minimum payment that claimants received without documentation. As of December 2020 the Department is validating self-employment or partial employment claims. See more details at: [Controls - UTAB/Treasury's Reconciliation].

Noted Weaknesses are as follows:

- **None.**

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW – Test General Controls:

Not applicable - we are not planning to rely on automated controls and therefore do not need to test general controls; control risk will be assessed at maximum.

E.4.PRG - Premiums & Claims

Procedure Step: Key Control 3 (System Determination - Automated)

Prepared By: EZM, 6/21/2023

Reviewed By: SLB, 11/14/2023

Record of Work Done:

Premiums and Claims - Rights & Obligations

Key Control 3 (Automated): Through UTAB and their Fraud Unit, the ESD run initial and weekly claims through the discovery process before payment goes out. The discovery process is when claims are run through a variety of cross matches and queries, both internal and with other agencies and partners to identify and flag suspicious claims for identity verification **(Rights & Obligations).**

The understanding for this system is documented above in the "Controls - UTAB" step.

State of Washington

1. Key Automated Control Confirmation and Testing:

We met with Shalina Latiff, Fraud Analytics Manager, and Kaylene Flynn, Operations Manager for the Fraud Division, on 5/22/23 to perform a walk-thru of this key control confirmation. We viewed screens from the UTAB user interface and she ran a query from the UTAB database to show that the discovery process is being run before payment goes out.

Screenshots from the UTAB User Interface:

1. Claimant with No Issues:
   - Claim ID: X3CFHQ-004
   - Under customer screen we reviewed the Task - Cases Tab
         - Claim Registration - Create Claim: October 5, 2022
         - No Discovery issues noted.
         - We clicked on the claim ID and noted that the first payment was not made until 11/5/2022. ***No issues noted.***

2. Claimant with Issue:
   - Claim ID: DXP6GM-001
      - Under customer screen we reviewed the Task - Cases Tab
         - Claim Registration - Create Claim: September 5, 2022
         - Non-Sep - Identity - Re-Determined:
            - The issue was initially created on September 5, 2022
            - An ID theft claim was made by an investigator on September 12, 2022.
            - A presumptive determination was issued on October 13, 2022.
         - We clicked on the non-sep - identity theft claim was made by an investigator on September 12, 2022. It stated that the claimant did not verify identity and the identity issue must be referred to OSI. The claimant did not respond to the letter that was sent in order to confirm their identity, so a presumptive determination was made on October 13, 2022 and their claim was denied.
            - Outcome: Deny
         - We clicked on the claim ID and noted that there were no payments made to the claimant. ***No issues noted.***

Query from the UTAB Database:

1. Claim ID: X3CFHQ-004
   - Discovery Process ran on 10/5/2022
   - Discovery score was 0

2. Claim ID: DXP6GM-001
   - Discovery Process ran on 9/5/2022

- Discovery score was 1,525

If the discovery score value is above the defined threshold (score over 600 = issue set, score close to 600 = sets a lead), the claim is assigned to a queue and is reviewed by an investigators in the Office of Special Investigations unit (OSI), to determine if the claim is in fact fraudulent.

We determined that the discovery process was ran before payment was made for both of these claims. ***No issues noted.***

Noted Weaknesses are as follows:
- **None.**

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW – Test General Controls:
Not applicable - we are not planning to rely on automated controls and therefore do not need to test general controls; control risk will be assessed at maximum.

E.4.PRG - Premiums & Claims

Procedure Step:	Key Control 4 (System Determination - Automated)
Prepared By:	EZM, 6/21/2023
Reviewed By:	SLB, 11/14/2023

Record of Work Done:

Premiums & Claims - Rights & Obligations
Key Control 4 (Automated): When a claim is filed, UTAB sends a Request for Separation Information form to the last employer (only covered employment), and any employer that has a separation issue and does not meet purge requirements **(Rights & Obligations).**

The understanding for this system is documented above in the "Controls - UTAB" step.

1. Key Automated Control Confirmation and Testing:
On 5/8/2023, Amanda Rouse, Business Systems Analyst (UTAB), provided us information from the UTAB test environment. We reviewed screens to show that a Request for Separation Information (RSI) form is sent out before payment is made to the claimant. See below:

Regular UI - Disqualified:
Claim ID: QXZZ8X-002

- Program Type: UI
- Under the claim ID screen we reviewed the Task – Cases tab and noted that there was one separation case (excluding purge). See below:
  - NINTENDO OF AMERICA INC – RSI form was sent on 8/31/2021
    - No response received. No issue detected in the system since the claimant had quit.
- Under the claim ID screen we reviewed the Benefits - Weekly Summary tab. We noted the following:
  - The claimant had not been paid, since they had a "Disqualified" status.

Regular UI - Not Disqualified:
Claim ID: 4DF4C2-001

- Program Type: UI
- Under the claim ID screen we reviewed the Task – Cases tab and noted that there was one separation case (excluding purge). See below:
  - GREEN MOUNTAIN COFFEE – RSI form was sent on 2/19/2023
    - Response received on 4/4/2023; the Department's ultimate determination was to allow the separation and pay the claimant.
- Under the claim ID screen we reviewed the Benefits - Weekly Summary tab. We noted the following:
  - The claimant had received their first payment on 3/4/2023, after the RSI form had been sent out.

No issues noted.

Noted Weaknesses are as follows:

- None.

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW – Test General Controls:

Not applicable - we are not planning to rely on automated controls and therefore do not need to test general controls; control risk will be assessed at maximum.

E.4.PRG - Premiums & Claims

Procedure Step:	Key Control 5 (System Determination - Automated)
Prepared By:	EZM, 6/21/2023
Reviewed By:	SLB, 11/14/2023

Record of Work Done:

Premiums & Claims - Rights & Obligations
Key Control 5 (Automated): The UTAB system properly assesses claimant's eligibility based on claimant's responses to the questions asked during weekly filing **(Rights & Obligations).**

The understanding for this system is documented above in the "Controls - UTAB" step.

1. Key Automated Control Confirmation and Testing:
When a claimant wants to apply for UI benefits, the claimant has to meet the initial eligibility requirement first (discussed at Key Control 2 [Key Control 2 (System Calculation - Automated)]). Subsequently, the claimant has to file for benefits on a weekly basis. The claimant can file for weekly benefits by calling the IVR system (automated phone system), call an agent, or use the eService. In order to determine if the claimant is eligible for the week's benefit, the claimant has to answer a list of questions. If an answer requires follow up, UTAB creates an "Issue" (also known as a task). If there is a week where a claimant does not receive a weekly benefit (such as if they don't file a weekly claim), an issue will stop benefit payment. If the claimant continually receives a weekly benefit an issue will not stop the benefit payment.

To resolve an issue, the agent or claimant using eServices has to go to each specific issue established in UTAB and answer additional questions. These additional fact finding questions will lead to either rejecting benefits or approving benefits.

On 5/8/2023, Amanda Rouse, Business Systems Analyst (UTAB), provided us information from the UTAB test environment. The screens we saw are the ones the agents would use when claimants call to file for weekly benefits. Amanda entered in SSNs to bring up accounts to see the filing for a weekly benefit. We briefly discussed all the questions (Weekly Claims tab, then Questions tab) and selected five questions (below) to review that we expected an issue to be created and the payment to be held (pending) or contingently paid.

State of Washington

A payment is on hold (pending) when there is an issue that arises for a new claimant filing a new claim. A claim is only contingently paid when claimants are on "continued claim status". This means that the claimant has previously filed a claim without any issues.

1. Did you begin attending a school or training program?
The claimant answered **<u>yes</u>** to this and we expected an issue to be created (UI Claim Number QGGP2X-003).
   - Week Ending March 25, 2023: We noted that an issue was created for this claim and that the status of this claim is currently "Adjudication in Progress". No payment has been made to the claimant.

2. Were you physically able and available for work each day of the week?
The claimant answered **<u>no</u>** to this and we expected an issue to be created (UI Claim Number DRCV6S-007).
   - Week Ending January 21, 2023: We noted there was an issue created for this claim and that there has been a presumptive determination for this claim. The claim was disqualified (denied) and no payment was made to the claimant for the week ending January 21, 2023.

3. Did you complete at least three job search activities and keep a written record as required?
The claimant answered **<u>no</u>** to this and we expected an issue to be created (D2TJMW-004).
   - Week Ending March 11, 2023: We noted there was an issue created for this claim and that this claim is in the process of adjudication. No payment has been made to the claimant.

4. Did you refuse any offer of work?
The claimant answered **<u>yes</u>** to this and we expected an issue to be created (UI Claim Number J39DDF-001).
   - Week Ending February 4, 2023: We noted there was an issue created for this claim and that this claim was adjudicated, and ultimately denied. No payment was made to the claimant after the denial.

5. Did you turn down a job offer, or fail to go to a job interview that you were referred to by WorkSource?
The claimant answered **<u>yes</u>** to this and we expected an issued to be created (UI Claim Number ZL54P4-006).
   - Week Ending March 25, 2023: We noted there was an issue created for this claim and that there has been a presumptive determination for this claim. The claim was disqualified (denied) and no payment was made to the claimant.

We looked at the Adjudicator tab, that shows the issue, which includes the source of where the issue originated (i.e. Weekly Claim), and the benefit week from and to date. An issue was created for each question as expected. ***No issues noted.***

Noted Weaknesses are as follows:

- **None.**

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW – Test General Controls:
Not applicable - we are not planning to rely on automated controls and therefore do not need to test general controls; control risk will be assessed at maximum.

E.4.PRG - Premiums & Claims

Procedure Step:	Key Control 6 (System Calculation - Automated)
Prepared By:	EZM, 6/21/2023
Reviewed By:	SLB, 11/14/2023

Record of Work Done:

Premiums & Claims - Valuation
Key Control 6 (Automated): The UTAB system automatically and accurately calculates the unemployment benefit payment amounts **(Valuation).**

The understanding for this system is documented above in the "Controls - UTAB" step.

1. Key Automated Control Confirmation and Testing:
Per RCW 50.20.120, the total amount of maximum benefits payable on the claim is found by taking the smaller of 1/3 of the total gross wages in all four quarters of the base year or 26 times the weekly benefit amount (WBA) determined.

The calculation uses two limits for the maximum benefits amount/payable (MBA):
- WBA x 26
- Total Base Wages / 3

We reviewed the UTAB screen and re-performed the calculations for instances of both limits as detailed below:

State of Washington

On 5/8/2023, Amanda Rouse, Business Systems Analyst (UTAB), provided us with information to test automated calculations in UTAB. See details below:

[WBA x 26] Maximum Benefits Amount/Payable

1) We reviewed case number 0-071-935-205. We reviewed the Monetary Determination screen, MBA & WBA Calculations tab, in UTAB:

High Quarter Wage 1		High Quarter Wage 2		High Quarter Wage Avg
$21,900.40	+	$20,438.38	=	$21,169.39
	2			

High Quarter Wage Avg.		State Multiplier from RCW		Weekly Benefit Amount
$21,169.39	X	0.0385	=	$815

Total Base Wages				Max Benefits Payable
$75,531.23	/3		=	$25,177

Weekly Benefit Amount				Max Benefits Payable
$815	X 26		=	$21,190

The MBA was $21,190. The system correctly calculated the MBA by using the 26 weeks instead of wage.

[Total Base Wages / 3] Maximum Benefits Amount/Payable

2) We reviewed case number 0-071-932-487. We reviewed the Monetary Determination screen, MBA & WBA Calculations tab, in UTAB:

High Quarter Wage 1		High Quarter Wage 2		High Quarter Wage Avg
$10,590.00	+	$9,038.47	=	$9,814.24
	2			

High Quarter Wage Avg.		State Multiplier from RCW		Weekly Benefit Amount
$9,814.24	X	0.0385	=	$377

Total Base Wages		Max Benefits Payable	
$25,169.73	/3	=	$8,389
Weekly Benefit Amount		Max Benefits Payable	
$377	X 26	=	$9,802

The MBA was $8,389.00. The system correctly calculated the MBA by using the wage calculation instead of the 26 weeks.

Noted Weaknesses are as follows:

- None.

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW – Test General Controls:

Not applicable - we are not planning to rely on automated controls and therefore do not need to test general controls; control risk will be assessed at maximum.

E.4.PRG - Premiums & Claims

Procedure Step: Key Control 7 (Reconciliations - Manual)

Prepared By: EZM, 10/11/2023

Reviewed By: SLB, 11/14/2023

Record of Work Done:

Premiums & Claims - Completeness

Key Control 7 (Manual): The Treasury Manager or Assistant Treasury Manager reviews reconciliations and indicates reconciling items were accurate with tickmarks to ensure AFRS data is accurate and complete **(Completeness).**

The understanding for this system is documented above in the "Controls - UTAB" step.

1. Confirmation of Key Manual Control:
This key control is tested as part of Cash and Cash Equivalents at: [Key Control 1 (Existence, Manual)]. ***No issues noted.***

We met with Tai Ralston, Treasury Manager, and Kimberly Green, Deputy CFO, on October 17, 2023 to obtain a walk-through of the UTAB to AFRS monthly reconciliation process. We selected to review the June 2023 monthly reconciliation. Tai Ralston, Treasury Manager, opened the "June 2023 Monthly AFRS JV to Webi TEMPLATE with all GLs" spreadsheet. We asked for her to walk us through the "6510" (Cash Expenditures/Expenses) tab for fund 620. On this tab we noted on the left it stated "Journal to AFRS" and on the right it stated "Journal to UTAB". The beginning balance of $2,082,700,673 was the same for both sides of the spreadsheet. Both sides of the spreadsheets had entries that were made to both AFRS and UTAB. The entries on the AFRS side were directly linked to another tab that had the entry for JV 54024807. There was no adjustment needed since AFRS and UTAB had the same entries made this month. The ending balance of $2,210,987,721 matched both on the AFRS and UTAB side. We noted in this spreadsheet there were several indications of preparation and review from multiple individuals including Son Pham, Fiscal Analyst 4, Shelly Peterson, Assistant Treasury Manager, and Tai Ralston, Treasury Manager.

Note: The ending and beginning balances for AFRS and UTAB is large. This is due to biennial adjustments to the income statement. OFM rolls balances over after the fiscal year and ESD shows that amount on their reconciliation for expenditures. ESD uses the reconciliation as back-up for their entry into UTAB at fiscal year-end.

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

E.4.PRG - Premiums & Claims

Procedure Step: Risk Assessment
Prepared By: EZM, 10/19/2023
Reviewed By: SLB, 11/14/2023

Record of Work Done:

(1) Inherent Risk (IR):
Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

- Completeness – **MAX**
- Rights & Obligations – **MAX**
- Valuation – **MAX**

(2) Control Risk (CR):
We assessed control risk as follows for each system and relevant assertion:

- **UTAB** – Completeness, Rights & Obligations, and Valuation

MAX – For the Completeness, Rights & Obligations, and Valuation assertions we noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

- **Reconciliation** – Completeness

MAX – We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

- Completeness – **MAX**
- Rights & Obligations – **MAX**
- Valuation – **MAX**

(4) Testing Strategy:
We designed our substantive testing strategy based on our assessment of the risk of material misstatement.

- Completeness:
    - We will select a sample of cash draws and ensure that bank deposits are complete and tie to UTAB.
    - We will determine the completeness of the population by comparing UTAB to the US Bank draws.
- Valuation and Rights & Obligations:
    - We will select a sample of FY23 benefit payments (excluding PUA) and perform the following:
        - Recalculate the benefit payments for selected accounts (Valuation).
        - Verify hours worked during the base year to determine the State's obligation (Rights & Obligations).
        - Determine whether the Department verified the claimant's ID prior to payment (Rights & Obligations)
        - Determine whether the Department sent a Request for Separation Information (RSI) form to the claimant's employer prior to payment (Rights & Obligations)
        - Determine whether the claimant is eligible for benefits (Rights & Obligations)
- We will also select a sample of FY23 PUA benefit payments and perform the following:
        - Recalculate the benefit payments for selected accounts (Valuation).
        - Determine if the claimant's ID was verified before payment was sent (Rights & Obligations).
        - Determine if the Department verified the claimant's wage records (Rights & Obligations).
        - If applicable, determine whether an overpayment has assessed (Valuation).
        - Determine whether the claimant is eligible for benefits (Rights & Obligations).
- Valuation/Completeness: We will determine if the yearly claims accrual estimate is complete and calculated correctly.

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

E.4.PRG - Premiums & Claims

Procedure Step:	Substantive Test
Prepared By:	EZM, 10/31/2023

Reviewed By: SLB, 11/14/2023

Record of Work Done:

Substantive tests performed to meet the Completeness assertion:

Daily Cash Draws:

We used the Nonstatistical Sample of Population 365 or less spreadsheet [FS Sampling - Daily Cash Draws Testing] with a tolerable misstatement and assurance levels dictated by the material balance workpaper for a planned sample size of 24. We used the random number generator to randomly select 24 sample dates throughout FY23.

We obtained UTAB general ledger postings (Daily Draw Worksheet section), all supporting documentation (UTAB Daily Draw Adjustments sections and AFRS posting), and payment transaction confirmations (Key Bank account ending 1595 statements & US Bank account ending 9548 statements).

We performed the following procedures:

- We tested the general ledger posting for the presence of a signature indicating supervisory review.
- We tested that the review was done in a timely manner.
- We manually calculated the amounts on the general ledger posting from the supporting documentation (adjustments) to ensure that the worksheet was programmed correctly and to develop an expectation of the results of supervisory review.
- We confirmed that the US Bank confirmation tied to the total in UTAB.

See substantive testing at: [FS Sampling - Daily Cash Draws Testing]. ***No issues noted.***

Bank Reconciliations:

We rely on testing of the bank reconciliations related to benefits at: [Substantive Test].

Claims Accrual:

We reviewed the 2023 Yearly Estimate spreadsheet [2023 Estimated Claims, UI Appeal Accrual GL 5118] that Kimberly Green, Deputy CFO, provided us. On the "ESD Report 1" tab, we noted that ESD used FY23 UI benefit expenditure data in order to determine the allocation percentages for the yearly estimate of claim accruals, which can be seen on the "ESD Pivot.Breakdown Calculation" tab. We ran the same WEBI query ESD ran in order to confirm that the data they used was complete. We initially found that the data was not complete - the negative amounts for Fund 622 were missing from ESD's data. We reached out to Kimberly Green, Deputy CFO, about these missing negative amounts and she explained that the negative amounts were in large part a result of fraud recoveries, as well as payments on overpayments received from claimants, and that these negative amounts were skewing the data and resulted in a negative accrual amount, so ESD decided to remove them. We determined that this was a reasonable explanation for why ESD made adjustments to their Fund 622 expenditure data before arriving at their yearly estimate of claim accruals amount. We determined the unemployment program expenditure data for funds 620 and 622 were complete.

On the "ESD Accrual Calculation" tab, we noted that ESD used two separate UTAB reports to find the number of allowable cases, the "total bucket" of cases (all cases less any open cases at the end of the fiscal year), and the amount of open cases. The reports aren't labeled, but both reports are for issues created from 7/1/22 through 6/30/23. The difference between the two reports is that the top report is for issues closed from 7/1/22 through 8/25/23, while the bottom report is for issues closed from 7/1/23 through 8/25/23. ESD uses the top report, which is dated for FY23, to identify the amount of claims in backlog that were allowed. ESD then runs a separate report, with a date range of 7/1/23 through the day before they calculate the estimate (8/25/23). They assume these cases were in backlog as of 6/30/23. They apply the ratio calculated from the first report to estimate how many open claims from the second report will most likely be allowed and therefore paid out. We determined that this is a reasonable way to determine the ratio of open cases that will be allowed.

Finally, on the "SAO Recalculation" tab, we noted that ESD used monthly program and financial data retrieved from the U.S. Department of Labor's website in order to arrive at the "weekly amount" and "# of weeks" figures used in the calculation of the yearly estimate. We retrieved this data from the website ourselves and determined that ESD used all monthly program data from FY23. We determined that this dataset was complete.

On the "SAO OSI Accrual Calculation" tab, we recalculated the total estimated accrual amount. This accrual tied to the JV posted to AFRS. ***No issues noted.***

Substantive tests performed to meet the Valuation assertion:

UI Benefits Excluding Pandemic Unemployment Assistance (PUA):

We used the Financial Audit Substantive Statistical Sample spreadsheet with a tolerable misstatement of 5.0%, so that we could also use this work for the SWSA, and high assurance levels, and we arrived at a planned sample size of 59. Priscilla Soh, IT Auditor (Team IT Audit), randomly pulled these samples using the benefit week payment date. The data is received by quarter, so we asked them to randomly select the following:

- 15 claimants from Q3 2022 (July - Sept 2022)
- 15 claimants from Q4 2022 (Oct - Dec 2022)
- 15 claimants from Q1 2023 (Jan - March 2023)
- 14 claimants from Q2 2023 (April - June 2023)

To verify that UTAB is calculating benefit payments and maximum benefits payable accurately, we reviewed screens within UTAB and recalculated benefit payments for the sample. We reviewed the calculations for the following:

- Weekly Benefit Amount (WBA)
    - We added together the gross wages in the two highest quarters during the period, divided by 2, and then multiplied by 0.0385 (RCW 50.20.120).

- Earnings Deduction (if applicable)
    - If the claimant has earnings during the week, ESD deducts part of the earning from the WBA.
    - We take the gross earning minus $5.00 multiplied by 75%. All deductions are rounds up to the next highest dollar.
- Intercepts (if applicable)
    - This is money taken out of the benefit payment for the following reasons:
        - Income Tax Withholding
        - Repaying a Debt to ESD
        - Child Support
    - Stimulus (if applicable)
        - State or federal payments payable to claims filed between certain periods of time.
    - Maximum Benefits Payable
        - The total amount of benefits potentially payable on the claim is found by taking the smaller of:
            - 26 times the claimants's weekly benefit amount or
            - 1/3 of the total gross wages in all four quarters of the claimant's base year

See substantive testing performed at: [FS Sampling - Regular UI Claims Testing]. ***No issues noted***.

Note: We excluded PUA because we randomly selected a sample of only PUA benefits (see below).

PUA:
We used the Financial Audit Substantive Statistical Sample spreadsheet with a tolerable misstatement of 5.0%, so that we could also use this work for the SWSA, and high assurance levels, and we arrived at a planned sample size of 59. Priscilla Soh, IT Auditor (Team IT Audit), randomly pulled these samples using the benefit week payment date. The data is received by quarter, so we asked them to randomly select the following:

- 15 claimants from Q3 2022 (July - Sept 2022)
- 15 claimant from Q4 2022 (Oct - Dec 2022)
- 15 claimants from Q1 2023 (Jan - March 2023)
- 14 claimants from Q2 2023 (April - June 2023)

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- Earnings Deduction (if applicable)
    - If the claimant has earnings during the week, ESD deducts part of the earning from the WBA.

    - We take the gross earning minus $5.00 multiplied by 75%. All deductions are rounds up to the next highest dollar.
- Intercepts (if applicable)
    - This is money taken out of the benefit payment for the following reasons:
        - Income Tax Withholding
        - Repaying a Debt to ESD
        - Child Support
    - Stimulus (if applicable)
        - State or federal payments payable to claims filed between certain periods of time.
    - XFRs (if applicable)
        - XFRs (or Transfers) is when a weekly payment is transferred from one claim to another.
    - Maximum Benefits Payable
        - 86 weeks multiplied by the WBA.

See substantive testing performed at: [FS Sampling - PUA Claims Testing], tab "FS Substantive Sample". ***No issues noted***.

Note: This sample only included PUA benefit payments.

Claims Accrual [2023 Estimated Claims, UI Appeal Accrual GL 5118]:
On the "SAO Recalculation" tab, we recalculated the "weekly amount" and "# of weeks" figures used to calculate the yearly estimate of claim accruals. We were able to properly recalculate these figures using data retrieved from the U.S. Department of Labor's website.

On the "SAO OSI Accrual Calculation" tab, we recalculated the total estimated accrual amount. We were able to properly recalculate the amount using the Total Issues and Outcomes Reports from UTAB, the "average duration of benefits (weeks)" amount, and the "average WBA" amount. **No issues noted.**

Substantive tests performed to meet the Rights & Obligations assertion:
UI Benefits Excluding PUA:
We used the Financial Audit Substantive Statistical Sample spreadsheet with a tolerable misstatement of 5.0%, so that we could also use this work for the SWSA, and a high assurance level, this arrived us at a planned sample size of 59. Priscilla Soh, IT Auditor (Team IT Audit), randomly pulled these samples using the benefit week payment date. The data is received by quarter, so we asked them to randomly select the following:

- 15 claimants from Q3 2022 (July - Sept 2022)
- 15 claimants from Q4 2022 (Oct - Dec 2022)
- 15 claimants from Q1 2023 (Jan - March 2023)
- 14 claimants from Q2 2023 (April - June 2023)

We reviewed screens within UTAB to verify the following:

- If ESD verified the claimant's ID before payment was sent.
- If ESD verified the claimant's hours worked during the base year, which determines the claimant's eligibility and ESD's obligation to pay.
- If ESD sent a Request for Separation Information (RSI) form before paying the claimant.
- If the payment is allowable.

See substantive testing performed at: [FS Sampling - Regular UI Claims Testing]. ***No issues noted.***

Note: We excluded PUA because we randomly selected a sample of only PUA benefits (see below).

PUA:
We used the Financial Audit Substantive Statistical Sample spreadsheet with a tolerable misstatement of 5.0%, so that we could also use this work for the SWSA, and a high assurance level, this arrived us at a planned sample size of 59. Priscilla Soh, IT Auditor (Team IT Audit), randomly pulled these samples using the benefit week payment date. The data is received by quarter, so we asked them to randomly select the following:

- 15 claimants from Q3 2022 (July - Sept 2022)
- 15 claimant from Q4 2022 (Oct - Dec 2022)
- 15 claimants from Q1 2023 (Jan - March 2023)
- 14 claimants from Q2 2023 (April - June 2023)

We reviewed screens within UTAB to verify the following:

- If ESD verified the claimant's ID before payment was sent.
- ESD reviewed claimant's wage records. The wage records determine the claimant's eligibility and ESD's obligation to pay.
- Payment is allowable.
- Has an overpayment been assessed?

See substantive testing performed at: [FS Sampling - PUA Claims Testing], tab "FS Substantive Sample". ***No issues noted.***

Note: This sample only included PUA benefit payments.

E.4.PRG - Premiums & Claims

Procedure Step: Sample Methodology

Prepared By: PS, 8/30/2023

State of Washington

Reviewed By: JMT, 8/31/2023

Record of Work Done:

Import UTAB Data

IT Audit emailed Jay Summers, ESD External Audit Manager, to request for UTAB data. This included the UTAB benefit payments, base year employer data and base year wage data.

An email was sent on 4/5/2023 to request fiscal year 2023 data. ESD provided the UTAB data for quarters 1, 2, and 3 in text format to us on 5/10/2022. The files were sent to SAO via the WaTech secure file transfer site (MFT.wa.gov). Files were saved to the SAO network drive and imported into SQL database. We have confirmed the record count of each file received to the record count provided by ESD staff. No exception. We performed procedures at Reasonableness_UTAB_2023_9months and determined that the data are reasonable.

ESD provided the UTAB data for the entire fiscal year, in text format, to us on 8/29/2023. The files were sent to SAO via the WaTech secure file transfer site (MFT.wa.gov). Files were saved to the SAO network drive and imported into SQL database. We have confirmed the record count of each file received to the record count provided by ESD staff. No exception. We performed procedures at Reasonableness_UTAB_2023_EntireYear and determined that the data are reasonable.

Document Test Objective

This request was submitted by Team FA via Helpdesk 62255.

1. To randomly select 59 UTAB payment samples (exclude PUA) for testing as follow:
   - 15 payments from Q3-2022 (July - Sept 2022)
   - 15 payments from Q4-2022 (Oct - Dec 2022)
   - 15 payments from Q1-2023 (Jan - March 2023)
   - 14 payments from Q2-2023 (April - June 2023)
2. Provide the total number of payments and total dollars (exclude PUA) for FY2023.

3. To randomly select 59 UTAB payment samples (PUA only) for testing as follow:
   - 15 payments from Q3-2022 (July - Sept 2022)
   - 15 payments from Q4-2022 (Oct - Dec 2022)
   - 15 payments from Q1-2023 (Jan - March 2023)
   - 14 payments from Q2-2023 (April - June 2023)

4. Provide the total number of payments and total dollars (PUA only) for FY2023.

Methodology
We will randomly select samples from the UI benefit paid during for fiscal year 2023. As we perform our testing, we will make adjustments to this plan as necessary.

Queries
The queries to complete the sample selection are at Testings_UTAB_2023.

Reasonableness
The reasonableness of test results has been performed and documented in the above queries. Based upon our checks, we consider our test results to be complete and reasonable.

Results
The samples are provided to audit team in an Excel spreadsheet, !2023_UTAB_Samples.xlsx. The results provided contain CONFIDENTIAL DATA.

In fiscal year 2023, there are 2,145,873 UTAB payments for a total amount of $1,188,909,743.19. This includes all entitlement types.

- There are 2,125,426 UI payments for a total amount of $1,184,090,662.70, excluding PUA.
- There are 20,447 PUA payments for a total amount is $4,819,080.49.

E.5.PRG - Restricted For: Unemployment Compensation

Procedure Step: Summary & Conclusion
Prepared By: EZM, 11/9/2023
Reviewed By: SLB, 11/14/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
The results of substantive tests do not indicate a need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
The quality and quantity of evidence obtained was sufficient and appropriate.

E.5.PRG - Restricted For: Unemployment Compensation

Procedure Step: Understanding of Line Item
Prepared By: EZM, 5/23/2023
Reviewed By: SLB, 11/14/2023

Record of Work Done:

(1) Prior Audit Exceptions:
- None.

(2) Composition & Change Analysis:
Line Item Leadsheet: [Line Item Lead Sheet].

The Restricted for: Unemployment Compensation line item is composed of Fund 620 and 622 restricted to GL code 9545 - Restricted for Unemployment Compensation. The balance of this GL code represents the portion of net position restricted for future payments of unemployment compensation benefits. The change in net position was the accumulation of changes in revenue, expenses, assets, deferred inflows, liabilities, and deferred outflows.

We noted the balance included activity from the following funds:
- Fund 620 Unemployment Compensation Account
- Fund 622 Unemployment Compensation Federal Employees' Benefit Payment Account

The roll up fund sort code for this balance was FFG.

We inquired with Anna Quichocho, OFM State Financial Consultant, on 5/19/2023. She noted there were no changes from the prior year.

(3) Updates to Material Account Matrix:

- None

E.5.PRG - Restricted For: Unemployment Compensation

Procedure Step:	Controls - AFRS
Prepared By:	EZM, 5/22/2023
Reviewed By:	SLB, 11/14/2023

Record of Work Done:

Material Balance(s) and Assertions

Internal controls in the AFRS address the following balances:

- Statement of Net Position - Government Wide
  - Restricted for: Unemployment Compensation
- Statement of Net Position - Proprietary Funds
  - Restricted for: Unemployment Compensation

For the following assertions:

- Classification: All of the net position has been properly restricted for unemployment.
- Valuation: Net position has been reported at the correct amount.

Gain an Understanding of Internal Controls

We met with Anna Quichocho, OFM State Financial Consultant, on 5/19/2023 to update our understanding over the line item, Restricted for: Unemployment Compensation.

Classification

Anna stated net position restricted for unemployment compensation (GL 9545) is restricted by OFM based on legislation of RCW 50.16 Unemployment - Funds and Social Security Act Section 903 - Amounts Transferred to State Accounts **(Key Control 1 – Classification,**

Manual). She also noted funds are presented as a separate restricted financial line item in accordance with GASB 34. Anna noted all funds (roll-up fund) held are restricted for payment of unemployment benefits and related operations to facilitate the payment of unemployment operations.

Valuation
Anna stated based on the classification restrictions noted above, Fund 620 Unemployment Compensation Account and Fund 622 Unemployment Compensation Federal Employees' Benefit Payment Account has 100% of GL 9545 funds restricted. The Fund Reference Manual (supplement to SAAM) noted closing account instructions for fund 620 and 622. 100% of these funds' closing activity is required to be coded to GL 9545 – Restricted for Unemployment Compensation **(Key Control 2 – Valuation, Automatic)**.

See the Fund Reference Manual here:
- Fund 620
- Fund 622

How Transactions are Recorded in AFRS:

- Transactions coded to funds 620 and 622 are automatically closed to restricted net position.

Key Controls are as Follows:

- **Key Control 1 (Classification, Manual):** All unemployment funds are closed out to GL 9545 based on legislation (RCW 50.16) and funding source (Social Security Act Section 903) as determined by OFM.
- **Key Control 2 (Valuation, Automatic):** The Fund Reference Manual (supplement to SAAM) noted closing account instructions for fund 620 and 622. 100% of these funds' closing activity is required to be coded to GL 9545 - Restricted for Unemployment Compensation.

Noted Weaknesses are as follows:
- None.

E.5.PRG - Restricted For: Unemployment Compensation

Procedure Step: Key Control 1 (Manual)

Prepared By: EZM, 5/22/2023

State of Washington

Reviewed By: SLB, 11/14/2023

Record of Work Done:

<u>Restricted for: Unemployment Compensation - Classification</u>
Key Control 1: All unemployment funds are closed out to GL 9545 based on legislation (RCW 50.16) and funding source (Social Security Act Section 903) as determined by OFM **(Classification, Manual).**

The understanding for this system is documented above in the "Controls - AFRS" step.

<u>1. Confirmation of Key Manual Control:</u>
We reviewed RCW 50.16 Unemployment - Funds and related subsections RCW 50.16.010 through 50.16.100 on 5/19/2023. We noted RCW 50.16.010 Unemployment compensation fund - Administrative contingency fund explicitly noted the restriction for unemployment benefits and related operations. We also reviewed the Social Security Act Section 903 - Amounts Transferred to State Accounts on 5/19/2023. We noted the subsection titled "Use of Transferred Amounts" explicitly restricted the funds for payment of benefits and related operations. OFM follows these laws. **No issues noted.**

We will also be ensuring that all unemployment funds are closed out to GL 9545 at: [Substantive Test].

Noted Weaknesses are as follows:

- None.

<u>2. Preliminary Control Risk Assessment</u>
MAX - We noted <u>no matters</u> involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

<u>3. Control Risk at LOW - Test Key Manual Control:</u>
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

<u>E.5.PRG - Restricted For: Unemployment Compensation</u>

State of Washington

Procedure Step: Key Control 2 (Automated)
Prepared By: EZM, 5/23/2023
Reviewed By: SLB, 11/14/2023

Record of Work Done:

Restricted for: Unemployment Compensation - Valuation
Key Control 2 - The SAAM closing account instructions for funds 620 and 622 posted 100% of the activity to GL 9545 - Restricted for Unemployment Compensation for the AFRS.

The understanding for this system is documented above in the "Controls - AFRS" step.

1. Key Automated Control Confirmation and Testing:
Using the "ACFR_User" Access Database we ran the following query to determine if this key control was in place:

SELECT [D22 Fund].[Fund Number], [D22 Fund].[Roll Up Fund], [D22 Fund].Field, [D31 GL Accounts].[GL Account Name]
FROM [D22 Fund] INNER JOIN [D31 GL Accounts] ON [D22 Fund].Field = [D31 GL Accounts].[GL Account] WHERE ((([D22 Fund].[Fund Number]) = "620" Or ([D22 Fund].[Fund Number])= "622"));

We noted 100% of funds 620 and 622 activity was reported in:

- Roll Up Fund: FFG. *No issues noted.*
- GL: 9545 - Restricted for Unemployment Compensation. *No issues noted.*

Noted Weaknesses are as follows:

- None

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW – Test General Controls:
Not applicable - we are not planning to rely on automated controls and therefore do not need to test general controls; control risk will be assessed

at maximum.

E.5.PRG - Restricted For: Unemployment Compensation

Procedure Step: Risk Assessment
Prepared By: EZM, 5/23/2023
Reviewed By: SLB, 11/14/2023

Record of Work Done:

(1) Inherent Risk (IR):
Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

- Classification – **LOW**
- Valuation – **LOW**

(2) Control Risk (CR):
We assessed control risk as follows for each system and relevant assertion:

- **AFRS** – Classification
  - **MAX** – We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.
- **AFRS** – Valuation
  - **MAX** – We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

- Classification – **LOW**
- Valuation – **LOW**

(4) Testing Strategy:
We designed our substantive testing strategy based on our assessment of the risk of material misstatement.

- We will be recalculating net position. We expect 100% of funds 620 and 622 to close out to the GL 9545 - Restricted for Unemployment Compensation.

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

E.5.PRG - Restricted For: Unemployment Compensation

Procedure Step: Substantive Test
Prepared By: EZM, 11/9/2023
Reviewed By: SLB, 11/14/2023

Record of Work Done:

Lead sheet: Line Item Lead Sheet

Substantive tests performed to meet the Valuation assertion:
We reviewed the government-wide Statement of Net Position [Government-Wide Statement of Net Position] and the proprietary Statement of Net Position [2023 ACFR_Version No. 1_11.08.2023, see pg. 56], as well as the proprietary Statement of Revenues, Expenses, and Changes in Net Position for the Unemployment Fund [2023 ACFR_Version No. 1_11.08.2023, see pg. 58], to ensure the Restricted Net Position amounts agree with one another. We found that the amounts agreed with one another, without exception.

We also performed a reconciliation of the restricted net position based on the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position. See [Recalculation of Restricted Net Position]. **No issues noted.**

Substantive tests performed to meet the Classification assertion:

1. We checked that the specific purpose for the restriction is described either on the face of the statements or in the notes.

- We reviewed the Fund Reference Manual on OFM's website. We reviewed the manual requirements for funds 620 Unemployment Compensation Account and 622 Unemployment Compensation Federal Employees' Benefit Payment Account. We noted both funds had mandated closing GL codes as prescribed by RCW 50.16.010 and RCW 43.88.195, respectively. The RCWs required both funds to be reported in general ledger account 9545 (Proprietary/Government-Wide Net Position, Restricted for Unemployment Compensation). Restriction purposes tied to the legal requirements. *No issues noted.*

2. Based on the specific purpose descriptions, we evaluated whether net position classifications appear appropriate.

- We reviewed the Fund Reference Manual entries for funds 620 and 622 and noted the following fund purposes:
    - Fund 620 - The first priority is to provide services to eligible participants within the state; second priority is to provide substitute services or program support; and last priority is the direct payment of funds to the federal government.
    - Fund 622 - Local fund outside the state treasury used to account for funds received from the federal government to cover benefits paid by the state for eligible unemployed federal workers. Per the Federal Employment Security Act (Title V).
- Based on the above descriptions, we determined presentation as GL 9545 Restricted for Unemployment Compensation was reasonable. *No issues noted.*

3. We traced restricted classifications to the government's supporting documentation or research on resource constraints.

- See above. Restriction was based on compliance with RCWs noted above. SAAM restricted presentation of fund 620 Unemployment Compensation Account and 622 Unemployment Compensation Federal Employees' Benefit Payment Account.

4. We verified the government has evaluated expenditures to assure they know which revenue sources they may use for payment. We reviewed supporting documentation for flow of funds calculations.

- We reviewed the flow of funds through review of the SAAM manual, AFRS data, and recalculation of ending net position. See recalculation at: [Recalculation of Restricted Net Position]. We also considered the following:
    - The SAAM required all unemployment compensation activities (revenues and expenses) to be recorded in funds 620 Unemployment Compensation Account and 622 Unemployment Compensation Federal Employees' Benefit Payment Account.
    - We verified activity was recorded in fund 620 and 622 by tying the line item to AFRS (detailed general ledger with fund information).

See Statement of Revenue, Expenses, and Changes in Net Position recalculation above of ending net position (restricted) above for recalculation of flow of funds. All expected funds were recorded in the unemployment restricted net position line item. See recalculations above. *No issues noted.*

E.6.PRG - Federal Aid For Unemployment Insurance Benefits

Procedure Step: Summary & Conclusion
Prepared By: EZM, 10/24/2023
Reviewed By: SLB, 11/14/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
No, the results of substantive tests do not indicate a need to modify our risk assessment (IR, CR, and RMM).

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
Yes, the quality and quantity of evidence obtained was sufficient and appropriate.

E.6.PRG - Federal Aid For Unemployment Insurance Benefits

Procedure Step: Understanding of Line Item
Prepared By: EZM, 11/6/2023
Reviewed By: SLB, 11/14/2023

Record of Work Done:

(1) Prior Audit Exceptions:
None.

(2) Composition & Change Analysis:
Line Item Leadsheet: [Line Item Lead Sheet].

We noted the balance included activity from the following funds:

- 622: Unemployment Compensation Federal Employees' Benefit Payment Account

On 5/9/23, we inquired with Kris Bowen, Lead Policy Analyst, and Larry Sheahan, Co-Manager of the Policy Team, as to whether or not there were any changes for this line item.

This line item consists of 3 significant transaction streams:

- Pandemic Unemployment Assistance (PUA)
    - PUA is a separate benefit program that provides a financial safety net to many people who do not qualify for regular unemployment, including:
        - Self-employed people
        - Independent contractors
        - Part-time workers (with fewer than 680 hours)
        - First week ending date Feb 8, 2020
        - Last week ending date, Sep 4, 2021
- Pandemic Emergency Unemployment Compensation (PEUC)
    - PEUC is an extension of regular unemployment benefits. It provides additional weeks of benefits on top of claimant's regular unemployment benefits.
- Federal Pandemic Unemployment Compensation (FPUC)
    - FPUC adds $300 to a claimant's weekly benefits from the week ending January 2, 2021 to the week ending September 4, 2021. From March 29, 2020 to July 25, 2020, FPUC provided an additional $600 weekly benefit.`

As of October 16, 2021, ESD stopped accepting applications for PUA/FPUC/PEUC. While all of these programs ended before FY23, they are still being paid out to claimants due to appeals by claimants, as well as redeterminations being made by the Department on claimants' eligibility for payment.

Prior period benefit payments are also being paid back to ESD in the form of fraud recoveries. Fraud recoveries in FY23 amounted to $21,867,249, comprising most of the federal aid revenue balance for the fiscal year. These fraud recoveries came from the following programs:

- COVID-19 Reimbursable Relief
- COVID-19 Shared Work Relief
- COVID-19 Waiting Week Relief
- Federal Pandemic Unemployment Compensation (FPUC)
- Pandemic Emergency Unemployment Compensation (PEUC)
- Pandemic Unemployment Assistance (PUA)

Changes Related to Backlog of Claims – Initial Claims
None. The Governor's office directed ESD to clear the backlog of UI claims adjudications by the calendar year end of 2021.

Changes Related to Backlog of Claims – Review of Fraudulent Claims
The special investigations (SI) unit changed their process for clearing the backlog of cases added to the "UI Fraud Shell" category in UTAB. SI prioritizes cases based on the date of report (newer is higher, or LIFO) and dollar amount (higher is better). Based on the number of new cases that require investigation, the unit assigns old case load data to create a weekly work list that they want to accomplish. As an investigator reviews the old backlog of fraud cases, they determine if it was correctly classified or not. If the investigator determines it was not correctly classified, they notify the fraud manager who then performs a review of the investigators work and agrees or disagrees with the redetermination decision. If there is a reclassification, the case is updated and tracked on an excel log held by the fraud manager.

(3) Updates to Material Account Matrix:
We updated the completeness narrative to state "There is a risk that UI federal grants in aid revenue amounts in AFRS are not supported by UI claims paid."

E.6.PRG - Federal Aid For Unemployment Insurance Benefits

Procedure Step:	Controls - UTAB/Treasury's Reconciliation
Prepared By:	EZM, 10/24/2023
Reviewed By:	SLB, 11/14/2023

Record of Work Done:

Material Balance(s) and Assertions
Internal controls in the Federal UI Claims Process/Bank Reconciliation address the following balance(s):
- Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds
    - Federal Aid for Unemployment Insurance Benefits
- Statement of Activities - Government Wide
    - Operating grants and contributions: Unemployment compensation

For the following assertions:

- Rights & Obligations:
  - There is a risk federal aid was drawn to pay invalid or fraudulent claims.
- Completeness:
  - There is a risk that UI federal grants in aid revenue amounts in AFRS are not supported by UI claims paid.

Note: Our key control work and testing during Premiums and Claims addresses the risks related to expenditures: See: [Premiums & Claims]

Gain an Understanding of Internal Controls
We updated our understanding on 5/9/23 with Kris Bowen, Lead Policy Analyst, and Larry Sheahan, Co-Manager of the Policy Team.

General Overview
See general overview at: [Understanding of Line Item].

Regular Unemployment Insurance (UI) Program
We have documented our understanding of the regular UI program qualifications at: [Controls - UTAB].

Federal Aid for UI Benefits
There are a few major differences between the regular UI program and the federal UI program (PUA/PEUC/FPUC). Differences include:
1. There is an additional $300 per week to every claimant's regular UI benefit from January 2, 2021 to September 6, 2021.
2. Self-employed and independent contractors are eligible.
3. Previous disqualification from regular UI doesn't disqualify the claimant from the federal UI program.
4. As authorized by the Continued Assistance Act, an individual may continue to be eligible for PEUC if he or she meets the requirements in section 206(c)(1) of the Continued Assistance Act. Those requirements include the regular UC WBA payable on that subsequent benefit year being lower than the PEUC WBA by $25 or more and that the individual has remaining entitlement to PEUC from the previous benefit year.

When the program began there were many challenges related to scaling it. There was a challenge with the sheer volume of claimants. Claimants not eligible for regular UI were now eligible for federal UI (i.e. Uber Drivers, Dentists, Self-Contractor, and Religious Leaders). Typically, the employer would report wages on a quarterly basis for regular UI, but for federal UI this was not the case since these claimants were not in the system. The key struggle was figuring out a way to verify wage records since Washington does not have a state income tax, the law required to use net receipts and 2019 tax submissions were delayed to July 15, 2020. ESD was not able to do many controls around this program since the federal laws limited them in many ways (guidance was changed, six changes in the mail UIPL during the first year). One control they were able to implement was stopping the automatic back dating; this was where the claimant would be able to request unlimited back dating. Now back dating is limited to 1 week and the ESD has to manually go through the process and back date any additional claims (if someone requests a back date more than one week, then UTAB will set an issue stopping any payment until the claim is adjudicated. It then falls into the issue queue and an adjudicator or investigator will follow up to verify they are eligible for backdate past the one week).

Throughout the length of this program ESD was able to implement more controls around paying federal UI benefits. They were able to implement a 2-day hold on claims before benefits are paid. During this time the ESD is able to run claims through a variety of cross matches and queries, both internal and with other agencies and partners to identify and flag suspicious claims for identity verification. Payment is paused on flagged claims until the identity case is resolved. Claims with no response or insufficient information to verify a claimant's identity will be denied, preventing payment. This is known as the discovery process**.** They have been working on retroactively implementing this control and verifying claimants. There were many other retroactive changes as well since guidance had been slowly coming out through the length of the program.

The calculation for the federal aid UI benefit is setup differently than the regular UI benefit. ESD set up a minimum amount that all claimants would receive in the Unemployment Tax and Benefit (UTAB) system without documentation. For part-time and full-time claimants, it is $235; the additional $300 is automatically added on top of this amount totaling $535 per week. If the claimant provides additional income documentation, then the ESD would verify the documentation and determine if the claimant was eligible for more than the minimum amount. See below for acceptable documentation (base year of 2019):

- 1040 Single Filing
- 1040 Joint Filing.
- 1125-E
- Schedule F: Profit or Loss from Farming
- W-2
- 1099-Misc
- 1040-SE
- 1065 Schedule K-1

As of December 2020, the Department is validating self-employment or partial employment claims. Currently, all letters for wage documentation have been sent out. Claimants had 90 days to respond to the letter. If the claimant failed to respond to the letter, then an overpayment was assessed. Throughout the year the ESD needed assistance with various operational tasks. There were volunteers (other units dropped their work to assist) from time to time helping with processing claims. Also, the National Guard was helping with these operational tasks as well.

All changes made in UTAB are tested by Business Analysts, IT Testers and final buy off is completed and verified by business testers. This would include all system changes to include calculation adjustments.

How Transactions are Recorded in AFRS:
We met with Tai Ralston, Treasury Manager, and Shelly Peterson, Assistant Treasurer on 5/9/2023 to update our understanding of how transactions are recorded in AFRS.

When a claim is initiated, it runs through a batch overnight in the Unemployment Tax and Benefit (UTAB) system. The UTAB system accurately calculates the draw amounts based on claimant eligibility, federal regulations, and state rule and law **(Key Control 1 - Automatic - Rights & Obligations)**. The next morning (once the batch is run), the cash draw desk reviews the batch at a summary level for all the claims from the previous day. Once the draw is prepared, Tai or Shelly Peterson, Assistant Treasurer, will do a review before the funds are drawn. Once their review is complete then they let the cash draw desk know that the funds can be drawn down. After the cash draw desk receives a response from Tai or Shelly, they then go into the ASAP system (online bank module of US Treasury website) or the Payment Management System (PMS) to draw down the funds. The funds come from either the federal trust fund (ASAP) or grants (PMS) and are drawn to the ESD's US Bank account. After the cash draw desk draws down the funds, they then send a confirmation to the accounting desk.

The accounting desk is in charge of pulling a report from UTAB to update their internal spreadsheet. Once they pull the information from UTAB into their spreadsheet they reconcile their journal entries to AFRS (WEBI). If there are discrepancies, they will do research to resolve them. During fiscal close the accounting desk reconciles AFRS to their spreadsheet. After they reconcile it, they send the trial balance to the banking desk which they use to reconcile to the bank statement.

At month end, Tai does a review at summary level. During her review she is verifying that:

- There were no incorrect amounts
- Any changes made to coding related to draws meet the requirements of Treasury and UI manager
- IRS intercept amounts are correct, adjustments are correct
- Claims information from UTAB matches the draw amount

If for some reason the cash draw desk didn't draw the full amount from the ASAP system or PMS this error would be caught during this summary level review since Tai is reconciling the UTAB draws to the trust fund statement. Also, during her review she reviews that the summarized amounts match to the correct federal program and fund **(Key Control 2 - Manual - Completeness)**. She stated that the UTAB system automatically calculates the draw amounts based on federal and state regulations.

Key controls are as follows:

- **Key Control 1 (Automated):** The UTAB system accurately calculates the draw amounts based on claimant eligibility, federal regulations, and state rule and law **(Rights & Obligations).**
- **Key Control 2 (Manual):**
  - At month end, Tai Ralston, Treasury Manager, does a review at summary level. During her review she is verifying that:
    - There were no incorrect amounts
    - Any changes made to coding related to draws meet the requirements of Treasury and UI manager
    - IRS intercept amounts are correct
    - Adjustments are correct
    - Claims information from UTAB matches the draw amount
  - If for some reason the cash draw desk didn't draw the full amount from the ASAP system (online bank module of US Treasury website) or the Payment Management System (PMS) this error would be caught during this summary level review since Tai is

reconciling the UTAB draws to the trust fund statement. Also, during her review she reviews that the summarized amounts match to the correct federal program and fund **(Completeness)**.

Noted Weaknesses are as follows:

- ESD did not establish a process during FY23 to make an annual adjustment of recoveries from a prior fiscal year. **See issue:** E: ESD Lack of Annual Adjustment Process for Fraud Recoveries from Prior Periods

E.6.PRG - Federal Aid For Unemployment Insurance Benefits

Procedure Step: Key Control 1 (Automated)

Prepared By: EZM, 9/27/2023

Reviewed By: SLB, 11/14/2023

Record of Work Done:

This record may contain information considered exempt from public disclosure under RCW 42.56.420 of the Public Records Act. As such, distribution of this record is limited.

Federal Aid for Unemployment Insurance Benefits - Rights & Obligations

Key Control 1 (Automated): The UTAB system accurately calculates the draw amounts based on claimant eligibility federal regulations, and state rule and law for the UTAB/Treasury's Reconciliation **(Rights & Obligations).**

The understanding for this system is documented above in the "Controls - UTAB/Treasury's Reconciliation" step.

1. Key Automated Control Confirmation and Testing:

We obtained the July 2022 Benefit Deposit Account (ending 9548) bank statement and reviewed the DUA Cash Draw Report in UTAB. We noted the following:

- July 2022 Benefit Deposit Account Bank Statement
    - July 14, 2022: Wire Deposit in the amount of $84,554.02

- DUA Cash Draw Report

- The report was created on August 1st, 2022 by Son Pham, Financial Analyst 4, with a revenue period of July 1st through July 31st, 2022.
- Total Draw Amount: $(90,086.95)
    - Draw without PUA and FPUC Adjustments for July 14, 2022: $84,554.02
    - Monthly Draw without PUA and FPUC adjustments: $672,237.79
    - Both PUA and FPUC had negative draw amounts.
    - We could not find the monthly amount for PEUC in the bank statement, but we could find the individual draws that occurred during the month of July 2022 in the statement.

We clicked on the $(90,086.95) in UTAB to see all the claims included in this draw amount. We selected one claim to verify eligibility of the claim included in the draw amount. See below:

- Claim ID: QHHQ6H-005
    - Amount: $711
    - Week Ending: August 1, 2020
    - Payment Date: July 7, 2022
    - Received Date: August 3, 2020
    - Entitlement Type: COVID-19 PUA
    - Under the customer screen we reviewed the Task - Cases Tab
        - COVID-19 PUA Registration - Create Claim: April 20, 2020
        - No discovery issues noted.
    - PUA eligibility determination:
        - The claimant did not apply for or receive private income protection insurance of supplemental unemployment benefits.
        - The claimant did not apply or receive unemployment benefits from the U.S. Railroad Retirement Board or another state in the last 12 months.
        - The claimant was unemployed, partially unemployed, unable, or unavailable for work due to a reason related to the COVID-19 public health emergency.
        - The claimant was laid off from their previous employer due to lack of work.
        - The claimant submitted the required PUA wage verification documentation.

We determined that the UTAB system accurately calculated the draw amounts based on claimant eligibility, federal regulations, and state rule and law. ***No issues noted.***

Noted Weaknesses are as follows:

- None

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW – Test General Controls:
Not applicable - we are not planning to rely on automated controls and therefore do not need to test general controls; control risk will be assessed at maximum.

E.6.PRG - Federal Aid For Unemployment Insurance Benefits

Procedure Step: Key Control 2 (Manual)
Prepared By: EZM, 9/27/2023
Reviewed By: SLB, 11/14/2023

Record of Work Done:

Federal Aid for Unemployment Insurance Benefits - Completeness
Key Control 2 (Automated) - At month end, Tai Ralston, Treasury Manager, does a review at summary level. During her review she is verifying that

- There were no incorrect amounts
- Any changes made to coding related to draws meet the requirements of Treasury and UI manager
- IRS intercept amounts are correct
- Adjustments are correct
- Claims information from UTAB matches the draw amount.

If for some reason the cash draw desk didn't draw the full amount from the ASAP system (online bank module of US Treasury website) or the Payment Management System (PMS) this error would be caught during this summary level review since Tai is reconciling the UTAB draws to the trust fund statement. Also, during her review she reviews that the summarized amounts match to the correct federal program and fund **(Completeness)**.

The understanding for this system is documented above in the "Controls - UTAB/Treasury's Reconciliation" step.

State of Washington

1. Confirmation of Key Manual Control:

We obtained the ETA 2112 - UI Financial Transaction Summary for February 2023. The ETA 2112 summarizes the various bank reconciliations that the Treasury Departments preforms. It also shows the net total of each benefit program. We noted that this summary included the federal benefit programs. Attached to the summary were the detailed spreadsheets showing the disbursements, refunds, and adjustments. Only PEUC amounts were drawn, for a total of $28,932.88. We tied out the following to ensure this summary is complete:

- February 2023 ETA 2112 - UI Financial Transaction Summary:
  - Pandemic Unemployment Assistance (PUA): ($253,685.15)
  - EB (Federal Share): $20,732.25
    - This amount tied to the Federal Activity Statement.
  - Federal Emergency Compensation (EUC & PEUC): ($22,860.15)
  - Federal Pandemic Unemployment Compensation (FPUC): $592,793.59
    - We were able to utilize the "PUA Programs Tracking" spreadsheet to tie the total draw amount. The FPUC balance isn't shown on the Federal Activity Statement, after tying the Federal Activity Statement to the ESD's spreadsheet, we were able to use that spreadsheet to tie the FPUC balance to this report.
    - The CARES Act increased unemployment benefits for Americans because of the COVID-19 pandemic. This was passed by the U.S. Congress on March 27, 2020. The Employment Security Department (ESD) received this funding as reimbursement after paying benefits for unemployment programs under this act to claimants. When paying claimants, ESD tracked their expenses for various pandemic related unemployment programs in a spreadsheet that showed the total draw per program, the draws that occurred from the bank per day and the amount of the balance that needed reimbursement. This FPUC program was tracked on this spreadsheet as ESD couldn't pay the total amount of draws.

- February 2023 Federal Activity Statement:
  - 34-11 BT FROM EUCA (EB): ($20,732.25)
    - This amount tied to the ETA 2112.
  - 21-74 WD FOR PANDEMIC EMER UC (PEUC) and 34-71 B/T TO EMERG UNEMP COMP (EUC08): ($44,135.08) (-$7,657.95 + $51,793.03)
    - We were able to tie this balance by utilizing the "PUA Programs Tracking" spreadsheet provided by Tai Ralston. The total amount of PEUC draws recorded for February 2023 were $28,932.88. Subtracting the $51,793.03 of 34-71 B/T TO EMERG UNEMP COMP (EUC08) from that total draw amount gave a EUC & PEUC total of ($22,860.15), which ties to the ETA 2112 summary.

Here is a link to the website that we used to the obtain the Federal Activity Statement Report from: https://www.treasurydirect.gov/govt/reports/tbp/account-statement/report.html.

ESD tracks PUA, PEUC and FPUC draws in a spreadsheet called "PUA Programs Tracking". The copy we received tracked from September 10, 2021 through August 31, 2023. When ESD had funds available, they were drawn from the bank to pay claimants these benefits. When funds were unavailable, ESD accumulated the amount that should have been drawn from the bank in a negative balance in this spreadsheet until they received payment. After having used this file for our substantive testing, where the tracking spreadsheet reported amounts not drawn from the bank, we consider this to be an accurate and complete source of information.

We noted that the summary had Tai Ralston's, Treasury Manager, typed name on the spreadsheet. However, she did not sign or date the spreadsheet. The spreadsheets were tickmarked by Tai indicating her review.

Noted Weaknesses are as follows:

- We noted during our review of the summary that Tai Ralston had not signed or dated the spreadsheet. **See issue:** <u>V: ESD Lack of Documented Review on Summary Review Spreadsheet</u>

<u>2. Preliminary Control Risk Assessment</u>

MAX - We noted <u>no matters</u> involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

<u>3. Control Risk at LOW - Test Key Manual Control:</u>

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

<u>E.6.PRG - Federal Aid For Unemployment Insurance Benefits</u>

Procedure Step: Risk Assessment

Prepared By: EZM, 8/31/2023

Reviewed By: SLB, 11/14/2023

Record of Work Done:

<u>(1) Inherent Risk (IR):</u>

Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

- Rights & Obligations – **MAX**
- Completeness – **MAX**

(2) Control Risk (CR):
We assessed control risk as follows for each system and relevant assertion:

- **UTAB Draws** – Rights & Obligations.

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

- **Treasury's Reconciliation** – Completeness

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

- Rights & Obligations – **MAX**
- Completeness – **MAX**

(4) Testing Strategy:
We designed our substantive testing strategy based on our assessment of the risk of material misstatement.

Completeness:

- We will reconcile year-end UI federal grants in aid revenue amounts (Fund 622, Source 317 Dept of Labor) to UI Premiums and Claims Expenses (Fund 622, G/L 65xx, Sub Object NA) in AFRS to determine whether the federal grant revenue is supported by UI claims paid.

Rights & Obligations:

- We will review the rights and obligations assertion through our testing of the premiums and claims balance [Substantive Test]. Specifically, during our testing of the PUA claims we will:
    - Determine if the claimant's ID was verified before payment was sent.
    - Determine if the Department verified the claimant's wage records.
    - Determine whether the claimant is eligible for benefits.

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

E.6.PRG - Federal Aid For Unemployment Insurance Benefits

Procedure Step:	Substantive Test
Prepared By:	EZM, 10/26/2023
Reviewed By:	SLB, 11/14/2023

Record of Work Done:

Substantive tests performed to meet the Completeness assertion:

Testing Procedures:

Reconciliation - UI Federal Amounts & UI Premiums & Claims Expense:

We will reconcile UI federal grants in aid revenue amounts (Fund 622, Source 317 Dept. of Labor & Source 397 Homeland Security) to UI Premiums and Claims Expenses (Fund 622, G/L 65XX, Sub Object NA) in AFRS to determine whether the federal grant revenue is supported by UI claims paid. We will obtain UI Federal Grants in Aid Revenue (Fund 622, Source 317 Dept. of Labor & Source 397 Homeland Security) and UI Premiums and Claims Expenses (Fund 622, G/L 65XX, Sub Object NA) from the Enterprise Report Software (WEBI reports).

Testing Results:

*Reconciliation - UI Federal Amounts & UI Premiums & Claims Expense [*Reconciliation UI Federal Amounts & UI Premiums & Claims Expense*]*

We reconciled UI federal grants in aid revenue amounts (Fund 622, Source 317 Dept. of Labor) to UI Premiums and Claims Expenses (Fund 622, G/L 65XX, Sub Object NA) in AFRS to determine whether the federal grant revenue is supported by UI claims paid. We obtained UI Federal Grants in Aid Revenue (Fund 622, Source 317 Dept. of Labor) and UI Premiums and Claims Expenses (Fund 622, G/L 65XX, Sub Object NA) from the Enterprise Report Software (WEBI reports).

We initially calculated a total negative amount for federal aid revenue of approximately $878K. When we reached out to Kimberley Green, ESD Deputy CFO, she informed us that this amount was negative because ESD didn't properly post fraud recoveries to AFRS. **See issue: [**E: ESD Lack of Annual Adjustment Process for Fraud Recoveries from Prior Periods**].** ESD ultimately decided to post an adjustment of $21,867,249 to GL3210 (cash revenues); see ESD's adjustment JV for cash revenues here: [PBC - FY23 Recoveries Adjustment]. ESD calculated this adjustment through a UTAB report that details the amount of collections made as a result of fraud recoveries; see our testing of the adjustment amount here: [Federal Aid Revenue Adjustment Testing].

After ESD posted this adjustment and we updated the AFRS data in our reconciliation spreadsheet, we found that there was a variance of $21,867,249 between the federal aid revenue and UI Premiums & Claims expense. We determined that this variance is reasonable, because the cash revenue adjustment wouldn't have resulted in a concurrent increase to UI Premiums & Claims expense since the fraudulent UI benefit payments that were recovered during this fiscal year occurred in prior periods.

Substantive tests performed to meet the Rights & Obligations assertion:

Testing Procedures:

- We will review the rights and obligations assertion through our testing of the premiums and claims balance. [Substantive Test]

Testing Results:

- We reviewed the rights and obligations assertion through our testing of the premiums and claims balance. [Substantive Test].

E.7.PRG - Due to Other Governments

Procedure Step:	Summary & Conclusion
Prepared By:	EZM, 10/4/2023
Reviewed By:	SLB, 11/14/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
The results of substantive tests do not indicate a need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
The quality and quantity of evidence obtained was sufficient and appropriate.

E.7.PRG - Due to Other Governments

Procedure Step:	Understanding of Line Item
Prepared By:	EZM, 6/9/2023
Reviewed By:	SLB, 11/14/2023

Record of Work Done:

(1) Prior Audit Exceptions:
Management Letter - The Department did not reconcile receivables from overpaid claimants back to amounts due to the other (federal) governments. This caused the Due to Other Governments balance to be overstated by approximately $4.3M. This amount was not corrected in the financial statements. We recommended the Department reconcile amounts due to other governments with other receivables and make adjustments to the state's accounting system as necessary.

On May 10, 2023, we discussed this issue with Tai Ralston, Treasury Manager, to find out whether the Department had implemented our recommendation. She informed us that the Department was working on establishing a reconciliation process for receivables from overpaid claimants, but that they did not have one established as of the time of our meeting. We will confirm if this issue has been resolved during substantive testing at: [Substantive Test].

(2) Composition & Change Analysis:
Line Item Leadsheet: [Line Item Lead Sheet].

We noted the balance included activity from the following fund:

- 622: Unemployment Compensation Federal Employees' Benefit Payment Account

The due to other governments line item is composed of the receivables from claimants (UTAB - overpayments) that are due back to the federal government (payable). It also includes the allowance for the receivables.

We inquired with Tai Ralston, Treasury Manager, on 5/10/2023 and she stated that there were no significant changes from FY22 to FY23 in regards to the line item.

(3) Updates to Material Account Matrix:

- None.

E.7.PRG - Due to Other Governments

Procedure Step: Controls - UTAB

Prepared By: EZM, 10/9/2023

Reviewed By: SLB, 11/14/2023

Record of Work Done:

Material Balance(s) and Assertions

Internal controls in the UTAB address the following balance(s):

- Statement of Net Position - Proprietary Funds
  - Due to Other Governments

For the following assertions:

- Completeness: There is a risk that reported amounts due to the federal governments related to net receivables recorded for the claimant overpayments and/or fraudulent payments are not complete.
- Valuation: There is a risk that the receivable less allowance for uncollectible accounts, upon which the liability is based, has not been properly valued.

Gain an Understanding of Internal Controls

We met with the following people on 5/10/2023 to gain an understanding over UTAB and the Due to Other Governments line item:

- Tai Ralston, Treasury Manager

- Shelly Peterson, Assistant Treasury Manager
- Son Pham, Fiscal Analyst 4
- Jay Summers, External Audit Liaison

General Information:
When a federal receivable (fund 622) is booked by UTAB the entry is DR 1319 - Other Receivables / CR 5151 - Due to Other Governments. This line item is directly related to receivables, for that reason our control understanding focuses on receivables. Also, this line item is net of the allowance for doubtful accounts on other receivables (DR 5151 - Due to Other Governments / CR 1349 Allowance for Doubtful Accounts on Other Receivables). This is because the Department doesn't expect to collect the entire amount to pay back to the federal government.

Overpayment Penalties and Interest (UTAB Receivable)
See understanding of UTAB benefits at: [Controls - UTAB].

Overpayments of unemployment benefits occur when someone received benefits that they are later found to have been ineligible to receive. When overpayments were identified, the Department mails the claimant a letter which states the claimant has 30 days to appeal the overpayment determination or provide additional information to the Department. Overpayments were also classified as fraudulent and non-fraudulent.

Overpayments were governed by the following:
- RCW 50.20.190 - Recovery of benefit payments
- WAC 192-220-045 - How is the fraud penalty calculated?
- RCW 50.24.200 - Charge-off of uncollectible accounts
- RCW 50.32.020 - Filing of benefit appeals
- SAAM 85.54.55 – Receivables

Monthly Review of UTAB Receivable Data (Existence/Valuation)
UTAB automatically posts receivable activity (accounts receivable) to AFRS monthly (6^{th} business day after the end of the month). Activity is posted in summary. To review the automatic post, Son Pham, Fiscal Analyst 4, runs a general ledger query from Web Intelligence (WebI) system. The report is exported into an Excel workbook titled "New AFRS File," tab "Receivable Activity." Son takes a screen shot of UTAB report "Aging Receivables" as of the last day of the month. She pastes the UTAB screen shot in the New AFRS File Excel workbook, tab "Receivable Activity". Son ties totals from the UTAB aging report to the general ledger. If exceptions are noted, the Fiscal Analyst 4 prepares an adjusting journal voucher. When complete, Son notifies Tai Ralston, Treasury Manager. Tai reviews the Excel workbook "New AFRS File" to ensure the receivables post from UTAB is accurately calculated, and receivables exist. Everyone uses an individual checklist for their respective responsibilities **(Key Control 1 – Manual - Existence/Valuation).**

The process described above is the same process for fraud receivables.

Calculation of Allowance for Doubtful Accounts (Valuation, Manual)
The allowance for doubtful accounts estimate is prepared from historical receipt trends tracked in UTAB. Monthly, Tai Ralston, Treasury Manager, reviews repayments by revenue source and aging. The UTAB report is called "Age of Account Payments," and documented in the Excel workbook "AgeOfAccountPayments_YrEnd." The aging report is broken out by 90 day increments (i.e. 0-90 days, 91-180 days, 181-365 days, 366-730 days, 731-1,095 days, and 1,096 and more days). Collection percentages are calculated by dividing the total receipts for each aging bucket by the total receipts collected. Monthly percentages for each aging bucket are averaged to determine the collection percentages for the fiscal year. This is calculated on tabs "age of accounts 2021-22" and "Historical Percentage" in the AgeOfAccountPayments_YrEnd workbook. The percent calculations are later used to estimate how much would be collected and how much would likely be written off.

Balances that were past due are tracked in the UTAB report "Uncollectible Balances." The Uncollectible Balances report tracks all repayment plans that are delinquent for 180 days or more. This report does not track the age of the initial repayment plan, but status of the repayment plan. Shelly Peterson, Assistant Treasury Manager, multiplies the total uncollectible balances by the annual average collection percentages for each respective aging bucket. This is calculated on tab "Quick Glance" in the AgeOfAccountPayments_YrEnd workbook. The difference between the total uncollectible balances from the UTAB report and the expected repayment by aging category was the expected and likely write-off amount.

The uncollectible multiplying factor is determined by dividing the expected write off amount by total receivables (Age of Account Payments UTAB report). The multiplying factor is updated annually to reflect current collection practices and historical trends as calculated by the expected write-offs.

Shelly prepares a journal voucher based on the Excel workbook. Tai Ralston, Treasury Manager, reviews and approves the journal voucher. She reviews the Excel formulas to ensure amounts were accurately calculated **(Key Control 2 – Valuation, Manual)**. See below for GL coding (reversing JV):

- State (Fund 620) GL 1349/6505
- Federal (Fund 622) GL 1349/5151

Tai also reviews the total allowance for doubtful accounts and the allowance as a percentage to total accounts receivable to determine consistency and reasonableness.

For fraud receivables they take the total UTAB receivables and determine what portion is related to fraud. They reduce the fraud receivable amount by any items still in process as of June 30, 2023. This amount is divided by the receivables amount to determine the percentage that will be determined uncollectible. The journal voucher preparation and review process is the same as described above.

Charge Off Criteria (Roll Forward of Historical Information For Single Audit and Context)

UTAB automatically writes off balances (daily and yearly write-offs). Daily, UTAB reviews receivables and charged off balances that met the following criteria:

- Amounts less than $25.00;
- No payment has been received within the past six months;
- The claimant did file or opened a claim within the last three months;
- If a lien was attached to the determination, the system automatically released the lien and sent notification to the county.

UTAB also reviews receivables annually and writes off balances that met the following criteria:

- Over payments were ten years or older or the overpayment was less than $100 (total includes principal, penalty, interest, court cost, and surcharge);
- No repayments were made within the last 15 months;
- If a lien was attached to the determination, the system automatically released the lien and sent notification to the county.

The annual review excludes over payments that were in suspense (by ESD, the business, stay of collection, prosecution, or request from the attorney general), out of state over payments, and balances greater than $0 for current ESD employees.

How transactions are recorded in AFRS:

- Accounts receivable data (monthly) is automatically posted to AFRS on the sixth business day after month-end.
- Year-end accounts receivable balances and related allowance for uncollectible accounts are posted to AFRS via journal voucher.

Key controls are as follows:

- **Key Control 1 (Manual):** The Treasury Manager and Fiscal Analyst 4 review the Excel workbook "New AFRS File" (GL query run through WebI), tab "Aging Receivables" to ensure accounts receivable (including fraud) recorded in UTAB were accurately calculated and imported into AFRS from UTAB. To document the above control, the Fiscal Analyst 4 and the Treasury Manager use a month-end checklist that noted their respective initials that indicated preparation or review as a part of the reconciliation process **(Existence/Valuation).**
- **Key Control 2 (Manual):** The Treasury Manager reviews and approves the JVs and related support to ensure the allowance for doubtful accounts (including fraud) was accurately calculated based on historical collection data and the correct percentage **(Valuation).**

Noted Weaknesses are as follows:

- The ESD does not reconcile the Other Receivables (GL 1319) and Allowance for Doubtful Accounts on Other Receivables (GL 1349) balance to Due to Other Governments (GL 5151). See **issue** at: [E: ESD Lack of Reconciliation for Due to Other Governments].

E.7.PRG - Due to Other Governments

State of Washington

Procedure Step: Key Control 1 (Manual)
Prepared By: EZM, 10/9/2023
Reviewed By: SLB, 11/14/2023

Record of Work Done:

Due to Other Governments - Existence/Valuation
Key Control 1 (Manual): The Treasury Manager and Fiscal Analyst 4 review the Excel workbook “New AFRS File” (GL query run through WebI), tab “Aging Receivables” to ensure accounts receivable (including fraud) recorded in UTAB were accurately calculated and imported into AFRS from UTAB. The activity from fund 622 is automatically posted to Due to Other Governments. To document the control, the Fiscal Analyst 4 and the Treasury Manager use a month-end checklist that noted their respective initials that indicated preparation or review **(Completeness/Valuation)**.

The understanding for this system is documented above in the "Controls - UTAB" step.

1. Confirmation of Key Manual Control:
See confirmation of key control #1 for Receivables (Net of Allowance): [Key Control 1 UTAB (Manual)].

The ESD reconciles receivables to AFRS, however there is no reconciliation of Due to Other Governments. See **weakness** documented in "Controls - UTAB" step.

Noted Weaknesses are as follows:

- None.

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

State of Washington

E.7.PRG - Due to Other Governments

Procedure Step: Key Control 2 (Manual)

Prepared By: EZM, 10/9/2023

Reviewed By: SLB, 11/14/2023

Record of Work Done:

Due to Other Governments - Valuation

Key Control 2 (Manual): The Treasury Manager reviews and approves the JVs and related support to ensure the allowance for doubtful accounts (including fraud) was accurately calculated based on historical collection data and the correct percentage **(Valuation).**

The understanding for this system is documented above in the "Controls - UTAB" step.

1. Confirmation of Key Manual Control:

See confirmation of key control #2 for Receivables (Net of Allowance): [Key Control 2 UTAB (Manual)]

We noted that ESD reconciles allowance for doubtful accounts to AFRS, however there is no reconciliation of Due to Other Governments. See **weakness** documented in "Controls - UTAB" step.

Noted Weaknesses are as follows:

- None.

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

State of Washington

<u>E.7.PRG - Due to Other Governments</u>

Procedure Step: Risk Assessment
Prepared By: EZM, 8/31/2023
Reviewed By: SLB, 11/14/2023

Record of Work Done:

<u>(1) Inherent Risk (IR):</u>
Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

- Completeness – **MAX**
- Valuation - **MAX**

<u>(2) Control Risk (CR):</u>
We assessed control risk as follows for each system and relevant assertion:

- **UTAB -** Completeness and Valuation

MAX - We noted <u>no matters</u> involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

<u>(3) Risk of Material Misstatement (RMM):</u>
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

- Completeness – **MAX**
- Valuation - **MAX**

<u>(4) Testing Strategy:</u>
We designed our substantive testing strategy based on our assessment of the risk of material misstatement.

Completeness:

- We will rely on the review of transactions related to this line item performed during testing of the accounts receivable (net of allowance) balance [Substantive Test]. We will review transactions related to this line item through our testing of the accounts receivable (net of allowance) balance.
- We will perform a reconciliation between GL1319 (Other Receivables), GL 1349 (Allowance for Doubtful Accounts), and GL5151 (Due to Other Governments).

Valuation:

- We will rely on the review of transactions related to this line item performed during testing of the accounts receivable (net of allowance) balance. We will determine whether individual receivables and the allowance were correctly valued. See: [Substantive Test]

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

E.7.PRG - Due to Other Governments

Procedure Step:	Substantive Test
Prepared By:	EZM, 10/4/2023
Reviewed By:	SLB, 11/14/2023

Record of Work Done:

Substantive tests performed to meet the Completeness assertion:

We reviewed the transactions related to this line item through our testing of the accounts receivable (net of allowance) balance. We determined it was reasonable for federal overpayments to be included in this line item because ESD expects to return the amount collected back to the federal government. See record of work done at: [Substantive Test].

We also performed a reconciliation between GL 1319 - Other Receivables, GL 1349 Allowance for Doubtful Accounts, and GL 5151 - Due to Other Governments. This reconciliation would ensure all federal overpayments are included in this line item. See: [Reconciliation Due to Other Governments]. We determined Due to Other Governments is complete and accurate.

Substantive tests performed to meet the Valuation assertion:
We reviewed the transactions related to this line item through our testing of the accounts receivable (net of allowance) balance. We determined whether individual receivables and the allowance were correctly valued. See record of work done at: [Substantive Test].

We determined Due to Other Governments was valued correctly because the line item tied to Other Receivables (Net of Allowance).

F.1.PRG - Claims and Judgments Payable

Procedure Step: Summary & Conclusion
Prepared By: DRR, 10/30/2023
Reviewed By: SLB, 10/31/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
The results of our substantive tests do not indicate a need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
We have determined that the quality and quantity of evidence obtained is sufficient and appropriate.

F.1.PRG - Claims and Judgments Payable

Procedure Step: Understanding of Line Item
Prepared By: DRR, 6/22/2023
Reviewed By: SLB, 10/31/2023

State of Washington

Record of Work Done:

(1) Prior Audit Exceptions:

We noted **no** prior audit exceptions.

(2) Composition and Change Analysis

Line item lead sheet [Line Item Lead Sheet]. See understanding of HCA's Employee Retiree Benefits (ERB) operations at [SAO ACFR Planning Guide_Health_Insurance_Activities_Updated_2023].

The Claims and judgements payable balance is made up of HCA's incurred but not paid (IBNP) liability. This estimate is required for all self-insurance plans in Washington State and ensured solvency requirements. This liability is the estimate of self-insured medical, pharmaceutical, and dental claims that existed at the end of the period but have not been processed (billed) by HCA's third party administrators (TPAs), Regence (medical), MODA (pharmaceutical), and Delta Dental (dental). The estimate is prepared from quarterly actuary studies performed by Milliman using Regence, MODA, Delta Dental and HCA data. The estimate amount is provided to HCA through a quarterly memo. The estimate is typically 7% of rolling annual medical and pharmaceutical claims and 4% of dental claims for all of HCA's self-insured plans offered through Uniform Medical Plans offered to PEBB and SEBB subscribers. This balance acts as an accrual account for premiums and claims.

ACFR Database

We performed an analysis to review the composition of this ACFR line item. Total claims and judgments payable (GL_Sort Code = NY) for FY22 at HCA were $241,234,000, see [Interim Planning_Material Account Matrix] for details. We analyzed the reserve amounts in the line item lead sheet and identified fund 473 (SEBB) and 730 (PEBB) in GL account 5119 make up the balance of this line item with an insignificant portion attributed to OFM fund FFJ (year-end entry prepared by OFM).

We analyzed the reserve amounts and noted that the fund percentage compositions from 2022 were in line with 2021. There were dollar amount increases in FY22 with fund 473 increasing approximately 28 percent and fund 730 increasing approximately 44 percent with a total increase to this line item of approximately 38% from 2021 to 2022.

(3) Updates to Material Account Matrix:

None

F.1.PRG - Claims and Judgments Payable

State of Washington

Procedure Step: Controls - AFRS
Prepared By: DRR, 7/10/2023
Reviewed By: SLB, 10/31/2023

Record of Work Done:

Material Balance(s) and Assertions
Internal controls in AFRS address the following balance(s):

- Claims and Judgements Payable

For the following assertions:

- Valuation **-** Estimated claim payables (incurred but not reported liability) may be under-reported or not supported by amounts determined by actuaries; HCA used actuaries that were not creditable or lacked experience (educational and professional) to determine estimate; assumptions based on unaudited attestations made by HCA were not accurate (i.e. information relied on by Milliman did not reflect actual operations or benefits provided); and claim history information provided to Milliman was not complete (i.e. multiple sources of claims)

Gain an Understanding of Internal Controls
We gained an understanding over the incurred but not reported (IBNR) with the following HCA staff on 5/30/2023:

- Rita Homan, Deputy Accounting Section Manager
- Sara Whitley, ERB Finance Manager
- Margee Thompson, PEB Accounting Manager

HCA used Milliman for actuary services for operating the PEBB and SEBB Uniform Medical Plans (medical and dental). We performed the "Rely on Specialist" step in TeamMate to assess the competence, capabilities and objectivity of the Milliman actuaries. See the Rely on Specialist step here [Rely on Specialist]. Milliman provided HCA a quarterly memo that summarized the calculations for the incurred but not paid (IBNP) estimate using raw claims feed data from third-party administrators including, Regence, MODA and Delta Dental and census data from HCA. Due to HIPPA compliance rules as the plan sponsor and employer, HCA has limited access to the raw claims feeds from the third-party administrators. To ensure the amounts reported by the third-party administrators to Milliman are complete and accurate, HCA reviews multiple reports and compares them to prior periods. Some of these reports are the weekly "tracker" (internally generated) that includes the lump sum claims amounts due to Regence for medical claims, the Regence Monthly Operations Report and the MODA Rebate Report. The Regence Monthly Operations Report provided by Regence includes a tracking of claims processed to date as well as a claims inventory, claims incurred but not yet paid, and general claims seasonality for both PEBB and SEBB claims. HCA often shares this report with Milliman to ensure their amounts are in alignment with claims that

Regence is reporting for the period. Another report that HCA reviews is the MODA Rebate Report provided by MODA, which details the projected rebate amounts, and rebates to be received for the pharmacy benefit. This report is reviewed and compared to what the Employee Retiree Benefits (ERB) accounting department and Milliman have recorded and is also shared with Milliman to ensure the amounts are in alignment with what MODA is reporting.

HCA meets with Milliman approximately once a week to update assumptions, projections, and various other items that may effect the IBNP estimate. After the end of the quarter, the ERB team and Milliman meet to discuss trends, drivers of assumptions and compare the memo to prior quarters before the ERB finance team approves the memo **(Key Control #1 - Manual - Valuation)**. Milliman will often provide a draft memo for discussion before providing the finalized memo, but due to conflicting timelines with receiving insurance carrier data, this is not always possible. The ERB finance team has full discretion to request updates to the memo if needed. If updates to the memo are necessary, Sara Whitley, ERB Finance Manager would notify Milliman, the ERB accounting department and provide them with the updated memo. The ERB finance team consists of the following: Tanya Deuel, Section Manager, Sara Whitley, ERB Finance Manager, Molly Christie, Fiscal Information Data Analyst, Kate LaBelle, Fiscal Information Data Analyst, and Izzy Uong, Fiscal Information Data Analyst.

After the ERB Finance approve the memo, the memo is emailed to Katherine Plaquet, Fiscal Analyst (FA) 5, in the accounting department. Katherine Plaquet, FA 5, prepares the journal voucher based on the IBNR summary charts in the Milliman memo. The Deputy Accounting Section Manager, or PEB Accounting Manager would review and post the journal voucher to ensure amounts were accurate and supported by the actuary memo **(Key Control #2 - Manual - Valuation)**.

Note: HCA called the IBNP liability the IBNR liability. IBNP and IBNR were used interchangeably.

How transactions are recorded in AFRS:

- General journal vouchers were used to make quarterly adjustments to the IBNR estimate. A FA5 prepares the JV using the IBNR summary charts in the Milliman memo, and the Deputy Accounting Manager, or the PEB Accounting Manager would review and approve the JV.

Key controls are as follows:

- Key Control #1: Valuation - Milliman calculates and prepares the memo that summarizes the calculations for the incurred but not paid (IBNP) estimate in accordance with the data provided by Regence, MODA, Delta Dental and HCA, then meets with the ERB finance team to discuss the memo, compare it to prior quarters before the ERB team will approve it.
- Key Control #2: Valuation - The Deputy Accounting Section Manager reviews general journal vouchers to adjust the incurred but not reported liability to ensure the amount is supported by the memo from Milliman, HCA agrees with the conclusions and analysis in the memo, and the IBNR amount is correctly calculated.

Noted Weaknesses are as follows:

- HCA has no documented process in place to review the accuracy of claims data provided to Milliman for the IBNR calculation. HCA relies on Milliman's procedures alone to determined the IBNR balance. See issue at [E: HCA Claims Data Accuracy].

F.1.PRG - Claims and Judgments Payable

Procedure Step:	Key Control #1 (Manual)
Prepared By:	DRR, 6/21/2023
Reviewed By:	SLB, 10/31/2023

Record of Work Done:

Claims and Judgments Payable - Valuation
Key Control #1 - Milliman calculates and prepares the memo that summarizes the calculations for the incurred but not paid (IBNP) estimate in accordance with the data provided by Regence, MODA, Delta Dental and HCA, then meets with the ERB finance team to discuss the memo, compare it to prior quarters before the ERB team will approve it for the AFRS system.

The understanding for this system is documented above in the "Controls - AFRS" step.

1. Confirmation of Key Manual Control:
We met with Sara Whitley, ERB Finance Manager on June 12, 2023 via Teams to walk through the process of reviewing the memo with Milliman. For the March 31, 2023 reserve, HCA was provided the finalized memo on April 28, 2023. The ERB Finance Team met with Milliman on May 2, 2023 on site at HCA's Cherry Street Plaza. We confirmed this meeting took place via screenshot of Sara Whitley's Outlook schedule. Milliman and the ERB Finance Team discussed the general trends observed in the reserve memo, differences from prior periods for both the PEBB and SEBB programs, and discussed general seasonality of claims trends. The ERB finance team approved the memo. **No issues noted.**

Noted Weaknesses are as follows:

- None

2. Preliminary Control Risk Assessment
Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

F.1.PRG - Claims and Judgments Payable

Procedure Step: Key Control #2 (Manual)

Prepared By: DRR, 6/21/2023

Reviewed By: SLB, 10/31/2023

Record of Work Done:

Claims and Judgments Payable - Valuation
Key Control #2 - The Deputy Accounting Section Manager reviews general journal vouchers to adjust the incurred but not reported liability to ensure the amount is supported by the memo from Milliman, HCA agrees with the conclusions and analysis in the memo, and the IBNR amount is correctly calculated for the AFRS system.

The understanding for this system is documented above in the "Controls - AFRS" step.

1. Confirmation of Key Manual Control:
We reviewed PAJV5116 which adjusted the PEBB IBNP liability. We reviewed the the JV cover sheet, Milliman's memo, and the excel workbook (PAJV5116 PEBB IBNR 12.2022.xlsx) used to calculate the adjustment with account codes. The PEBB IBNP liability totaled $133,979,000 as of December 31, 2022. We noted the JV was prepared by Kathy Plaquet, FA 5, on 2/7/2023. We noted Rita Homan, Deputy Accounting Section Manager, reviewed and approved PAJV5116. IBNP adjustments tied to the memo without exception.

We reviewed SAJV1120 which adjusted the SEBB IBNP liability. We reviewed the the JV cover sheet, Milliman's memo, and the excel workbook (SAJV1120 SEBB IBNR 12.2022.xlsx) used to calculate the adjustment with account codes. The IBNP liability totaled $51,673,000 as of December 31, 2022. We noted the JV was prepared by Kathy Plaquet, FA 5, on 2/8/2023. We noted Rita Homan, Deputy Accounting Section Manager reviewed and approved SAJV1120. IBNP adjustments tied to the memo without exception.

Noted Weaknesses are as follows:

- None

2. Preliminary Control Risk Assessment
Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

F.1.PRG - Claims and Judgments Payable

Procedure Step: Risk Assessment
Prepared By: DRR, 7/19/2023
Reviewed By: SLB, 10/31/2023

Record of Work Done:

(1) Inherent Risk (IR):
Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

- Valuation – MAX

(2) Control Risk (CR):
We assessed control risk as follows for each system and relevant assertion:

- AFRS – Valuation

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

- Valuation – MAX

(4) Testing Strategy:
We designed our substantive testing strategy based on our assessment of the risk of material misstatement.

We will complete the testing strategy for relying on the work of specialists [Rely on Specialist] to ensure the actuary was competent. Standard procedures include assessing the competency of Milliman, obtain/review data used by the actuary, review assumptions, and conclude on the work performed by specialists. We will obtain the FY23 quarter four Milliman reserve memo. We will tie tables in the reserve memo's narrative to detailed exhibits by plan (triangle tables). We will also tie the claims in the detailed exhibits by plan to the claims expenses in AFRS, within reason.

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

F.1.PRG - Claims and Judgments Payable

Procedure Step:	Substantive Test
Prepared By:	DRR, 11/30/2023
Reviewed By:	RKM, 12/1/2023

Record of Work Done:

Substantive tests performed to meet the Valuation assertion:

Testing Procedures:

We completed the testing strategy for relying on the work of specialists [Rely on Specialist] to ensure the actuary was competent. We followed standard procedures including assessing the competency of Milliman, obtain/review data used by the actuary, review assumptions, and conclude on the work performed by specialists. We tied the tables in the reserve memo's narrative to detailed attachments by plan (lag triangle tables) and tied the claims in the detailed attachments by plan to the claims expenses in AFRS, within reason.

Testing Results: [Claims and Judgments Payable Testing]. We tested this balance for the valuation assertion, and noted the following exception:

- The IBNR liability was understated by a total of $8,645,000. **See issue and AOM in the conclusion above.**

F.1.PRG - Claims and Judgments Payable

Procedure Step:	Rely on Specialist
Prepared By:	DRR, 10/31/2023
Reviewed By:	SLB, 10/31/2023

Record of Work Done:

Assessment of Competence, Capabilities and Objectivity of Specialist

We assessed the competence, capabilities and objectivity of the specialist, specifically considering factors described in the testing strategy.

Competence

To determine competence, we considered:

- *The education, professional certifications or licenses of the specialist in his or her field, as appropriate.*
- *The reputation and standing of the specialist.*
- *The specialist's experience in the type of work under consideration.*
- *Our Office's experience in using the specialist's work, if applicable.*

Aaron Gates, FSA, MAAA
Milliman Consulting Actuary
Mr. Gates was based in Milliman's Seattle, Washington office and he joined the firm in 2011. He was listed on Milliman's web site, see bio link

here. Mr. Gates graduated with a bachelor of science in mathematics in 2009.

We confirmed Mr. Gates's FSA and MAAA credentials by reviewing the actuary directory on the Society of Actuaries (SOA) website (https://www.soa.org/). We noted he received his MAAA in 2013 and his FSA in 2016. We noted he was also listed as compliant (2020-2021 and 2021-2022) for Society of Actuaries continuing professional development (SOA CPD) attestation. These were the most recent CPD cycles. We also noted his listed primary area of practice and specializations were consulting and health. Based on review of Mr. Gate's credentials, we determined Mr. Gates was a competent specialist.

Jordan Pettibon, FSA, MAAA
Associate Actuary
Mr. Pettibon was based in Milliman's Seattle, Washington office and he joined the firm in 2014. He was listed on Milliman's web site, see bio link here. Mr. Pettibon graduated with a B.A. in Mathematics, and a B.S. in Economics in 2014.

We confirmed Mr. Pettibon's FSA and MAAA credentials by reviewing the actuary directory on the Society of Actuaries (SOA) website (https://www.soa.org/). We noted he received his MAAA in 2017 and his FSA in 2021. We also noted he was also listed as compliant (2020-2021 and 2021-2022) for Society of Actuaries continuing professional development (SOA CPD) attestation. These were the most recent CPD cycles. We also noted his listed primary area of practice and specializations were consulting, health and health insurance - commercial. Based on review of Mr. Pettibon's credentials, we determined Mr. Gates was a competent specialist.

Based on our Office's experience with Milliman we determined Milliman was a competent specialist.

Capability
To determine capability, we considered:

- *Timing of the specialists work*
- *Any significant limitations on the specialist's access to needed information or people*
- *Any significant limitations on the time the specialist was able to devote to the work*
- *Our Office's experience in using the specialist's work, if applicable.*

Milliman is contracted with HCA to perform actuary services for HCA. Milliman is in weekly contact with HCA, primarily the ERB finance department. Sara Whitley, HCA ERB Finance Manager, worked with Milliman regularly. She participated in regular reviews of Milliman's work and deliverables. We inquired with Sara regarding any non-compliance with any deliverables, and she was not aware of any. Services were on-going and had deliverables related to the following through a biennium:

- Generation of financial statement estimates made quarterly (incurred but not paid liability, premium stabilization reserves, restricted fund amounts, etc.),
- Financial record keeping for PEBB operations (historical claim costs for all plans offered),

- Future projections and other budgetary information used by HCA, OFM, the Governor's Office, and the legislature,
- Assisted with determination of premiums for employees, retirees, and other index rates (state agency employer contributions)
- Information shared with various unions and collective bargaining units.

Milliman obtains claim data for all PEBB and SEBB plans on a regular (daily, weekly, and monthly) basis directly from the following providers (used in IBNR reserve estimates):

- Regence (claims processor for all Uniform Medical Plans, HCA's self-insurance health care plan family)
- MODA (pharmacy claims processor, HCA's self-insurance health care plan family)
- Kaiser Permanente Northwest
- Kaiser Permanente Washington
- Premera Blue Cross
- United Healthcare
- Delta Dental (claims processor for Uniform Dental Plan or UDP, HCA's self-insurance dental care plan)

Used for other purposes:

- Davis Vision
- EyeMed Vision Care
- MetLife
- Delta Care
- Willamette Dental Group

For the IBNR estimate specifically, Milliman follows the industry standard of quarterly IBNR estimates, which helps ensure accurate financial reporting and effective risk management. Based on Milliman's relationship with HCA, direct access to claims data, reasonable performance on all contract deliverables, and our experience with Milliman, we determined Milliman was a capable specialist.

Objectivity

To determine objectivity, we considered:

- *Any pressures or incentives on either specialists or management to misstate*
- *Threats to objectivity of the specialist (including self-interest, advocacy, familiarity, self-review or intimidation threats) and any safeguards in place (segregation of duties, lines of reporting, professional standards, formality and consistency of methods and assumptions, retrospective reviews, etc)*
- *Our Office's experience in using the specialist's work, if applicable.*

We noted Milliman was a nation-wide actuary firm and leader in employee benefits, pensions, and health care. Milliman was not financially dependent on revenue generated from the Health Care Authority. During our 2023 control meetings, we inquired regarding the relationship between HCA and Milliman. HCA did not disclose any objectivity concerns. We noted HCA contracted with Milliman for professional services (actuary and consulting services) since 2007 (contract awarded in 2006). We considered objectivity risks, specifically risks related to familiarity and self-review. Due to the length of HCA's and Milliman's relationship, the evolution of health care, and reliance on financial tools developed by Milliman, we inquired about safeguards. Per Sara Whitley, ERB Finance Manager, Milliman maintains a strict review policy, where all deliverables and analyses are reviewed by actuaries outside of the Seattle Health practice. Beyond the standard Milliman peer review process internal to each practice, external review requires that they have the deliverables reviewed by a principle from another practice that is financially independent from Seattle Health. Finally, Milliman also produces retroactive reserve estimates so that both Milliman and HCA may be aware of any consistent bias in their estimates(i.e. whether they consistently overestimate, underestimate, or have a mix of both). **Auditor Note:** We could not meet directly with Milliman, as we would be charged an hourly fee.

Milliman uses nation-wide health care trends in their models to ensure results produced relevant information that was not financially skewed (i.e. future health care costs did not exceed national GDP, future costs were capped at a percent of national GDP, nation wide trends prevented skewed regional data). We noted Milliman used their internally developed national trends. We reviewed descriptions of Milliman's Health Cost Guidelines (HCG) on their website at https://us.milliman.com/en/products/hcgsuite. National trends included the following products: Ages 65 and Over, Commercial, Dental, Grouper, Prescription Drug Rating Manual, and Reinsurance.

Based on our experience, inquiry, and review of assumptions, we determined Milliman was an objective as a specialist.

Understanding of Specialist's Work and Conclusions

We gained an understanding of the specialist's procedures and conclusions, including the methods and assumptions used, and noted the following:

Milliman was HCA's external actuary and health care consultants. Milliman prepared the incurred but not paid (IBNP) memo as one of many deliverables and services provided to HCA to manage their self-insurance plans offered under the Uniform Medical Plan group. Milliman obtained claims data directly from Regence, MODA and Delta Dental, HCA's third party administrators for claims processing. HCA provided Milliman AFRS data. AFRS data was provided by Rita Homan, HCA Assistant Accounting Section Manager, and Sara Whitley, HCA ERB Financial and Data Analyst. The IBNP report was used by Rita Homan to prepare and support journal vouchers to quarterly adjust AFRS.

We reviewed the forecast memo that described the general assumptions and methodologies used by Milliman for both PEBB and SEBB. See [Milliman Trend Model]. Milliman noted specific assumption and methodology adjustments in the IBNP memo. The IBNP estimate was based on historic and projected trends in claims. SAO determined that Milliman's assumptions and methodologies were reasonable and produced a reasonable IBNP estimate. Based on SAO's understanding, Milliman's work included all self-insurance plans operated by HCA (PEBB and SEBB) and reflected the benefits offered. **No issues noted.**

Evaluation of Specialist's Work

See Milliman's incurred but not paid (IBNP) estimate for June 30, 2023 at [PEBB and SEBB Reserve Analysis - June 30 2023 (MODA & ACP)]. We also reviewed the assumptions and methodology used by Milliman at [Milliman Trend Model]. We tested the consistency of the report and source data used at [Claims and Judgments Payable Testing].

We inquired with Sara Whitley, HCA ERB Finance Unit Manager, about their processes for evaluating source data provided to the specialist and Milliman's work and conclusions. She noted the following:

- As the sponsor and employer for the plans, HIPPA compliance rules limit the amount of access HCA has to the raw claims feed from the third party administrators. As such, HCA relies on Milliman to complete the necessary analytical checks and balances on the raw data feeds to complete their analysis.
- HCA (Specifically the Employee Retiree Benefits unit) and Milliman have a “Weekly Milliman Check-in” meeting that includes a discussion and review of Milliman deliverables, discussion of general program management topics, etc. At these meetings, Milliman will generally review documents with HCA ERB and the underlying conclusions, including the IBNR adjustment memo.
- Following these meetings, ERB then reads and reviews the memos for reasonableness, compares the final calculations to previous interim analyses and follows up on any changes.
- HCA does perform a review of the memo for general misrepresentations of information, reasonableness and ensures the underlying results are to be expected given their understanding of the data and detailed description of methodology.
- HCA does have other tools and reports available that allow for comparisons to be made between Milliman's raw data and the information used to complete the IBNR memo each quarter. Some of the these tools are:
    - Weekly lump-sum claims invoicing amounts - Generated internally based on invoiced amounts provided by Regence
    - Regency Monthly Operations Report - Provided by Regence
    - MODA Rebate Reporting - Provided by MODA

We noted HCA's lack of review of source data as a control weakness. We would expect HCA to ensure source data provided by the entity to the specialist to be tested or reviewed to ensure calculations are based on accurate information. **See issue at [**E: HCA Claims Data Accuracy**].**

We performed the following tests:

- Tied the IBNP liability to the financial statements/general ledger [See tab "Step 1" here :Claims and Judgments Payable Testing] to ensure Milliman's conclusion were reflected in the financial statements (Valuation).
- Tied the summary IBNP liability from the summary tables [See tab "Step 2" here: Claims and Judgments Payable Testing] presented in the narrative to the detailed attachments that presented IBNP liabilities by plan. This step was performed to ensure Milliman's conclusions were consistent throughout the memo which was an exception from the FY21 ACFR.
- Tied claim data reported in lag tables to the general ledger [See tab "Step 3" here: Claims and Judgments Payable Testing] to ensure accurate and complete source data was provided to Milliman.

SAO noted the following results from our tests:

- The IBNP estimate reported in AFRS tied to the Milliman's memo with the exception of the SEBB IBNP. We followed up with Rita Homan, Deputy Section Accounting Manager, and she confirmed that the SEBB IBNP was overstated by $2,445,000 in AFRS. This error was related to a prior quarter's IBNP adjustment and will be corrected in the FY24 ACFR **See issue in the substantive test procedure here [**Substantive Test**].**
- We tied the summary IBNP estimate to the supporting attachments which listed the IBNP by plan and by significant claim type (medical, pharmacy, and dental). Amounts tied within rounding. **No issues noted.**
- We tied self-insurance claim expenses (Premiums and Claims) from AFRS to the lag tables in Attachment 15 by plan and significant claim type. Claims tied within in 0.03%. **No issues noted.**

Based on our test results and other procedures performed above, SAO determined we could rely on Milliman's work and that Milliman's conclusions were relevant and reasonable. **No issues noted.**

We will include the following additional representation as part of the management representation letter [FS Letter of Representation]:

- We adequately considered the qualifications of Milliman and agree with conclusions regarding:
  - Health Insurance Fund - Receivables
- Health Insurance Fund - Claims and Judgments Payable

F.2.PRG - Premiums and Assessments

Procedure Step: Summary & Conclusion

Prepared By: DRR, 9/26/2023

Reviewed By: SLB, 10/31/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
We noted no issues in our substantive tests. We determined we did not need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
The quality and quantity of evidence obtained was sufficient and appropriate.

State of Washington

F.2.PRG - Premiums and Assessments

Procedure Step: Understanding of Line Item

Prepared By: DRR, 6/30/2023

Reviewed By: SLB, 10/31/2023

Record of Work Done:

(1) Prior Audit Exceptions:

We noted **no** prior audit exceptions.

(2) Composition & Change Analysis:

Line Item Leadsheet: [Line Item Lead Sheet]. See understanding of health insurance operations at [SAO ACFR Planning Guide_Health_Insurance_Activities_Updated_2023].

This line item primarily consists of premiums collected for medical insurance, dental insurance, and other insurances (i.e. life, long-term disability, etc.). HCA collects premiums for both purchased and self-insurance premiums, most of which are from participating employers. The amount participating employers pay is the employer premium (the State Index Rate for most employers) and the premiums withheld from employees through payroll deductions. Most state agencies pay through account transfers and non-state agencies remit payments to a lock box. COBRA and other self-pay subscribers remit payments to a lock box service. HCA uses an individual lock box for each fund to ensure payments are accurately reported.

Pay1 calculates and prepares monthly bills for participating employers. Invoices are delivered as follows:

- HRMS employers - delivered via paper print out or EOS report distribution system (electronic) which is automated by the Pay1 IT team
- K-12 actives, Political Sub-Divisions - printed and delivered via US mail, or electronically through MFT if electronic delivery is requested by the employer. The MFT registration is managed by the Pay1 IT team.

ACFR Database

We performed an analysis to review the composition of this ACFR line item. Total premium and assessments revenue (IS_Sort Code = BN) for FY22 at HCA were $3,457,369,953, see [Interim Planning_Material Account Matrix] for details.

We analyzed the revenue amounts in the line item lead sheet and identified funds 493 (School Employees' Insurance Account) and 721 (Public Employees' and Retirees Insurance Account) as the significant funds for this line item. We also noted that the FY22 fund percentage compositions were in line with FY21. There were dollar amount increases between the two years in Fund 721 and dollar amount decreases in Fund 493, but not excessive when considering the nature of health insurance.

We identified no unusual or unexpected elements, amounts, or changes that may indicate risk.

(3) Updates to Material Account Matrix:
None

F.2.PRG - Premiums and Assessments

Procedure Step:	Controls - Pay1
Prepared By:	DRR, 7/13/2023
Reviewed By:	SLB, 10/31/2023

Record of Work Done:

Material Balance(s) and Assertions
Internal controls in the Pay1 address the following balance(s):

- Health Insurance - Premiums and Assessments
- Business-Type Activities - Charges for Services: Health Insurance

For the following assertions:

- Occurrence - There is a risk that reported revenues did not occur
- Valuation - There is a risk that insurance premiums (employer and employee) for the various plans were not calculated correctly by Pay1

Gain an Understanding of Internal Controls
See Health Insurance Activities [SAO ACFR Planning Guide_Health_Insurance_Activities_Updated_2023] for the following:

- How contribution rates were established for PEBB and SEBB (required premiums from employers or all eligible employees regardless of the employee's participation in PEBB or SEBB)
- Rate factors for subscribers and the different dependents they could enroll.

- Surcharges (i.e. tobacco surcharge)
- Listing of insurance products offered for plan (calendar) year 2022 and 2023
- Eligibility requirements for PEBB and SEBB
- Key information maintained in Pay1

We met with the following HCA staff on 5/31/2023 to gain an understanding of internal controls

- Rita Homan, Deputy Accounting Section Manager
- Margee Thompson, PEB Accounting Manager

Valuation

Pay1 maintains key information for all subscribers and dependents. Participating employers are responsible for accuracy of demographic information and elections maintained in Pay1. Based on current month elections entered or imported into Pay1 by the participating employer and rate tables maintained in Pay1, Pay1 automatically calculates the amount due for each individual subscriber in an itemized monthly bill by SSN **(Key Control #1 - Automated - Valuation and Occurrence)**. The rate tables get updated every six months by the Pay1 IT team. The Employee Retiree Benefits (ERB) finance team will inform the Pay1 team of the rates to input and verify that the rates have been updated correctly. The subscriber premiums are added to the employer premiums to calculate the total amount owed to HCA per subscriber. The employer premiums are determined by the State Index Rate, or for Political Sub-Divisions, a contracted rate. The State Index Rate is determined semi-annually by the Legislature.

Currently, Political Sub-Divisions are the only participating employers that do not pay the state index rate. HCA bills these groups monthly based on a contracted rate. The amount the employers pay is dependent on the number of subscribers they have enrolled, and it is the employer's responsibility to determine and maintain subscriber eligibility. Invoices are reviewed by a Contract Manager, an HCA employee that specializes in specific contracts with participating employers, for reasonableness.

Bills are prepared for each participating employer on the following cycles:

- 23rd of each month - self-pays (i.e. COBRA subscribers, self-pay, retirees not paid with DRS deductions, and K-12)
- 26th of each month - all other employer groups, retirees with DRS deductions, higher education
- Last day of each month - state agencies that used HRMS

Note: Bills are prepared and remitted prior to the month of service. HCA expects participating employers to reconcile their respective bills to ensure accuracy of listed subscribers.

Occurrence

See above for billing cycles. HCA prepares participating employers' invoices prior to the month of service. To ensure that billings existed, Pay1 reflected each respective agency's subscribers, and that Pay1 accurately exported activity to AFRS, HCA relies on matching payments with invoices. Payments come via lockbox from US Bank, and are automatically processed by Pay1 unless an error occurs. ERB accountants review lockbox reports daily, and match payments for completeness and accuracy. The ERB accountants monitor revenues and cash receipts to ensure bills prepared by Pay1 are accurate and match the amounts in AFRS. If the amount in AFRS does not match the amount collected in Pay1, an In-Process Report is automatically generated. This report provides details on any discrepancies between the amount in AFRS to the amount in Pay1. The ERB Accountants review this report daily, and address any discrepancies **(Key control #2 - Manual - Occurrence)**.

Adjusting Entries - Prepayments/Credit Balances
At the end of the month, Pay1 automatically generated aging reports based on customer type. Pay1 generated the following reports:

- bh#grp.txt
- bh#ind.txt
- pebb#grp.txt
- pebb#ind.txt, PAY1 report HRISD-B5519-R01
- sebb#ind.txt, Pay1 report SEBB-B5519-R01
- excrpt.txt

Monthly, IT generates printed receivable reports from Pay1 titled HRISD-B5519-R01 and SEBB-B5519-R01. ERB Fiscal Analyst 4s review reports for reasonableness and convert the reports to Excel for retention purposes. These reports summarize all receivables and unearned revenue (pre-paid) for each group (Self-Pay Agencies, K-12 Agencies, Retirees, etc.). Rita Homan, Assistant Accounting Section Manager, reviews the reports manually at the end of every month to ensure the reports are free of errors.

FA4's use the HRISD-B5519-R01 and the SEBB-B5519-R01 reports to prepare backup for unearned revenue journal vouchers. The FA4 uses the Excel workbook to prepare the journal vouchers to post prepaid receivables to unearned revenue. FA5s, ERB Accounting Manager, or the Assistant Accounting Section Manager will review the JVs and aging reports to ensure the unearned revenue balances were accurate and represented actual amounts from Pay1 prior to posting **(Key Control #3 – Manual – Valuation)**.

How transactions are recorded in AFRS:

- Pay1 automatically posts transactions to AFRS in a nightly batch. General ledger balances are reviewed in detail for reasonableness by a FA5, Assistant Accounting Section Manager, or ERB Accounting Section Manager when ERB prepares the quarterly financial statements.

Key controls are as follows:

- Key Control #1 (Automated) - Valuation & Occurrence: Pay1 automatically calculates and prepares monthly billings based on current month subscriber elections maintained in Pay1. Pay1 automatically prepares billings based on approved employer and employee rates.

- Key Control #2 (Manual) - Occurrence: Daily, ERB accountants review payments automatically processed, and not automatically processed, in Pay1, and reconcile payments to AFRS to ensure that revenues/receivables exist and are accurately classified for the Pay1 System
- Key Control #3 (Manual) - Valuation: Monthly, ERB FA4s manually record unearned revenue (and receivables) related to PEBB/SEBB premiums by journal voucher. Entries to record unearned revenue (and receivables) are based on Pay1 aging reports HRISD-B5519-R01 and SEBB-B5519-R01. The entry is reviewed by the FA5, ERB Accounting Section Manager, or Deputy Accounting Section Manager to ensure accuracy of entries.

Noted Weaknesses are as follows:
None

F.2.PRG - Premiums and Assessments

Procedure Step: Key Control #1 (Automated)

Prepared By: DRR, 8/28/2023

Reviewed By: SLB, 10/31/2023

Record of Work Done:

This record may contain information considered exempt from public disclosure under RCW 42.56.420 of the Public Records Act. As such, distribution of this record is limited.

Premiums and Assessments - Valuation and Occurrence
Key Control #1 - Pay1 automatically calculates and prepares monthly billings based on current month subscriber elections maintained in Pay1. Pay1 automatically prepares billings based on approved employer and employee rates.

The understanding for this system is documented above in the "Controls - Pay1" step.

2. Key Automated Control Confirmation and Testing:
We worked with Team IT Audit to select one transaction from the following sources to ensure that it was calculated correctly by Pay1:

- Regular PEBB state agency - Department of Ecology

- SEBB - Port Angeles School District
- Political sub-division/group - King County Housing Authority
- Retiree, no specific employer

See Team IT ROWD: [Pay1 Revenue Selection - Team IT].

PEBB (Department of Ecology)
We recalculated the elections made by employee XXX-XX-3887 for March 2023. We did this by taking the PEBB base employer premium of $1,130 from the HCA website and adding the employee premium based on their election which was $236, for a total of $1,366. This ties to report HC89-MDR HLTH_DNTL DED from Pay1 provided by Rita Homan, Deputy Accounting Section Manager. Premium tied without exception. We also noted the March coverage period was invoiced on 2/28/2023. **No issues noted.**

SEBB (Port Angeles School District)
We recalculated the elections made by employee XXX-XX-1352 for March 2023. We did this by taking the SEBB base employer premium of $1,026 from the HCA website and added the employee premium based on their election which was $97 for a total of $1,123. This ties to report SEBB-B5362-R01 from Pay1 provided by Rita Homan, Deputy Accounting Section Manager. Premium tied without exception. We also noted the March coverage period was invoiced on 2/15/2023. **No issues noted.**

PEBB Political SubDivison (King County)
We tied the elections made by employee XXX-XX-6442 for March 2023 to the premium charts on the HCA website. We did this by taking the employer group (political subdivisions and tribal governments) active tiered full benefits package premium of $1,634.03 which is found on the HCA website. This ties to report HRISDB5079-R01 from Pay1 provided by Rita Homan, Deputy Accounting Section Manager. Premium tied without exception. For this individual, there was an accounting change processed on 3/2/2023, which is after the cutoff for March invoicing. Due to this, the March coverage was processed on the April invoice. We noted the April coverage was invoiced on 3/27/2023. **No issues noted.**

Retiree
We recalculated the elections made by employee XXX-XX-3911 for March 2023. We did this by taking the Medicare medical plan premium of $438.34 and adding the PPO dental plan premium of $48.56 for a total of $486.90. Both premiums are found on the HCA website and tie to report HRISDB5208-01 from Pay1 provided by Rita Homan, Deputy Accounting Section Manager. We also noted that the March coverage period was invoiced on 2/27/2023. **No issues noted.**

Noted Weaknesses are as follows:
None

2. Preliminary Control Risk Assessment

Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW – Test General Controls:
Not applicable - we are not planning to rely on automated controls and therefore do not need to test general controls; control risk will be assessed at maximum.

F.2.PRG - Premiums and Assessments

Procedure Step: Key Control #2 (Manual)

Prepared By: DRR, 7/13/2023

Reviewed By: SLB, 10/31/2023

Record of Work Done:

Premiums and Assessments - Occurrence
Key Control #2 - Daily, ERB accountants review payments automatically processed, and not automatically processed, in Pay1, and reconcile payments to AFRS to ensure that revenues/receivables exist and are accurately classified for the Pay1 System

The understanding for this system is documented above in the "Controls - Pay1" step.

1. Confirmation of Key Manual Control:
We received the lockbox reports, US bank statements, TMS sweep report and the A7-A for the automatic lockbox reports from HCA for revenues received on January 3, 2023. We noted a total of $44,555,914.76 was automatically processed in Pay1 from the following revenue sources:

- PEBB E-Lockbox - $20,097.89
- HCA Retail (Online Payment System) - $54,307.52
- Political Subgroups - $2,003,420.55
- HCA Flex Spending account (for SEBB flexible spending accounts) - $606,159.64
- SEBB Self-Pay - $84,398.86

- SEBB benefits - $41,787,530.30

We noted the total of these payments tied to the total amount processed, $44,555,914.76, with no exceptions. Additionally, we reviewed bank statements from US Bank, and screenshots of Pay1 for each of the revenue sources above, and confirmed the amounts tied with no exceptions. We also reviewed email correspondence of approval to upload the batch to TMS on January 4, 2023. The email correspondence of approval included several attachments such as a PDF report of the Lockbox amount and a screenshot of the cash receipts journal summary. We also received the A7-A which was prepared by Jennifer Adamire, Fiscal Tech 2 and approved by Rita Homan, Deputy Section Accounting Manager which tied to the amount processed. None of this revenue was manually processed (not automatically) in the Pay1 system. **No issues noted.**

Noted Weaknesses are as follows:

- None

2. Preliminary Control Risk Assessment

Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

F.2.PRG - Premiums and Assessments

Procedure Step:	Key Control #3 (Manual)
Prepared By:	DRR, 6/30/2023
Reviewed By:	SLB, 10/31/2023

Record of Work Done:

Premiums and Assessments - Valuation

Key Control #3 - Monthly, ERB FA4s manually record unearned revenue (and receivables) related to PEBB/SEBB premiums by

journal voucher. Entries to record unearned revenue (and receivables) are based on Pay1 aging reports HRISD-B5519-R01 and SEBB-B5519-R01. The entry is reviewed by the FA5, ERB Accounting Section Manager, or Deputy Accounting Section Manager to ensure accuracy of entries.

The understanding for this system is documented above in the "Controls - Pay1" step.

1. Confirmation of Key Manual Control:
We received the April 2023 PEBB and SEBB manual adjusting journal vouchers from Rita Homan, Deputy Accounting Section Manager.

PEBB
We reviewed JV PAJV5326 prepared by Michael Williamson, Fiscal Analyst 4, on May 3, 2023, and approved by Katherine Plaquet, Fiscal Analyst 5. This JV was to record PEB unearned revenue for self-pay, prepaid receivables for revenue sources 000020 and 000021 per aging report dated 4/28/2023. We reviewed the monthly group aging report summary HRISDB5519-R01 with run date April 28, 2023. We noted $562,979.94 included in the prepaid column for the self-pay agencies group and $104,220.91 included in the retirees group. The total unearned revenue for self-pays per the report $667,200.85. The JV entries tie to the monthly group aging report summary HRISDB5519-R01. **No issues noted.**

SEBB
We reviewed JV SAJV1186 prepared by Oanh Pham, Fiscal Analyst 4 on May 5, 2023, and approved by Margee Thompson, PEB Accounting Manager. This JV was to record SEB unearned revenue for self-pay, prepaid receivables for revenue source 000021 per aging report dated 4/28/2023. We reviewed the monthly group aging report summary SEBB-B5519-R01 with run date of April 28, 2023. We noted $83,647.86 in the prepaid column in the self-pay group. The total unearned revenue for self-pay agencies per the report was $83,647.86. The JV entries tie to the monthly group aging report summary SEBB-B5519-R01. **No issues noted.**

Noted Weaknesses are as follows:
- None

2. Preliminary Control Risk Assessment
Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

State of Washington

F.2.PRG - Premiums and Assessments

Procedure Step: Risk Assessment
Prepared By: DRR, 7/24/2023
Reviewed By: SLB, 10/31/2023

Record of Work Done:

(1) Inherent Risk (IR):
Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

- Valuation - MAX
- Occurrence - MAX

(2) Control Risk (CR):
We assessed control risk as follows for each system and relevant assertion:

- **Pay1** - **(Valuation and Occurrence)** - **MAX** - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

- Valuation - MAX
- Occurrence - MAX

(4) Testing Strategy:
We designed our substantive testing strategy based on our assessment of the risk of material misstatement.

Valuation
We will use the sample provided by Team IT Audit. We will re-calculate the total premium associated with our sample using the PEBB/SEBB employer premium, employee premium, tobacco surcharge, spouse surcharge, and plan election. The PEBB/SEBB employer/employee premiums, tobacco surcharge and spouse surcharge can be found on the Health Care Authority (HCA) website. The plan election will be provided in the data from Team IT Audit. We will tie the re-calculation of the subscriber's premium (employee and employer portions) to the invoice charged to the participating employer. We will also trace the recalculated amount from the invoice, to the batch, and to AFRS to ensure our recalculations were reflected in the financial statements.

Occurrence
We will use the sample provided by Team IT Audit. We will test our sample to ensure that the recorded revenue and coverage period occurred in the proper period by reviewing the invoice and batch dates.

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

F.2.PRG - Premiums and Assessments

Procedure Step:	Substantive Test
Prepared By:	DRR, 9/26/2023
Reviewed By:	SLB, 10/31/2023

Record of Work Done:

We worked with IT Audit to obtain monthly subscriber data for PEBB and SEBB from Pay1 [Pay1 Revenue Selection - Team IT] and had them pull our testing sample. The request is documented in HelpDesk #63571.

To gain a better understanding of revenue, we prepared a summary of health insurance revenues. See [Revenue Summary FY23].

Substantive tests performed to meet the Existence / Occurrence assertion:
Testing Procedures:
We reviewed the testing strategy for occurrence. We provided our revenue sample to Rita Homan, Deputy Accounting Section Manager. She provided us documentation to tie our selected subscriber's to the employer's invoice (SEBB-B5362-R01, HRISDB5362-R01, HRISDB5208-R01, and

HRISDB5062-R03), Pay1 batch (HRISDB5081-R01, HRISDB5362-R01, or SEBB-B5081-R01). We tied the Pay1 batch documents (HRISDB5081-R01, HRISDB5362-R01, or SEBB-B5081-R01) to Webi data. We tested our sample to ensure that the the recorded revenue occurred in the proper period by reviewing the invoice and batch dates. We tested the sample for the following attributes:

- Did the recorded revenue occur within fiscal year ended June 30, 2023?
- Was the coverage period within fiscal year ended June 30, 2023?
- Could we trace the amount charged in Pay1 to AFRS or Webi?

Testing Results: [CONFIDENTIAL DATA - FS Sampling]. We tested our sample to determine if they represented actual amount relating to the period and noted **no** exceptions.

Substantive tests performed to meet the Valuation assertion:

Testing Procedures:

We reviewed the testing strategy for valuation. We tested our sample by re-calculating the total premium associated with each claimant by adding employer and employee premiums, tobacco surcharges, and spouse surcharges and tying it to the invoice documentation (SEBB-B5362-R01, HRISDB5362-R01, HRISDB5208-R01, or HRISDB5062-R03) provided by Rita Homan, Deputy Accounting Section Manager. We also traced the total charged premiums in Pay1 batches (HRISDB5081-R01, HRISDB5362-R01 and SEBB-B5081-R01) to Webi data. We tested our sample for the following attributes:

- Could we trace the amount charged in Pay1 to AFRS or Webi?
- Did Pay1 accurately calculate the subscriber's premium?

Testing Results: [CONFIDENTIAL DATA - FS Sampling]. We tested our sample to determine if they were reported at properly valued or calculated amounts and noted **no** exceptions.

F.2.PRG - Premiums and Assessments

Procedure Step: Pay1 Revenue Selection - Team IT

Prepared By: JMT, 8/24/2023

Reviewed By: SHW, 10/13/2023

Record of Work Done:

Data Analysis Request

State of Washington

We received the data analysis request (#63571) from Dana Rossow, Team Financial Audit, on May 1st, 2023. The audit team requested for the following items:

1. Help obtaining monthly Pay1 data (census data and billing data for PEBB and SEBB)
2. Provide Pay1 data in a format so we can make selections or have Team IT make selections for recalculating billings (amounts calculated by Pay1)

The audit team also provided the following information:

- WHO: All active PEBB and SEBB subscribers (all participating employers - state, local governments, school districts, local governments, etc.). Please include the participating employer types. **Note:** We want subscribers for all months. It might be helpful to clarify if the subscriber will appear for each month they are in PEBB and SEBB and their respective elections. Elections can change throughout the year. Election may not be consistent through the whole year.

- YEAR: Fiscal year ended June 30, 2023 (07/01/2022 - 06/30/2023). **Note:** We would like to receive the July 1, 2022 through March 31, 2023 data around mid-June and the remaining data (April 1, 2023 through June 30, 2023) around the end of September.

- WHAT FIELDS: Basic subscriber information to ensure traceability. Likely need SSN, name, employer/agency, tier (subscriber only, spouse, full family, etc.), election types for all insurances and benefits.

- OTHER: additional fees or surcharges (tobacco surcharge and spouse surcharge).

- PHI/PPI TO EXCLUDE: We do not expect to need dependent SSNs or DOBs. We want to be able to filter non-material participating employer types to simplify testing.

3. In addition, we would like you to select the following samples for control confirmations:

- One PEBB employee from Department of Ecology for coverage period of March 2023.
- One SEBB employee from the Port Angeles School District for coverage period of March 2023.
- One political sub-division/group employee from King County for coverage period of March 2023.
- One retiree, no specific employer for coverage period March 2023

<u>Test Objective</u>
The audit team wants to confirm health insurance billings made during fiscal year 2023 were made at the appropriate amounts. They would like to select transactions from Pay1 data to recalculate billings (amounts calculated by Pay1). They would also like to select a sample of employees in order to test agency controls.

State of Washington

Methodology
Based upon this request, we will complete the following steps:

1. Request and obtain from HCA the Pay1 FY2023 data; census and billing data for PEBB and SEBB.
2. Import the datasets into SQL and perform data reliability checks to confirm that the data received are completeness and accurate.
3. Work with Team FA to determine the criteria for the sampling population, as well as the number of samples.
4. Pull samples from the data and provide to Team FA.

As we proceed with our testing, we will adjust these steps as needed.

Data Requests
In order to complete the requested testing, two datasets are required, both from HCA's Pay1 system. One will consist of billings related with state employee health benefits and the other will be the enrollment/census information related to state employee health benefits. We sent our request to Kari Summerour on May 8, 2023 (see DataRequest_PEBB_SEBB_FY23 and DataFields).

HCA provided the first 9 months of billing files on June 5, 2023, the enrollment files on June 28, 2023, and the last 3 months of billing files on July 28, 2023. The enrollment files were provided by Grace Fletcher, IT Data Management, and the billing files were provided by Grant Stromsdorfer, IT App Development. We received the following:

- 12 PEBB billing files (one for each month of the fiscal year)
- 12 SEBB billing files (one for each month of the fiscal year)
- PEBB enrollment file
- SBBB enrollment file
- Enrollment reference file. This included data definitions, record counts, and field names included in the enrollment files.

Additionally, we also have billing/eligibility field descriptions received from prior year audits, which can be seen at Pay1 Premiums Billed Data Layout and PEBB Eligibility Monthly File Field Descriptions (Purpose/conclusion: To document the PEBB Eligibility field descriptions Source: Allen Hall, HCA IT Data Management). Also obtained a list of carrier codes not defined in data layout documents, see AdditionalCarrierCodes.

Data Reliability
We have performed procedures to verify that the data received is complete and accurate. These procedures written in SQL are at FY23_PEBB_SEBB_Enrollment_DataReliability (PEBB and SEBB enrollment reliability) and FY23_PEBB_SEBB_Billings_DataReliability(PEBB and SEBB billings reliability). Below is a summary of the checks completed:

1. Verify fields have expected/reasonable values based upon our request and the file layouts.

2. Verify counts of certain fields remain consistent throughout the year.
3. Comparisons between the billings and enrollment datasets to identify any differences in the employees included.

The following describes items of note identified during our reliability checks:

1. There are billing transactions with coverage period outside of the fiscal year we had requested. They may be included to show that there are credits associated with these billings.

2. 2 PEBB employee and 1 SEBB employees are in the enrollment files but not the billing files. From prior year discussions with HCA, this may be due to SSN changes since the enrollment file is a picture in time, whereas the billings are dynamic.

3. 4123 PEBB employees and 2206 SEBB employees are in the billings files but not in the enrollment files. Some of the billings are for coverage periods outside of FY23 and there are many credits for current and prior periods that created a net $0 billing amount. From prior year discussions with HCA, this is likely due to the enrollment file being a picture in time. In browsing the billing files, we see transactions dates for credits between the enrollment update dates (around the 23rd of the month). It is likely the individuals were enrolled at the time of the billing, but not at the time the enrollment table was updated. If one of these employees is selected for testing, we may need to obtain enrollment information from HCA for that particular employee.

4. Within the billing data, some employees appear in both the PEBB and SEBB populations. As seen in other cases, many of these situations appear to include corrections. However, some employees can also be dual eligible and each entity will pay a portion of the benefits. What we are seeing aligns with these expectations.

Based upon our procedures, we have determined the data appears to be complete and accurate for our testing purposes. We will continue to look for signs of incomplete or inaccurate information as we perform our testing.

Data Analysis Testing

The audit team requested 30 PEBB samples and 30 SEBB samples. We will create two populations as follows:

1. PEBB billing population will consist of:
- Distinct subscriber SSN by coverage month.
- Eligibility Type Y (state and higher-education employees, active) and R (state and higher-education employees, retired).
- Include all transaction codes (including credits).

2. SEBB billing population will consist of:
- Distinct subscriber SSN by coverage month.

- Eligibility Type Z (active SEBB).
- Include all transaction codes (including credits).

IT Audit created SQL queries to build the population and pull the samples. For each selected employee, we also pulled all associated billing records. Our queries can be seen at SampleSelection_Queries.

In addition, we pulled samples for each of the specific employees requested by the audit team for control confirmations. Queries for these selections are at ControlSample_Queries.

Throughout the above queries, we performed checks to verify the completeness of our results. Based upon our checks, we consider the results to be complete and accurate based upon the request.

Data Analysis Results
The results of our testing were provided to Team FA in an Excel spreadsheets titled "!2023_PEBB_SEBB_Sample_Selections" and "!2023_PEBB_SEBB_ControlSample_Selections" via our internal network. These results contain CONFIDENTIAL INFORMATION. The spreadsheets are password protected and the password is based on the pattern in the DA password safe. The following result tables were included in the spreadsheets:

Billing Recalculation Samples
1. PEBB samples with summary billing and enrollment information (65 records)
2. SEBB samples with summary billing and enrollment information (30 records)
3. PEBB detail billing records associated with selected employees (148 records)
4. SEBB detail billing records associated with selected employees (145 records)

We also provided the audit team with the total record counts associated with the PEBB and SEBB populations created for pulling samples. The total record counts were 2,235,611 for PEBB and 1,811,184 for SEBB and included in the sample selection Excel file.

Control Samples
1. Four control samples with summary billing and enrollment information (7 records)
2. Billing details associated with the selected samples (18 records)

Results Update
On August 24, 2023, Dana contacted us requesting an adjustment to the sample population. The decision was made to not test retirees this year and only focus on active employee billings. The PEBB samples included five retired employee records, so Dana requested we pull five additional

samples related to active employees (the SEBB samples had no retirees). Using the same process as before, we adjusted the sample population to only include active employee records. We then randomly selected five records that were not included in the original sample. Our queries can be seen at PEBB_AdditionalSampleSelections_Queries.

The results of our testing were provided to Team FA in an Excel spreadsheets titled "!2023_PEBB_Sample_Selections_Additional" via our internal network. These results contain CONFIDENTIAL INFORMATION. The spreadsheets are password protected and the password is based on the pattern in the DA password safe. The following result tables were included in the spreadsheets:

1. PEBB samples with summary billing and enrollment information (11 records)
2. PEBB detail billing records associated with selected employees (28 records)

We also provided the audit team with the total record count (1,753,713) for the adjusted PEBB population.

F.3.PRG - Premiums and Claims

Procedure Step: Summary & Conclusion

Prepared By: DRR, 10/26/2023

Reviewed By: SLB, 10/31/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
We noted **no** issues in our substantive tests. We determined we did not need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
The quality and quantity of evidence obtained was sufficient and appropriate.

F.3.PRG - Premiums and Claims

State of Washington

Procedure Step: Understanding of Line Item
Prepared By: DRR, 6/30/2023
Reviewed By: SLB, 10/31/2023

Record of Work Done:

(1) Prior Audit Exceptions:
We noted **no** prior audit exceptions.

(2) Composition & Change Analysis:
Line Item Lead Sheet: [Line Item Lead Sheet]. Our understanding applies to the health insurance opinion unit premiums and claims expense (sub-object NH Health Services Benefits) and the government wide statements for health insurance expenses. We noted the most significant sub-object for the government-wide expense was sub-object NH.

See understanding of Employee and Retiree Benefits (ERB) operations at [SAO ACFR Planning Guide Health Insurance Activities Updated 2023]. ERB managed PEBB and SEBB. ERB offers comprehensive medical (pharmacy and medical), vision, dental, life (basic and supplemental), accidental death and dismemberment (AD&D, basic and supplemental), and long-term disability (LTD, basic and supplemental) insurances. ERB also offers dependant care assistance program (DCAP) and medical flexible spending arrangements (FSA) benefits.

Premiums and claims includes payments to insurance carriers, benefit vendors, and self-insurance claims. Expenses were ran through sub-object NH for purchased insurance and self-insurance. Regence is the third party administrator (TPA) for PEBB and SEBB medical self-insurance benefits offered under Uniform Medical Plan. Regence bills HCA weekly claims for PEBB and SEBB subscribers. MODA is the TPA for pharmaceutical claims and bills HCA about every other week. Delta Dental is the TPA for dental claims. Administrative fees for TPAs (based on contracted amounts and performance requirements) are paid monthly.

Adjustments to incurred but not reported (IBNR) liabilities are offset in premiums and claims (sub-object NH). See [Understanding of Line Item] for IBNR understanding. IBNR calculations are based on actuary studies prepared by Milliman quarterly.

In FY20, HCA (ERB Division) was charged with providing health insurance and other employee benefit type insurance to school districts and other related local governments (i.e. educational service districts) across the state, and established SEBB. Benefits started January 2020, which made FY21 the first full year that included SEBB benefits.

ACFR Database
We reviewed the composition of this ACFR line item through analysis of the balance. Total premium and claims expenditures (IS_Sort Code = KM) for FY22 at HCA were $3,685,688,776, see [Interim Planning Material Account Matrix] for details.

We analyzed the expenditure amounts in the line item lead sheet and identified funds 493 (School Employees' Insurance Account) and 721 (Public Employees' and Retirees Insurance Account) as the significant funds for this line item. We also noted that the fund percentage compositions were in line with FY21. There were dollar amount increases between the two years, but not excessive when considering the nature of health insurance costs.

We identified no unusual or unexpected elements, amounts, or changes that may indicate risk.

(3) Updates to Material Account Matrix:
We updated the occurrence risk narrative to state "There is a risk that expenses for payments of claims were not supported by invoices, weekly claims requests, or payment summaries". We added in "payment summaries" because this is a screen that Pay1 produces for purchased insurance claims.

F.3.PRG - Premiums and Claims

Procedure Step:	Controls - AFRS
Prepared By:	DRR, 7/6/2023
Reviewed By:	SLB, 10/31/2023

Record of Work Done:

Material Balance(s) and Assertions
Internal controls in AFRS address the following balance(s):

- Health Insurance - Premiums and Claims
- Business-Type Activities - Health Insurance - Expenses

For the following assertions:

- Occurrence - There is a risk that expenses for payments of claims were not supported by invoices or weekly claims requests.

- Valuation (related to the IBNR adjustments only) - The offset to incurred but not reported (IBNR) adjustments were made in premium and claims expenses. Risk the adjustments were not supported by an actuary report. Risk the actuary report was not calculated based on accurate information provided by HCA or complete claims data.

Gain an Understanding of Internal Controls
We met with the following HCA staff members on 5/30/2023 to gain an understanding of Premiums and Claims:

- Rita Homan, Deputy Accounting Section Manager
- Margee Thompson, PEB Accounting Manager

Self-Insurance Weekly Claim Payments and Purchased Insurance

Self-Insurance
Regence (UMP medical claims third party administrator) bills HCA for claims at least weekly. Regence provides detailed claims data to HCA's IT team via secure file transfer. HCA's IT Team imports the data, normalizes the claims data, and removes the data protected by HIPPA (claim numbers, claim/procedure coding, and other patient data). Subscriber social security numbers are retained with the data to ensure claim transactions are tied to a specific subscriber. HCA IT team then loads the data into a SQL database (Microsoft Access).

The ERB accounting department receives summarized weekly claim invoices from Regence via email. Summarized invoices are remitted to ensure minimal HIPPA protected data is generated. An Employee and Retiree Benefits (ERB) Fiscal Analyst 3-5 reviews the invoice and runs a report from the claims SQL database for the specific date range. If the report and invoice amounts do not tie, the Fiscal Analyst and IT work to determine the error. When the claims detail and invoice tie, the Fiscal Analyst prepares the A19, and the SQL claims report to support the payment. The Fiscal Analyst enters the transaction into AFRS and uploads data into WebAX (HCA's digital documentation system). A Fiscal Analyst 5 and the ERB Accounting Manager will review and release the transactions in AFRS. They review the transactions to ensure they occurred, were supported by appropriate documentation, and that coding and amounts were accurate **(Key Control #1 - Occurrence - Manual).**

Purchased insurance
Typically, payments to purchased insurance carriers are automatically calculated, and manually processed within Pay1. See the Pay1 control understanding here [Controls - Pay1]. If Pay1 is unable to process the payments to purchased insurance carriers for any reason, such as, credits on accounts from prior period, or Metlife payments rounding to 3 decimal places, a Fiscal Analyst 1-4 will prepare the payment to purchased insurance carriers by using an A19, H.47/F.47 Pay1 screens, and Carrier Payment spreadsheets to determine the payment amounts. The Fiscal Analyst enters the transaction into AFRS and uploads the source documents into WebAX. The Fiscal Analyst will attach the carrier payment data to an email to the Contract Manager for each carrier for approval. Once Contract Managers approve the payment, a Fiscal Analyst 5 or the ERB Accounting Manager will review the transactions to ensure they occurred, are adequately supported and the amount was accurate. The FA 5, or ERB Accounting Manager then releases the transactions in AFRS **(Key Control #2 - Occurrence - Manual).**

Other Adjustments (Valuation)
See [Controls - AFRS] for understanding and controls related to IBNR adjustments. Adjustments to the IBNR liability were offset with adjustments to self-insurance medical claims.

How transactions are recorded in AFRS:
The Fiscal Analyst enters the transaction into AFRS and uploads data into WebAX. A Fiscal Analyst 5 and the ERB Accounting Manager review and release the transactions in AFRS.

Key controls are as follows:

- Key Control #1 - Occurrence (Manual) - For weekly Regence claims invoices (self-insurance), a Fiscal Analyst prepares the A19, and the SQL claims report to support the payment. This is entered into AFRS and uploaded into WebAX. A Fiscal Analyst 5 or the ERB Accounting Manager review the transactions to ensure they existed, were supported by appropriate documentation, and that coding and amounts were accurate before releasing into AFRS.
- Key Control #2 - Occurrence (Manual) - Monthly, a Fiscal Analyst 1-4 prepares the payment to purchased insurance carriers by using an A19, H.47/F.47 Pay1 screens, and Carrier Payment spreadsheets to calculate the payment, and enters the transaction into AFRS and uploads the data into WebAX. A Fiscal Analyst 5 or the ERB Accounting Manager review to ensure the manual batches occurred and the amount is accurate and release the transactions in AFRS.

Noted Weaknesses are as follows:
None

F.3.PRG - Premiums and Claims

Procedure Step:	Key Control #1 (Manual)
Prepared By:	DRR, 6/22/2023
Reviewed By:	SLB, 10/31/2023

Record of Work Done:

Premiums and Claims - Occurrence
Key Control #1 - For weekly Regence claims invoices (self-insurance), a Fiscal Analyst prepares the A19, and the SQL claims report to support the payment. This is entered into AFRS and uploaded into WebAX. A Fiscal Analyst 5 or the ERB Accounting

Manager review the transactions to ensure they existed, were supported by appropriate documentation, and that coding and amounts were accurate before releasing into AFRS.

The understanding for this system is documented above in the "Controls - AFRS" step.

1. Confirmation of Key Manual Control:
We received the April 1, 2023 through April 7, 2023 invoice billed by Regence to HCA in the amount of $34,212,987.66. We reviewed the A-19 and SQL claims report that support the payment, and noted that the total amount tied to the invoice with no exceptions. Additionally we noted that the A-19 was prepared by Dawn Weatherbie, Fiscal Analyst 3, on 4/10/2023, and approved by Margee Thompson, PEB Accounting Manager. We noted the approval was not on the A-19 form, but was provided by HCA's IT team. The total amount approved tied to the A-19 form and the invoice from Regence. **No issues noted.**

Noted Weaknesses are as follows:

- None

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

F.3.PRG - Premiums and Claims

Procedure Step:	Key Control #2 (Manual)
Prepared By:	DRR, 7/6/2023
Reviewed By:	SLB, 10/31/2023

Record of Work Done:

Premiums and Claims - Occurrence

Key Control #2 - Monthly, a Fiscal Analyst 1-4 prepares the payment to purchased insurance carriers by using an A19, H.47/F.47 Pay1 screens, and Carrier Payment spreadsheets to calculate the payment, and enters the transaction into AFRS and uploads the data into WebAX. A Fiscal Analyst 5 or the ERB Accounting Manager review to ensure the manual batches occurred and the amount is accurate and release the transactions in AFRS. Occurrence - for the AFRS system.

The understanding for this system is documented above in the "Controls - AFRS" step.

1. Confirmation of Key Manual Control:

PEBB insurance

We reviewed the A19 for Metlife PEBB purchased insurance claims for the month of March 2023 (document - PA210153) in the amount of $584,600.42 which was prepared by Michael Williamson, Fiscal Analyst 4, and approved by Katherine Plaquet, Fiscal Analyst 5. The payment to Metlife was the only manually processed payment for PEBB purchased insurance in the month of March 2023. We noted the A19, PEBB Carrier payment spreadsheet and H.47 screenshot from Pay1 totals tied with no exceptions. We also reviewed email correspondence of approval from Beth Heston, Senior Account Manager. **No issues noted.**

SEBB insurance

We reviewed the A19's for SEBB purchased insurance claims for the month of April 2023 (documents - SA220039, SA220040 and SA220041) for a total of $52,252,072 which were prepared by Oanh Pham, FA 3 and approved by Katherine Plaquet, Fiscal Analyst 5 or Rita Homan, Deputy Accounting Section Manager. We noted the A19's, SEBB Carrier payment spreadsheet and F.47 screenshot from Pay1 totals tied with no exceptions. We also reviewed email correspondence of approval from the Contract Managers: Ellen Wofhagen, Senior Account Manager, Beth Heston, Senior Account Manager, and Christine Davis, Senior Account Manager. **No issues noted.**

Noted Weaknesses are as follows:

- None

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

F.3.PRG - Premiums and Claims

State of Washington

Procedure Step: Controls - Pay1

Prepared By: DRR, 7/10/2023

Reviewed By: SLB, 10/31/2023

Record of Work Done:

Material Balance(s) and Assertions

Internal controls in Pay1 address the following balance(s):

- Health Insurance - Premiums and Claims

For the following assertions:

- Occurrence - There is a risk that expenses for payments of claims were not supported by invoices, weekly claims requests, or payment summaries
- Valuation (related to the IBNR adjustments only) - The offset to incurred but not reported (IBNR) adjustments were made in premium and claims expenses. Risk the adjustments were not supported by an actuary report. Risk the actuary report was not calculated based on accurate information provided by HCA or complete claims data

Gain an Understanding of Internal Controls

We met with the following HCA staff on 5/30/2023 to gain an understanding of internal controls

- Rita Homan, Deputy Accounting Section Manager
- Margee Thompson, PEB Accounting Manager
- Sara Whitley, ERB Finance Manager
- Janice McAlpin, Senior Account Manager
- Grant Stromsdorf, Pay1 Mainframe Support
- Shawna Lang, Section Manager

Reconciliation of Subscribers

Relation to Balance:

The reconciliation ensured amounts billed by Regence for claims were legitimate expenses for subscribers and that expenses existed. This allowed HCA to rely on summary invoices when paying for weekly claims to Regence.

Self-Insurance
On a quarterly basis, Regence and HCA reconcile subscribers by plan elections **(Key Control #1 - Occurrence - Manual)**. Regence starts the process by comparing monthly subscribers from Pay1 to Regence's records. Regence then provides HCA's Outreach and Training IT team (O&T) with exceptions. HCA's O&T team reviews the exceptions, and will make corrections as necessary in Pay1. The O&T team may then request the Pay1 team send the corrected information back to Regence. This process is repeated as necessary. Regence corrects their data to ensure it matches Pay1 elections, which ensures that medical claims paid by Regence are only for eligible subscribers. Regence sends completed census data to MODA, UMP's pharmaceutical Third Party Administrator (TPA), to ensure pharmaceutical subscribers are correct.

Purchased Insurance
Payments to purchased insurance vendors are based on PAY1 census data, contracted rates, and any corrections made in the prior month (i.e. special open enrollment events - marriage, birth, death). Typically, payments to purchased insurance carriers are automatically calculated, and manually processed within Pay1 using the H.47 screen from PEBB and the F.47 screen from SEBB. Monthly in Pay1, when HCA goes to invoice purchased insurance carriers (23rd of each month) a Fiscal Analyst 1-4 will review the payment summary from the H.47 and F.47 screens and reconcile this amount to a SQL query to ensure the amounts match. If the amounts match, the FA 1-4 will upload source documents to WebAX, and send an email with the payment information for review by the Contract Managers and Fiscal Analyst 5 or Accounting Manager who reviews the source documents to ensure the amount is for the correct month and the amount is accurate and approves the release of the payment **(Key Control #2 - Occurrence - Manual)**. The Fiscal Analyst 1-4 will then release the payment in Pay1. Pay1 will automatically upload the transaction data to AFRS through a nightly upload. For purchased insurance payments that cannot be processed in Pay1 due to credits on the account, or most Metlife Insurance payments, Fiscal Analysts must manually process these payments in AFRS. See the manual process here [Controls - AFRS].

Other Adjustments (Valuation)
See [Controls - AFRS] for understanding and controls related to IBNR adjustments. Adjustments to the IBNR liability were offset with adjustments to self-insurance medical claims.

How transactions are recorded in AFRS:

- Invoices for weekly claim payments (self-insurance) are manually entered into AFRS. See [Controls - AFRS]
- Monthly premium payments (purchased insurance) processed in Pay1 are automatically uploaded into AFRS through a nightly batch.
- No financial transactions directly related to the enrollment or census data reconciliation.

Key controls are as follows:

- Key Control #1 (Occurrence - Manual) - Quarterly, census data is reconciled between PAY1 and Regence's (UMP TPA) records to ensure claims paid by Regence were for PEBB Uniform Medical Plan (UMP) subscribers.

- Key Control #2 (Occurrence - Manual) - Monthly, a Fiscal Analyst 1-4 compares the H.47 and F.47 screens in Pay1 to a SQL query to ensure the automatically batched amounts match and the Contract Managers and Fiscal Analyst 5 or Accounting Manager review to ensure the amount is for the correct month and is accurate before processing the payment.

Noted Weaknesses are as follows:
None

F.3.PRG - Premiums and Claims

Procedure Step:	Key Control #1 (Manual)
Prepared By:	DRR, 6/30/2023
Reviewed By:	SLB, 10/31/2023

Record of Work Done:

Premiums and Claims - Occurrence
Key Control #1 - Quarterly, census data is reconciled between PAY1 and Regence's records (UMP TPA) to ensure claims paid by Regence were for PEBB Uniform Medical Plan (UMP) subscribers (Occurrence - Manual).

The understanding for this system is documented above in the "Controls - Pay1" step.

1. Confirmation of Key Manual Control:
We met with Grant Stromsdorfer, IT APP Development, on June 7, 2023 via Teams to walkthrough the quarterly census data reconciliation file (excel file titled "1st quarter 2023 HCA Audit") for January 2023 through March 2023. We noted this file had columns for Subsciber ID, Sub SSN, Sub last name, Sub first name, and Audit Issue/Discrepancy. We noted this file contained 7 accounts with discrepancies between Regence and HCA data and Regence described the discrepancy in the "Audit Issue/Discrepancy" column. We also noted that each discrepancy was corrected by the Outreach and Training Unit. The reconciliation was completed on April 25, 2023. **No issues noted.**

Noted Weaknesses are as follows:
- None

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

F.3.PRG - Premiums and Claims

Procedure Step: Key Control #2 (Manual)
Prepared By: DRR, 7/7/2023
Reviewed By: SLB, 10/31/2023

Record of Work Done:

Premiums and Claims - Occurrence
Key Control #2 - Monthly, a Fiscal Analyst 1-4 compares the H.47 and F.47 screens in Pay1 to a SQL query to ensure the automatically batched amounts match and the Contract Managers and Fiscal Analyst 5 or Accounting Manager review to ensure the amount is for the correct month and is accurate before processing the payment.

The understanding for this system is documented above in the "Controls - Pay1" step.

1. Confirmation of Key Manual Control:
PEBB:
We received the H.47 screenshot and the PEBB Carrier payment query for the April 2023 purchased insurance payment. We noted the H.47 total invoiced amount is $59,531,698.79, which tied to the SQL query amount without exception. We noted the upload was created by Michael Williamson, Fiscal Analyst 4, and approved by Katherine Plaquet, Fiscal Analyst 5. We also reviewed Contract Manager approvals from Beth Heston, Senior Account Manager, Ellen Wolfhagen, Senior Account Manager, and Christine Davis, Senior Account Manager, via email. This entire amount was automatically batched. **No issues noted.**

SEBB:
We received the F.47 screenshot and the SEBB Carrier payment query for the April 2023 purchased insurance payment. We noted the F.47 total

invoiced amount is $91,090,408.89, which tied to the SQL query amount without exception. Of this amount, $38,838,276.11 was automatically batched per the carrier payment spreadsheet. We recalculated the automatically batched amount using the F.47 screenshot, carrier payment spreadsheet and carrier payment query without exception. We noted the upload was created by Oanh Pham, Fiscal Analyst 4, and approved by Katherine Plaquet, Fiscal Analyst 5. We also reviewed Contract Manager approvals from Beth Heston, Senior Account Manager, Ellen Wolfhagen, Senior Account Manager, and Christine Davis, Senior Account Manager, via email. **No issues noted.**

Noted Weaknesses are as follows:

- None

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

F.3.PRG - Premiums and Claims

Procedure Step: Risk Assessment

Prepared By: DRR, 10/16/2023

Reviewed By: SLB, 10/31/2023

Record of Work Done:

(1) Inherent Risk (IR):

Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

- Occurrence – MAX
- Valuation – MAX (related to the IBNR adjustments only)

(2) Control Risk (CR):

We assessed control risk as follows for each system and relevant assertion:

- **AFRS (Occurrence/Valuation) – MAX** - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.
- **Pay1 (Occurrence/Valuation) – MAX** - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

- Occurrence – MAX
- Valuation – MAX (related to the IBNR adjustments only)

(4) Testing Strategy:
We designed our substantive testing strategy based on our assessment of the risk of material misstatement.

Occurrence
Purchased Insurance
We will test the entire population of 24 purchased insurance payments to vendors. To test each transaction, we will tie out the disbursement in AFRS to HCA's Pay1 system (Pay1 payment summary screens H.47 for PEBB and F.47 for SEBB), to ensure that the payments were valid and recorded in the proper period.

Self-Insurance
We will use detailed GL activity (Webi) and filter the data by subsubobject, GL 6505 accrued expenses and GL 6510 cash expenses to determine our population. We will use the sampling spreadsheet to determine our sample size. To test each transaction we will review HCA's summary of vendor invoice by plan and subsubobject, HCA's Voucher Distribution Form (A19) and the vendors invoice (I.e. Regence, Moda, and Delta Dental), subtotaled by plans offered for PEBB/SEBB, to ensure that the transactions are valid and recorded in the proper fiscal year.

Valuation - See [Substantive Test] for incurred but not paid (IBNP) testing strategy. Adjustments made to the IBNP liability were offset in claims expenses. No additional work planned for expense of IBNP adjustments. Note, HCA called the incurred but not paid (IBNP) liability the incurred but not recorded (IBNR) liability. IBNP and IBNR were used interchangeably.

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

F.3.PRG - Premiums and Claims

Procedure Step: Substantive Test

Prepared By: DRR, 10/30/2023

Reviewed By: SLB, 10/31/2023

Record of Work Done:

Substantive tests performed to meet the Existence / Occurrence assertion:

Testing Procedures:

We reviewed the testing strategy for occurrence. We tested the self-insurance and purchased insurance transactions for the occurrence assertion as follows:

Purchased Insurance

For purchased insurance, we determined we would test all of the transactions in the population, as the population was small and the support was readily available. To test each transaction, we tied out the disbursement in AFRS to HCA's Pay1 system (Pay1 payment summary screens H.47 for PEBB and F.47 for SEBB) and reviewed the month of service to ensure that the payments were valid and recorded in the proper period. We tested the entire purchased insurance population for the following attributes:

- Did the recorded expense occur within FYE June 30, 2023?
- Did the recorded expense in AFRS tie to the Pay1 H.47 (PEBB) or F.47 (SEBB) screenshot?

Self-Insurance

For self-insurance, we used the sampling spreadsheet (7.5% tolerable misstatement, assurance set to very high) to determine our sample size. To test each transaction we reviewed HCA's summary of vendor invoices by plan and subsubobject, HCA's Voucher Distribution Form (A19) and the vendors invoice (I.e. Regence, Premera, Moda, and Delta Dental) to determine the month of service, and tied the invoice to the A-19, to ensure that the transactions are valid and recorded in the proper fiscal year. We tested each transaction for the following attributes:

- (Occurrence) - Did the recorded expense occur within FYE June 30, 2023?
- (Occurrence) - Did the recorded expense tie to the documentation from the vendor?

Testing Results:
Purchased Insurance testing: [Premiums and Claims Testing].
We tested all of the transactions for the occurrence assertion and we did not note any exceptions.

Self-Insurance testing: [Premiums and Claims Testing].
We tested this sample for the occurrence assertion and we did not note any exceptions.

Substantive tests performed to meet the Valuation assertion:
Testing Procedures:
The valuation risk is related to incurred but not paid (IBNP) adjustments. Our understanding of this area is found in the Claims and Judgments Payable line item found here [Understanding of Line Item]. The liability is adjusting subobject NH, health insurance premium and claims expenses. See IBNR testing at [Substantive Test].

F.4.PRG - Due From Other Governments

Procedure Step:	Summary & Conclusion
Prepared By:	BM2, 11/2/2023
Reviewed By:	SLB, 11/6/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
Risk of Material Misstatement was originally determined to be MAX. We determined we did not need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
The quality and quantity of evidence obtained was sufficient and appropriate.

F.4.PRG - Due From Other Governments

State of Washington

Procedure Step: Understanding of Line Item

Prepared By: BM2, 7/20/2023

Reviewed By: SLB, 11/3/2023

Record of Work Done:

(1) Prior Audit Exceptions:

No prior audit exceptions for FY22. In FY21, we noted HCA did not reconcile Pay1 receivable reports to the general ledger (AFRS). When requested by SAO, HCA performed a reconciliation that identified GL 1352 Due from Other Governments was overstated by $13,927,387. We made the following recommendations to HCA staff:

- Identify and correct any errors in its receivables general ledger account
- Regularly reconcile receivables for PEBB and SEBB between PAY1 and AFRS
- Improve resources (PAY1 reports, databases, etc.) to facilitate the tracking of invoices, payments, any related adjustments, and batched revenue transactions between PAY1 and AFRS
- Perform regular reconciliations, revenue recalculations based on subscriber counts, or other similar procedures to ensure premiums and assessments transactions generated in PAY1 are accurately posted in AFRS

We followed up with Rita Homan, HCA Deputy Accounting Section Manager, on the noted recommendations. In FY22, HCA did start to reconcile receivable reports monthly during their writeoff adjusting entries. Monthly adjustments are made in both PEBB and SEBB programs to ensure the balance reported in the GL reflects an accurate receivable amount based on aging reports and other available PAY1 reports. See control confirmation at Key Control #3 in Premiums and Assessments [Key Control #3 (Manual)].

HCA also implemented daily cash receipts reconciliations to ensure premiums and assessments transactions generated in PAY1 are accurately posted in AFRS. The automatic bank lockbox reports and posting of revenue in PAY1 are reviewed and confirmed daily at a high level (in-process report has to match by day what was received by the lockbox vs. AFRS entries for each daily lockbox). Lockboxes for PEBB and SEBB employers are additionally reviewed monthly to ensure the correct employer was credited. See control confirmation at Key Control #2 [Key Control 2 (Manual)].

Regarding the other recommendations included in the FY21 management letter, HCA is still in process of implementing resource/report improvements. This includes improving the resources to facilitate the tracking of invoices, payments, any related adjustments, and batched revenue transactions between PAY1 and AFRS. HCA Accounting submitted a request to HCA's IT department for PAY1 receivables data to be loaded to a SQL database to facilitate a full reconciliation between PAY1 receivables and AFRS. It has not yet been completed. We will include this in a recommendation to HCA for FY23. See issue at [E: HCA Pay1 Receivables Reconciliation].

(2) Composition & Change Analysis:
Line Item Leadsheet: [Line Item Lead Sheet].

Due from Other Governments was reported in the following funds:

- Fund 721 - Public Employees' and Retirees Insurance Account - For FY22, represented $38.3 million or 22% of the total due from other governments balance.
- Fund 493 - School Employees' Insurance Account - For FY22, represented $158 million or 90% of the total due from other governments balance.

Based on general HCA Employee and Retiree Benefits (ERB) division understanding, GL 1352 Due from Other Governments included activity from other WA state agencies, higher education state agencies, and external local governments or political subdivisions (cities, towns, counties, school districts, etc.). HCA managed PEBB and SEBB under the Employee and Retiree Benefits division. See [SAO ACFR Planning Guide_Health_Insurance_Activities_Updated_2023] for general understanding of ERB operations. See [Premiums and Assessments] for understanding of ERB revenue.

The Health Insurance opinion unit was new for fiscal year ended 06/30/2021. In prior years, OFM made adjustments to remove retiree activity from PEBB balances to fiduciary funds. Due to GASB 84, retirees were no longer presented in fiduciary activities and reported in a custodial fund (FKE).

(3) Updates to Material Account Matrix:
We determined no updates to material account matrix were necessary.

F.4.PRG - Due From Other Governments

Procedure Step:	Controls - Pay1
Prepared By:	BM2, 6/23/2023
Reviewed By:	SLB, 11/3/2023

Record of Work Done:

Material Balance(s) and Assertions
Internal controls in AFRS address the following balance(s):

- Due From Other Governments

For the following assertions:

- Existence - There is a risk not all unpaid insurance premiums at year end have been captured.
- Valuation - There is a risk the receivables have not been properly valued.
- Classification - There is a risk amounts due from state entities have been reported as due from other governments.

Gain an Understanding of Internal Controls
We met with HCA on 5/31/23 to review controls over accounts receivable and the related allowance for doubtful accounts. We met with the following HCA staff:

- Cindy Raves, HCA Internal Audit
- Rita Homan, HCA Deputy Accounting Section Manager
- Margee Thompson, HCA PEBB Accounting Manager

See [SAO ACFR Planning Guide_Health_Insurance_Activities_Updated_2023] for understanding of ERB operations and billing cycles. See [Premiums and Assessments] for revenue understanding.

Background Information
Public Employee Benefits Board (PEBB) operations were governed by RCW 41.05, WAC 182-08, WAC 182-12, and WAC 182-16. WAC 182-08-180 defined payments were due the first day of the month in which coverage was effective. PEBB subscriber payments were due with 45 days for the first month of COBRA coverage. Continuing payments were considered past due after 30 days. Participating employers and subscribers were given a 30 day grace period for late payments. Subscribers were retroactively terminated after 60 days of non-payment. Before termination, the Assistant Accounting Section Manager noted HCA made efforts to describe the consequences of retroactive termination and allowed subscribers to establish a payment plan.

School Employee Benefits Board (SEBB) was voted to be PEBB-like by the board and governed under RCW 41.05, WAC 182-30, WAC 182-31, and WAC 182-32. WAC 182-30-040 defined specific payment rules. SEBB premiums were also due the first day of the month in which coverage was effective. SEBB subscriber payments were due with 45 days for the first month of COBRA coverage. Continuing payments were similar to PEBB rules in which payments were due within 30 days and retroactively terminated after 60 days of non-payment. SEBB subscribers were also eligible to establish payments plans if needed to prevent terminations of coverage.

Due From Other Governments - GL 1352
Pay1 Automatic Invoicing

Pay1 maintains key information for all subscribers and dependents. Participating employers are responsible for accuracy of demographic information and elections maintained in Pay1. Based on elections entered or imported into Pay1 by the participating employer, Pay1 automatically calculates the amount due for each individual subscriber in an itemized monthly bill by SSN). To perform the calculation, Pay1 uses the rate tables that are updated every six months to calculate subscriber premiums. The subscriber premiums are added to the employer premiums to calculate the total amount owed to HCA by subscriber. The employer premiums are determined by the State Index Rate, or for Political Sub-Divisions, a contracted rate. The State Index Rate is determined semi-annually by Legislature.

Pay1 then automatically posts calculated revenues and related accounts receivable for PEBB and SEBB based on current month subscriber elections **(Key Control #1 - Automatic - Existence/Valuation).** Nightly, PAY1 interfaces with AFRS to post transactions. Calculated invoice amounts are summarized in the HRISD-B5099-R01 report "Invoice Report by Agency". Each day's transactions posted to AFRS from the invoice reports are summarized in the HRISD-B5081-R01 report "Insurance to AFRS Transaction Generation Report". Amounts reported in AFRS tie back to both automated Pay1 reports.

After invoices were created, Pay1 suspended posting the revenues and related receivables until the first of the month for services. In the prior years, receivable reports included the suspended billings under the 0-30 days aging column on receivable reports. Therefore, the June report would include July which would be the suspended billings. For FY22 the report was modified to not include the suspended billings so they would not have to be backed out each month.

Transactions are easily identifiable by transaction codes. We received a OneNote document compiled by Rita Homan that showed the cycles for posting invoiced amounts, receipts, and refunds. Invoices are grouped based on the type of receivable. For example, self pay retiree invoices are posted using TC 12. For transactions posted in relation to the Due From Other Governments Balance (GL 1352), the following transaction codes were used:

- 52 - To post receivables from governments. Debits 1352 (Due From Other Governments), Credits 3205 (Accrued Revenue)
- 92 - To post cash receipts from governments. Debits 7110 (Receipts In-Process), Credits 1352 (Due From Other Governments)

Cash Receipts

HCA accepted payments from participating employers and subscribers via lock box for self-pay (retirees), COBRA subscribers, and school districts. State agencies and retirees who elected to have their PEBB premiums withheld from their DRS monthly distribution paid via direct transfer automatically executed with transfers from the treasury office.

HCA's lock box and bank accounts were held with US Bank (DES state contract). Every work day, cash lock box reports for PEBB and SEBB were remitted to HCA via secure file transfer. Reports indicated the employer number (agency number) or subscriber number (social security number). HCA imported the banking activity into Pay1 through an automated nightly batch process. Pay1 automatically coded payments to participating employer or subscriber accounts with full AFRS revenue source coding. Cash activity was also automatically sent to AFRS and reduces receivable balances. When Pay1 could not identify the account due to an issue with social security numbers or agency number, the payment was coded to the suspense account. When Pay1 could not identify the account due to a mismatched account type, the payment was coded to 107BSU. Mismatched payments typically occurred when subscribers changed type of accounts. For example, new retirees often remitted their first payment before their retiree account was complete in Pay1 (self-pay) or if a subscriber separated from their respective participating employer and started COBRA coverage.

Employee Retiree Benefits (ERB) division accountants review lockbox reports daily, and match payments for completeness and accuracy. The ERB accountants monitor revenues and cash receipts to ensure bills prepared by Pay1 are accurate and match the amounts in AFRS. If the amount in AFRS does not match the amount collected in Pay1, an In-Process Report is automatically generated. This report provides details on any discrepancies between the amount in AFRS to the amount in Pay1. The ERB Accountants review this report daily, and address any discrepancies **(Key Control #2 - Existence/Classification)**. The "Unbalanced In-process Reconciliation Report" report number DLY007 is ran by fiscal staff for transactions in process through the day before. The unbalanced report is reviewed to ensure amounts are posted to the correct fund in the correct amount. If any significant changes are identified, ERB staff track and research incorrectly posted amounts. The automatic bank lockbox reports and posting of revenue in PAY1 are reviewed and confirmed daily at a high level (in-process report has to match by day what was received by the lockbox vs. AFRS entries for each daily lockbox). Lockboxes for PEBB and SEBB employers are additionally reviewed monthly to ensure the correct employer was credited.

Adjusting Entries - Prepayments/Credit Balances

At the end of the month, Pay1 automatically generated aging reports based on customer type. Pay1 generated the following reports:

- bh#grp.txt
- bh#ind.txt
- pebb#grp.txt
- pebb#ind.txt, PAY1 report HRISD-B5519-R01
- sebb#ind.txt, Pay1 report SEBB-B5519-R01
- excrpt.txt

Reports were reviewed for reasonableness by ERB Fiscal Analyst 4s and reformatted so ERB Fiscal Analyst 2s could manage individual accounts listed. Reports were also converted to Excel for retention purposes. ERB Fiscal Analysts 2 contacted every customer that had a balance greater than 30 days past due and advised them if no payment occurred, they would be terminated from PEBB or SEBB.

The Pay1 receivable reports (B5519 and B5381) for PEBB and SEBB were not tied out to AFRS by ERB accountants at year end to ensure AFRS amounts were accurate and existed. HCA relied on automatic coding and posting performed by Pay1. HCA ERB relied on cash reconciliations to ensure all cash was accurately recorded in Pay1 and AFRS. See issue at [E: HCA Pay1 Receivables Reconciliation].

Monthly, IT generated a printed receivable report from Pay1, HRISD-B5519-R01 and SEBB-B5519-R01. This report summarized all receivables for each customer. Rita Homan, Assistant Accounting Section Manager, reviewed the report manually at the end of every month to ensure the following:

- Significant past due amounts were being followed up on ERB Fiscal Analyst 2s and documented
- Review for errors and other automatic transactions that Pay1 may have posted to customer accounts

FA4's used the 'pebb#ind.txt' file to prepare backup for the unearned journal voucher (reversing JV). Receivable data (payments) was filtered to identify subscriber accounts with credits by revenue source code. The FA4 used the Excel workbook to prepare the journal voucher. The FA5s, ERB Accounting Manager, and Assistant Accounting Section Manager were allowed reviewers to post the adjustment. JVs were reviewed to ensure the revenue source codes used were complete and receivable balances were accurate and represented actual amounts from Pay1 **(Key Control #3 – Manual – Valuation/Classification)**.

The same PEBB procedures noted above were used for SEBB reports and the SEBB unearned revenue adjustment (reversing JV). SEBB had the same review controls as PEBB.

Adjusting Entries - Write-Offs and Allowance for Doubtful Accounts
Receivable balances over 90 days were considered uncollectible and reported in allowance for doubtful accounts. Write-offs were also based off of the monthly report "Monthly Group Aging Report Summary" (Pay1 report HRISD-B5519-R01). The ERB Fiscal Analyst (FA) 4 converted the text file into Excel. The FA4 totaled the receivables over 90 days past due for self-pay customers and retirees. The FA4 compared the month end and beginning of the month balances to determine the appropriate adjustment needed. The FA4 prepared the monthly journal voucher. The FA5, Assistant Accounting Section Manager, or ERB Accounting Section Manager reviewed the journal vouchers and related workpapers to ensure the accuracy of the adjustment **(Key Control #4 - Manual - Valuation/Classification)**.

Rita explained write-offs can also be made if they are for tolerated amounts. Tolerated amounts are based on the type of payor and history with payments. Write-offs are made in the H.11 screen within Pay1, where all adjustments are made. Activity is documented within H.11 including who made the adjustment and comments to justify the write-off. At month end, Pay1 also generates a report HRISD-B5217-R01 and SEBB-B5217-R01 "Write-Off Report" that summarizes those write-offs to be included in the monthly adjusting JV. PEBB and SEBB did not sell off uncollectible receivables. When subscribers were terminated for non-payment, Pay1 recorded a write-off for the receivable and automatically posted the transaction in AFRS.

If participating employers or subscribers did not pay the full premium (including surcharges due), ERB fiscal analysts were allowed to write-off insignificant amounts (insignificant shortfalls). Insignificant amounts were defined in WAC 182-05-015 and considered amounts less than $50 or 10% of the premium. Write-offs with comments were summarized and reviewed in the monthly adjusting journal entry for the allowance for doubtful accounts.

Classification of Receivables
The Deputy Accounting Section Manager noted classification of receivables was based on the customer type and how customers paid. She also

noted PEBB, the plan other state agencies were members of, did not use interagency due to and due from accounts. All participating employers in the PEBB and SEBB plans were governments. Retiree accounts, amounts were reported as Due from Other Governments because a significant amount of retirees had their premiums withheld from their respective monthly DRS pension distribution. As of June 30, 2021, retirees were not included in the health insurance opinion unit. Retiree activity was reported in a custodial fund (FKE).

How transactions are recorded in AFRS:

- Pay1 automatically posted invoices and applied cash receipts to customers' receivable accounts.
- For monthly adjustments, ERB accountants use journal vouchers based on Pay1 reports to reclassify and adjust receivable balances.

Key controls are as follows:

- Key Control #1 (Automatic - Existence/Valuation): Pay1 automatically posts calculated revenues and related accounts receivable for PEBB and SEBB based on current month subscriber elections.
- Key Control #2 (Manual - Existence/Classification): Daily, ERB accountants review payments automatically processed, and not automatically processed, in Pay1, and reconcile payments to AFRS to ensure that revenues/receivables exist and are accurately classified for the Pay1 System.
- Key Control #3 (Manual - Valuation/Classification): Monthly, ERB FA4s manually adjusted receivables related to PEBB/SEBB premiums by journal voucher. Adjusting entries were used to record prepayments and credit balances for groups based on Pay1 report HRISD-B5519-R01 and SEBB-B5519-R01. The entry is reviewed by the FA5, ERB Accounting Section Manager, or Deputy Accounting Section Manager to ensure accuracy and classification of adjustments.
- Key Control #4 (Manual - Valuation/Classification): Monthly, ERB FA4s manually adjusted receivables related to PEBB/SEBB premiums by journal voucher. Adjusting entries were used to record allowance for doubtful accounts and write-offs based on Pay1 report HRISD-B5519-R01 and SEBB-B5519-R01. The entry is reviewed by the FA5, ERB Accounting Section Manager, or Deputy Accounting Section Manager to ensure accuracy and classification of adjustments.

Noted Weaknesses are as Follows:

- PAY1/AFRS Reconciliation - Pay1 receivable reports (B5519 and B5381) for PEBB and SEBB were not tied out to AFRS by ERB accountants at year end to ensure AFRS amounts were accurate and existed. HCA relied on automatic coding and posting performed by Pay1. HCA ERB relied on cash reconciliations to ensure all cash was accurately recorded in Pay1 and AFRS. See issue at [E: HCA Pay1 Receivables Reconciliation].

F.4.PRG - Due From Other Governments

State of Washington

Procedure Step: Key Control 1 (Automated)

Prepared By: BM2, 11/2/2023

Reviewed By: SLB, 11/3/2023

Record of Work Done:

This record may contain information considered exempt from public disclosure under RCW 42.56.420 of the Public Records Act. As such, distribution of this record is limited.

Due From Other Governments - Existence/Valuation

Key Control 1 - (Existence/Valuation) Pay1 automatically posts calculated revenues and related accounts receivable for PEBB and SEBB based on current month subscriber elections.

The understanding for this system is documented above in the "Controls - Pay1" step.

2. Key Automated Control Confirmation and Testing:

We reviewed and recalculated automated calculations done by Pay1 for premiums as part of the premiums and assessments understanding at [Premiums and Assessments] for each of the following agency groups:

- Regular PEBB state agency - Department of Ecology
- SEBB - Port Angeles School District
- Political sub-division/group - King County Housing Authority
- Retiree, no specific employer

All PAY1 calculations were accurate based on employee/employer elections. ***No issues noted.***

Noted Weaknesses are as follows:

- none.

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW – Test General Controls:
Not applicable - we are not planning to rely on automated controls and therefore do not need to test general controls; control risk will be assessed at maximum.

F.4.PRG - Due From Other Governments

Procedure Step: Key Control 2 (Manual)
Prepared By: BM2, 6/26/2023
Reviewed By: SLB, 11/3/2023

Record of Work Done:

Due From Other Governments - Existence/Classification
Key Control #2 (Manual - Existence/Classification): Daily, ERB accountants review payments automatically processed, and not automatically processed, in Pay1, and reconcile payments to AFRS to ensure that revenues/receivables exist and are accurately classified for the Pay1 System.

The understanding for this system is documented above in the "Controls - Pay1" step.

1. Confirmation of Key Manual Control:
We confirmed this control as part of Premiums and Assessments at [Key Control #2 (Manual)].

Noted Weaknesses are as follows:

- None.

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

F.4.PRG - Due From Other Governments

Procedure Step: Key Control 3 (Manual)
Prepared By: BM2, 6/26/2023
Reviewed By: SLB, 11/3/2023

Record of Work Done:

Due From Other Governments - Valuation/Classification
Key Control #3 (Manual - Valuation/Classification): Monthly, ERB FA4s manually adjusted receivables related to PEBB/SEBB premiums by journal voucher. Adjusting entries were used to record prepayments and credit balances for groups based on Pay1 report HRISD-B5519-R01 and SEBB-B5519-R01. The entry is reviewed by the FA5, ERB Accounting Section Manager, or Deputy Accounting Section Manager to ensure accuracy and classification of adjustments.

The understanding for this system is documented above in the "Controls - Pay1" step.

1. Confirmation of Key Manual Control:
We obtained the April 2023 month end receivable adjusting journal vouchers from Rita Homan, Deputy Accounting Section Manager, for PEBB and SEBB.

PEBB
We obtained and reviewed the following JVs:
- PAJV5326 - To record PEB unearned revenue for self-pay, prepaid receivables for revenue sources 000020 and 000021 per aging report dated 4/28/2023
    - We obtained the preparer/approver reporting from HCA IT for the selected JVs. The journal voucher was processed 5/3/2023, prepared by Michael Williamson, Fiscal Analyst 4, and reviewed by Katherine Plaquet, Fiscal Analyst 5. The total amount posted was $1,334,401.70.
    - We reviewed the monthly group aging report summary HRISDB5519-R01 with run date 4/28/2023. We noted prepaid amounts for Selfpay agencies was $562,979.94 and amounts for retirees totaled $104,220.91. Amounts posted in PAJV5326 tie without exception to Pay1 reports. **No issues noted.**

SEBB
We obtained and reviewed the following JVs:

- SAJV1186 - To record SEB unearned revenue for self-pay, prepaid receivables for revenue source 000021 per aging report dated 04/30/2023
  - The journal voucher was processed 5/5/2023, prepared by Oanh Pham, Fiscal Analyst 4, and reviewed by Rita Homan, Deputy Accounting Section Manager. The total amount posted was $167,295.72
  - We reviewed the monthly group aging report summary SEBB-B5519-R01 with run date 4/28/2023. We noted prepaid amounts for Selfpay agencies was $83,647.86. Amounts posted in SAJV1186 tie without exception to Pay1 reports. **No issues noted.**

Noted Weaknesses are as follows:

- None.

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

F.4.PRG - Due From Other Governments

Procedure Step:	Key Control 4 (Manual)
Prepared By:	BM2, 6/26/2023
Reviewed By:	SLB, 11/3/2023

Record of Work Done:

Due From Other Governments - Valuation/Classification
Key Control 4 - (Valuation/Classification) Monthly, ERB FA4s manually adjusted receivables related to PEBB/SEBB premiums by journal voucher. Adjusting entries were used to record allowance for doubtful accounts and write-offs based on Pay1 report

HRISD-B5519-R01 and SEBB-B5519-R01. The entry is reviewed by the FA5, ERB Accounting Section Manager, or Deputy Accounting Section Manager to ensure accuracy and classification of adjustments.

The understanding for this system is documented above in the "Controls - Pay1" step.

1. Confirmation of Key Manual Control:
We obtained the April 2023 month end receivable adjusting journal vouchers from Rita Homan, Deputy Accounting Section Manager, for PEBB and SEBB.

PEBB
We obtained and reviewed the following JV:

- PAJV5331 - To write off uncollectible accounts receivable to bad debt expense for April 2023 and book bad debt/uncollectible accounts receivable per aging report as of April 30, 2023, for PEBB
  - The journal voucher was processed 5/4/2023, prepared by Michael Williamson, Fiscal Analyst 4, and reviewed by Katherine Plaquet, Fiscal Analyst 5. The total amount posted was $28,767.44.
  - We reviewed the monthly group aging report summary HRISDB5519-R01 with run date 4/28/2023. We noted $131,274.71 included in the "91-120" and "over 120" days column in the selfpay agencies group and $95,712.94 included in the "91-120" and "over 120" days column in the retirees group. The total aging balance per the report $226,987.65. The balance recorded in AFRS was $249,058.80 as of 3/31/2023 in GL 1342, Allowance for Uncollectible Accounts Receivable. To adjust the balance to match current aging report, $22,071.15 entry was made. Entry ties to the reports noted above. **No issues noted.**
  - We reviewed the Write-Off Report for Month of Apr '23, HRISDB5217-R01 with run date 5/1/23. We noted the total write-off was $244.23 based on accounts that were written off for various amounts. The report includes comments for why write-offs were made. The total writeoff amount was included in entry. Entry ties to Pay1 reports noted above. **No issues noted.**
  - The entry also included various corrections in the amount of $6,940.52. **No issues noted.**

SEBB
We obtained and reviewed the following JVs:

- SAJV1188 - To book bad debt/uncollectible accounts receivable per aging report as of 4/30/2023
  - The journal voucher was processed 5/5/2023, prepared by Oanh Pham, Fiscal Analyst 4, and reviewed by Margee Thompson, PEB Accounting Manager. The total amount posted was $79,304.13
  - We reviewed the monthly group aging report summary SEBB-B5519-R01 with run date 4/28/2023. We noted $71,213.82 included in the "91-120" and "over 120" days column in the selfpay agencies group. The balance recorded in AFRS was $86,289.34 as of 3/31/2023 in GL 1342, Allowance for Uncollectible Accounts Receivable. To adjust the balance to match current aging report, $15,041.75 entry was made. Entry ties to the reports noted above. **No issues noted.**

- We reviewed the Write-Off Report for Month of Apr '23, SEBB-B5217-R01 with run date 5/1/23. We noted the total write-off was $33.77 based on accounts that were written off for various amounts. The report includes comments for why write-offs were made. The total writeoff amount was included in entry. Entry ties to Pay1 reports noted above. **No issues noted.**

Noted Weaknesses are as follows:

- None.

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

F.4.PRG - Due From Other Governments

Procedure Step:	Risk Assessment
Prepared By:	BM2, 8/22/2023
Reviewed By:	SLB, 11/3/2023

Record of Work Done:

(1) Inherent Risk (IR):

Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

- Existence - MAX
- Valuation - MAX
- Classification - MAX

(2) Control Risk (CR):
We assessed control risk as follows for each system and relevant assertion:

- **PAY1 Existence/Valuation/Classification - MAX -** We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

- Existence - MAX
- Valuation - MAX
- Classification - MAX

(4) Testing Strategy:
We designed our substantive testing strategy based on our assessment of the risk of material misstatement.

- Obtain June 2023 month-end receivable report (summary by customer type and detail by participating employer) for both PEBB and SEBB accounts. We will select a sample of accounts to ensure the receivable existed by reviewing subsequent payments, is properly valued based on automated calculations and any adjustments, and classified properly as due from other governments.
- Obtain and review a year end receivable reconciliation between Pay1 and AFRS for PEBB/SEBB to ensure amounts reported for ACFR are accurate, complete, and existed.

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

F.4.PRG - Due From Other Governments

Procedure Step: Substantive Test
Prepared By: BM2, 11/6/2023
Reviewed By: SLB, 11/6/2023

Record of Work Done:

Background

Per Line Item Lead Sheet [Line Item Lead Sheet], Due From Other Governments (GL 1352) is reported in 2 funds for ACFR: Fund 493 (SEBB), Fund 721 (PEBB). SEBB represents 90.74% of the full balance, PEBB represents 21.82% and OFM's adjustment reduced the balance by 13.09%.

Sampling Methodology

We obtained PAY1 PEBB (HRISDB5381-R01) and SEBB (SEBBB5381-R01) receivable reports from HCA for June 30, 2023. We converted receivable reports from txt files to Excel using text to columns. We used the sampling spreadsheet in accordance with SAO sampling policy 3240 to determine our sample size for amounts due from other governments for both SEBB and PEBB. Both populations were small populations (365 or less). For PEBB, we haphazardly selected 14 participating employers (and 2 individually significant participating employers) to recalculate amounts due. For SEBB, we haphazardly selected 26 participating employers. See "B5381-R01 Selection" tabs in the SEBB [SEBB Due From Other Governments Testing] and PEBB [PEBB Due From Other Governments Testing] testing.

Substantive tests performed to meet the Existence assertion:

Testing Procedures:

- Obtain June 2023 month-end receivable report (summary by customer type and detail by participating employer) for both PEBB and SEBB accounts. We will select a sample of accounts to ensure the receivable existed by reviewing subsequent payments.
- Obtain and review a year end receivable reconciliation between Pay1 and AFRS for PEBB/SEBB to ensure amounts reported for ACFR existed.

Testing Results:

SEBB (Fund 493) [SEBB Due From Other Governments Testing] PEBB (Fund 721) [PEBB Due From Other Governments Testing]

Obtain June 2023 month-end receivable report (summary by customer type and detail by participating employer) for both PEBB and SEBB accounts. We will select a sample of accounts to ensure the receivable existed by reviewing subsequent payments.

- We reviewed invoices for June 30, 2023 (invoiced in May) for all selected employers and any subsequent payments for the invoices (warrants, deposit slips, ACH support, images from US Bank lockbox data) to ensure the receivable existed at year end. We tied actual invoice amounts to the B5381 report and INV-PMT, an invoice payment history provided by HCA. See testing performed in the "Small Pop. Substantive Sample" tabs. ***No issues noted.***

Obtain and review a year end receivable reconciliation between Pay1 and AFRS for PEBB/SEBB to ensure amounts reported for ACFR existed.

- We obtained a reconciliation performed by Rita Homan, HCA Deputy Accounting Section Manager, for both PEBB and SEBB to AFRS. See tabs "PEBB Reconciliation" and "SEBB Reconciliation" in each of the testing spreadsheets. HCA used the month end receivable report (B5381) reduced by the following to tie amounts to AFRS:
  - employer prepayments
  - employee receivable report amounts not included in B5381 (from report B5519) and prepayments
  - US Bank Lockbox receipts recorded in AFRS (not in B5381)
- HCA identified the following variances that could not be determined due to lack of supporting reports from PAY1:
  - PEBB - $7,790,474 more reported in PAY1 reports
  - SEBB - $1,664,107 more reported by PAY1 reports

See issue related to HCA's PAY1 reconciliations at [E: HCA_Pay1 Receivables Reconciliation]. The variance is above the floor, we will carry this issue to the aggregation of misstatements [Aggregation of Misstatements (GAAP)].

Substantive tests performed to meet the Valuation assertion:

Testing Procedures:
- Obtain June 2023 month-end receivable report (summary by customer type and detail by participating employer) for both PEBB and SEBB accounts. We will select a sample of accounts to ensure the receivable is properly valued based on automated calculations and any adjustments.
- Obtain and review a year end receivable reconciliation between Pay1 and AFRS for PEBB/SEBB to ensure amounts reported for ACFR are accurate.

Testing Results:
SEBB (Fund 493) [SEBB Due From Other Governments Testing] PEBB (Fund 721) [PEBB Due From Other Governments Testing]

Obtain June 2023 month-end receivable report (summary by customer type and detail by participating employer) for both PEBB and SEBB accounts. We will select a sample of accounts to ensure the receivable is properly valued based on automated calculations and any adjustments.
- We reviewed invoices for June 30, 2023 (invoiced in May) for all selected employers and any subsequent payments for the invoices (warrants, deposit slips, ACH support, images from US Bank lockbox data) to ensure the receivable was accurately valued at year end (reduced by actual payments). We also ensured invoiced amounts were accurate and included balance forward amounts remaining unpaid from prior invoices. We tied our recalculated amount to PAY1 and INV-PMT. See testing performed in the "Small Pop. Substantive Sample" tabs. ***No issues noted.***

Obtain and review a year end receivable reconciliation between Pay1 and AFRS for PEBB/SEBB to ensure amounts reported for ACFR are accurate.
- See details documented as part of the existence assertion above. See issue at [E: HCA_Pay1 Receivables Reconciliation].

Substantive tests performed to meet the Classification assertion:

Testing Procedures:

- Obtain June 2023 month-end receivable report (summary by customer type and detail by participating employer) for both PEBB and SEBB accounts. We will select a sample of accounts to ensure the receivable is classified properly as due from other governments.

Testing Results:
SEBB (Fund 493) [SEBB Due From Other Governments Testing] PEBB (Fund 721) [PEBB Due From Other Governments Testing]
Obtain June 2023 month-end receivable report (summary by customer type and detail by participating employer) for both PEBB and SEBB accounts. We will select a sample of accounts to ensure the receivable is classified properly as due from other governments.

- We reviewed invoices for June 30, 2023 (invoiced in May) for all selected employers and any subsequent payments for the invoices (warrants, deposit slips, ACH support, images from US Bank lockbox data) to ensure the receivable was classified properly as due from other governments. We ensured invoices were processed for actual governments (non-federal) and were for the correct period (expected to be collected within one year). All invoices were for the coverage period of 6/30/2023 for actual governments. See testing performed in the "Small Pop. Substantive Sample" tabs. ***No issues noted.***

F.5.PRG - Receivables

Procedure Step: Summary & Conclusion

Prepared By: BM2, 10/17/2023

Reviewed By: SLB, 10/31/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
The results of substantive tests do not indicate a need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
The quality and quantity of evidence obtained was sufficient and appropriate.

State of Washington

F.5.PRG - Receivables

Procedure Step:	Understanding of Line Item
Prepared By:	BM2, 6/27/2023
Reviewed By:	SLB, 10/31/2023

Record of Work Done:

(1) Prior Audit Exceptions:
No prior audit exceptions. This line item became material last year.

(2) Composition & Change Analysis:
Line Item Leadsheet: [Line Item Lead Sheet].

Receivables were reported in the following funds:

- Fund 721 - Public Employees' and Retirees Insurance Account - For FY22, represented $29.8 million or 30% of the total receivables balance.
  - Per inquiry with HCA, Fund 721 receivables consist of receivables that stem from premiums billed to PEBB self-pay retirees/COBRA. In the prior year, rebate receivables from MODA Health for pharmaceuticals were also reported as a receivable in Fund 721. HCA's contracted actuary, Milliman, provided a memo in February 2023 that changed the reporting or MODA rebate receivables. We do not expect MODA rebate receivables to affect the receivables balance and will not be included in our control understanding or substantive testing.
- Fund 493 - School Employees' Insurance Account - For FY22, represented $70.8 million or 70% of the total receivables balance.
  - Per inquiry with HCA, Fund 493 receivables consist of a SEBB Risk adjustment Transfer and receivables that stem from premiums billed to SEBB self-pay retirees/COBRA. HCA expects the majority of the receivables balance to be a result of the SEBB risk rate adjustment transfer.

(3) Updates to Material Account Matrix:
We determined the following changes were to be made to the Material Account Matrix:

- Remove risks and descriptions related to PEBB rebate receivables

State of Washington

F.5.PRG - Receivables

Procedure Step: Controls - AFRS

Prepared By: BM2, 10/3/2023

Reviewed By: SLB, 10/31/2023

Record of Work Done:

Material Balance(s) and Assertions

Internal controls in AFRS address the following balance(s):

- Receivables

For the following assertions:

- Valuation - There is a risk that: risk adjustments, supporting receivables from managed care plans, may not be supported by amounts determined by actuaries; HCA used actuaries that were not creditable or lacked experience (educational and professional) to determine estimate; assumptions based on unaudited attestations made by HCA were not accurate (i.e. information relied on by Milliman did not reflect actual operations or benefits provided); and claim history information provided to Milliman was not complete (i.e. multiple sources of claims).

Gain an Understanding of Internal Controls

We met with HCA on 5/30/2023 to review controls over accounts receivable for GL 1312. We met with the following HCA staff:

- Rita Homan, HCA Assistant Accounting Section Manager
- Margee Thompson, PEBB/SEBB Accounting Manager
- Michael Williamson, HCA Fiscal Analyst (FA) 4
- Oanh Pham, HCA Fiscal Analyst (FA) 4
- Kari Summerour, HCA Liaison

Background

We noted receivables in GL 1312 were recorded in the following funds:

- Fund 721 - Public Employees' and Retirees Insurance Account
- Fund 493 - School Employees' Insurance Account

Receivables included in these funds were a result of Public Employees Benefit Board (PEBB) and School Employees Benefits Board (SEBB) insurance premiums billed and not yet paid. These billings are recorded 2 different ways depending on the party being billed:

- Active employees - This includes state agency, higher education, and K12 active employees. The employer is billed as part of the invoicing cycle and pays HCA. Since the accounts receivable are due from state/local governments, these amounts are reported in GL 1352, due from other governments. See our understanding of due from other governments at [Due From Other Governments].
- COBRA (Consolidated Omnibus Budget Reconciliation Act) continuing coverage/retirees self-pay - This includes amounts invoiced but not paid from retirees and COBRA participants. These receivables are included GL 1312, accounts receivables, and are the individuals responsibility to pay. These historically represent a small portion of the total receivables balance. We do not expect the COBRA receivables to make up a significant portion of the Receivables balance.

Receivables include significant adjustments in fund 493 to record the SEBB risk rate adjustment. Based on our understanding of the line item at [Understanding of Line Item], we noted a majority of the Receivables balance is expected to be the SEBB risk rate adjustment. In the prior year, the SEBB risk rate adjustment made up 70% of the balance. Without the adjustment related to MODA rebate receivables, the SEBB risk adjustment is expected to represent a larger portion of the receivables balance. As such, we determined focusing our understanding and substantive testing on SEBB risk rate adjustment alone will provide sufficient coverage of the Receivables balance.

SEBB Risk Rate Adjustment Transfer

Rita explained the SEBB risk rate adjustment is done at year end to adjust for the difference from the expected rate used in the plan calculations to the actual rate at year end. Since SEBB is relatively new, she expects this rate adjustment will continue being made for the next few fiscal years. As the plan goes on, Rita expects the differences to be less between expectations and actual. This process is similar to how PEBB was treated when it was first implemented. HCA contracts with Milliman to calculate the final risk adjustment transfer payments for each carrier that is participating in the School Employees Benefits Board (SEBB) health insurance program. The participating carriers in the SEBB program included Uniform Medical Plans (UMP), managed care organizations (MCOs) of Kaiser Permanente of Washington (KPWA), Kaiser Permanente of Washington Options (KPWAO), Kaiser Permanente Northwest (KPNW), and Premera. Milliman does this risk adjustment once a year in August to ensure all activity as of June 30 is included.

SEBB Claims Data

Milliman works with the Employee Retiree Benefits (ERB) Finance division as the main contact within HCA. Per Sara Whitley, ERB Finance Unit Manager, Milliman's calculation for the SEBB risk adjustment transfer uses claims incurred between 1/1/22 and 12/31/22 and paid between 1/1/22 and 3/31/23. Milliman receives raw claims data directly from Regence (UMP) and the fully insured carriers (Kaiser Permanente/Premera) which includes all medical claims data, pharmacy claims data, and membership diagnosis codes for the time period. HCA establishes contracts with each of the insured carriers and requirements related to when and what data is to be provided for the Risk adjustment transfer, as detailed in the contract under the Risk Adjustment Exhibit. The terms related to risk adjustment are standardized for all contracts to ensure processes and data submitted to Milliman is uniform for their processing. On a quarterly basis, ERB will meet with the contracted carriers and discuss general plan management topics. As part of the meetings, the carriers present reports that compare what carriers are submitting to Milliman in relation to raw claims and what the carriers have on record for those amounts.

Once the data is received by Milliman, the data is processed through the Milliman Advanced Risk Adjustment (MARA) software to refresh risk scores used in the calculation of the risk adjustment transfer. Milliman has their own separate analytical procedures to ensure claims data received is accurate, complete, and reasonable. Using historical data available to them, Milliman confirms the following:

- Distribution of claim counts by month for each carrier is relatively reasonable based on expectations. This review looks for possible over or under reporting within a single month for any of the carriers. The expectation is that the number of claims in a month is proportional to the workdays within the month.
- Paid runout is consistent with historical data. This review looks for possible changes in processing patterns that may lead to inconsistent reporting speeds within the data. The expectation is that the processing of runout is consistent with historical observations and that there is neither a buildup or expansion of backlog that may influence the reported data.
- Diagnosis code positions are populated as they would expect. The expectation of diagnosis code positions is based on historical data where consistency of reporting is evaluated based on the count of diagnosis code positions included within the data.
- The number of invalid members or orphaned claims (i.e. claims that cannot be matched with an enrollment record) are limited and in line with historical expectations. The data used in the process of risk adjustment requires that HCA reports the member as eligible for funding, and that the carrier reports diagnosis codes that are matched with the enrollment record. Milliman determines a reasonable match rate based on their experience with other risk adjustment data sets.

Since raw claims data is heavily protected under HIPPA compliance rules, HCA has limited access to data from third party administrators (Regence) and fully insured carriers. HCA relies on Milliman's analysis and review of the raw claims data to ensure information is accurate and complete. HCA's ERB unit also utilizes comparison tools to perform high level reviews of Milliman's raw feed and the information reported in their memos/other deliverables, including the risk adjustment memo. Although HCA cannot perform a review of raw claims data, they have the following processes to ensure reasonableness of data provided to Milliman:

- On a quarterly and annual basis, HCA meets with the carriers to discuss general plan management topics and utilization. The reports supplied during these quarterly meetings are created by the carriers and allow a point of comparison between what the carriers are submitting to Milliman with respect to raw claims, and what the carriers have on record for these amounts.
- Each year during rate development HCA uses the completed “Bid Rate Forms” to verify information supplied to Milliman is generally aligned with carrier inputs of information (to include claims by category of service, trends, actuarial memorandums, etc.).

Adjustment Calculation

The Milliman memo details the amount due from/owed to each carrier. All underlying assumptions, analysis of claims data, and methodology are documented within Milliman's memo related to the Risk Adjustment Transfer. Upon receipt of the Milliman calculation, the ERB Finance team performs a review of the calculation for reasonableness and will follow up on significant changes with Milliman. As the contact within HCA, ERB also meets weekly with Milliman during the preparation of the risk adjustment calculation to ensure the calculations appear reasonable with previous year interim analysis. HCA relies on actuary work performed by Milliman for the calculation of the SEBB Risk Rate Adjustment to ensure SEBB receivables are accurately valued for the ACFR **(Key Controls #1 - Valuation)**.

State of Washington

Year End Adjusting Entry
HCA uses their excel workbook SEBB Risk Adjustment Transfer to track payments receivable and reconcile that information to the Milliman memo. The workbook show receivables outstanding as of year end. The JV at year end for the SEBB Risk Adjustment Transfer is prepared by an FA and reviewed by Rita Homan, Accounting Section Manager, to ensure the entry is accurate and supported by Milliman's calculations **(Key Control #1 - Valuation)**.

How Transactions are Recorded in AFRS:

- SEBB Risk Rate Adjustment Transfer - ERB Accountants prepare a journal voucher to record receivables identified by Milliman at year end.

Key Controls are as follows:

- Key Control #1 (Valuation) - HCA relies on actuary work performed by Milliman for the calculation of the SEBB Risk Rate Adjustment to ensure SEBB receivables are accurately valued for the ACFR. At year end, a Fiscal Analyst from the accounting section prepares the SEBB Risk Adjustment Transfer JV and the Accounting Section Manager reviews the entry to ensure the amount is accurate and supported by Milliman's Calculations.

Noted Weaknesses are as Follows:

- HCA has no documented process in place to review the accuracy of claims data provided to Milliman and relies on Milliman's procedures alone to determine the receivables balance. See issue at [E: HCA Claims Data Accuracy].

F.5.PRG - Receivables

Procedure Step: Key Control 1 (Manual)
Prepared By: BM2, 10/3/2023
Reviewed By: SLB, 10/31/2023

Record of Work Done:

Receivables - Valuation
Key Control #1 (Valuation) - HCA relies on actuary work performed by Milliman for the calculation of the SEBB Risk Rate Adjustment to ensure SEBB receivables are accurately valued for the ACFR. At year end, a Fiscal Analyst from the accounting section prepares the SEBB Risk Adjustment

Transfer JV and the Accounting Section Manager reviews the entry to ensure the amount is accurate and supported by Milliman's Calculations.

The understanding for this system is documented above in the "Controls - AFRS" step.

1. Confirmation of Key Manual Control:

We received JV SAJV1297 from Rita Homan, Accounting Section Manager. We noted it was prepared by Katherine Plaquet, Fiscal Analyst 5, on 8/21/2023 and reviewed/approved by Rita Homan, Accounting Section Manager, on 8/22/2023. We noted the total amount to the risk adjustment accruals was $93,113,867. The entry was broken down into the following:

- Kaiser Foundation Health Plan of WA (KPWA): -$52,373,778
- Kaiser Foundation Health Plan of WA Options (KPWAO): $33,280,109
- Kaiser Foundation Health Plan of the Northwest (KPNW): -$7,429,615
- Premera: -$30,365

We reviewed the HCA prepared workbook "Accounting_SEBB 2022 Net Transfer Payment Tables" and all amounts from the entry tied without exception. The workbook was calculated based on actuarial calculations from Milliman and the entry ties to Milliman calculations without exception. See the Milliman memo dated August 18, 2023 at [Final SEBB 2022 Risk Adjustment Calculation]. To determine if we can rely on the work of Milliman, we performed the rely on specialist step at [Rely on Specialist].

Noted Weaknesses are as follows:

- None.

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

F.5.PRG - Receivables

Procedure Step: Risk Assessment

State of Washington

Prepared By: BM2, 10/3/2023
Reviewed By: SLB, 10/31/2023

Record of Work Done:

(1) Inherent Risk (IR):

Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

- **Valuation -** MAX

(2) Control Risk (CR):

We assessed control risk as follows for each system and relevant assertion:

- **Valuation**

AFRS - MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):

We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

- **Valuation -** MAX

(4) Testing Strategy:

We designed our substantive testing strategy based on our assessment of the risk of material misstatement.

- Obtain June 2022 Risk Adjustment Transfer Memo from Milliman and tie to HCAs workbook and entry to ensure amounts reported to AFRS are supported by actuarial calculation.
- Perform rely on work of others - specialist step (obtained from teamstore) for Milliman to determine the actuary is creditable and experienced to perform the calculation of SEBB Risk Adjustment for receivables.

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

State of Washington

F.5.PRG - Receivables

Procedure Step: Rely on Specialist

Prepared By: BM2, 10/4/2023

Reviewed By: SLB, 10/31/2023

Record of Work Done:

Material Balance(s) and Assertions

Internal controls in AFRS address the following balance(s):

- Receivables

For the following assertions:

- Valuation - There is a risk that: risk adjustments, supporting receivables from managed care plans, may not be supported by amounts determined by actuaries; HCA used actuaries that were not creditable or lacked experience (educational and professional) to determine estimate; assumptions based on unaudited attestations made by HCA were not accurate (i.e. information relied on by Milliman did not reflect actual operations or benefits provided); and claim history information provided to Milliman was not complete (i.e. multiple sources of claims).

See Material Account Matrix at [Interim Planning Material Account Matrix].

Assessment of Competence, Capabilities and Objectivity of Specialist

We assessed the competence, capabilities and objectivity of the specialist, specifically considering factors described in the testing strategy. See Milliman's memo at [Final SEBB 2022 Risk Adjustment Calculation].

Competence

To determine competence, we considered:

- *The education, professional certifications or licenses of the specialist in his or her field, as appropriate.*
- *The reputation and standing of the specialist.*
- *The specialist's experience in the type of work under consideration.*
- *Our Office's experience in using the specialist's work.*

Benjamin J Diederich, FSA, MAAA

Principal and Consulting Actuary
Ben Diederich is a principal and consulting actuary specializing in healthcare consulting in the Seattle office of Milliman. He joined the firm in 2006 with a Bachelor of Science, Mathematics from Oregon State University. See his bio available on the Milliman website here. We noted Mr. Diederich's actuarial experience includes health policy analysis, Medicaid rate setting and actuarial certification, and a variety of activities for public sector employees including value based purchasing through accountable care organizations, budget modeling, procurement, and both portfolio-wide and self-insured plan management functions. Mr. Diederich also performed the SEBB risk adjustment transfer calculation in the prior year.

We confirmed Mr. Diederich's FSA credentials by reviewing the actuary directory on the Society of Actuaries (SOA) website (https://www.soa.org/). We noted he received his FSA in 2006 and MAAA in 1999. We noted he was also listed as compliant (2020-2021 and 2021-2022) for Society of Actuaries continuing attestation status (SOA CPD) attestation. These were the most recent CPD cycles. We also noted his listed primary area of practice and specializations were consulting and health.

Based on review of Mr. Diederich's education, experience, and credentials, we determined he was a competent specialist.

Mike Hamachek, FSA, MAAA
Actuary
Mike Hamachek is an actuary in the Seattle office of Milliman. He is listed on the Milliman website, however, no bio is available. See his contact information available here. We reviewed recent publications which included articles related to health savings accounts, hospital price transparency, and medicare provider payments.

We confirmed Mr. Hamachek FSA credentials by reviewing the actuary directory on the Society of Actuaries (SOA) website (https://www.soa.org/).We noted he received his FSA in 2015 and MAAA in 2013. We noted he was also listed as compliant (2020-2021 and 2021-2022) for Society of Actuaries continuing attestation status (SOA CPD) attestation. These were the most recent CPD cycles. We also noted his listed primary area of practice was health and industry was healthcare: Health Insurance.

Based on review of Mr. Hamachek's experience and credentials, we determined he was a competent specialist.

Edward Kielb, ASA, MAAA
Associate Actuary
Edward Kielb is an associate actuary in the Seattle office of Milliman. He is not listed on the Milliman website.

We confirmed Mr. Kielb's ASA credentials by reviewing the actuary directory on the Society of Actuaries (SOA) website (https://www.soa.org/).We noted he received his ASA in 2020 and MAAA in 2022. We noted he was also listed as compliant (2020-2021 and 2021-2022) for Society of Actuaries continuing attestation status (SOA CPD) attestation. These were the most recent CPD cycles.

Based on review of Mr. Kielb's credentials, we determined he was a competent specialist.

As HCA's contracted external health actuary, SAO has years of experience with Milliman. This includes the calculation of the key figure of Transactions Subsequent to the Measurement Data as part of the State's OPEB Schedules. We performed an additional review of Milliman's competence as part of [S1FinancialManagement-FS23]. Based on past experience with Milliman as a specialist, we consider them competent.

Capability
To determine capability, we considered:

- *Timing of the specialists work*
- *Any significant limitations on the specialist's access to needed information or people*
- *Any significant limitations on the time the specialist was able to devote to the work*
- *Our Office's experience in using the specialist's work,.*

Milliman was contracted with HCA to perform actuary services for HCA. Milliman was in regular contact with HCA, primarily the Employee Retiree Benefits (ERB) Finance department. Sara Whitley, HCA ERB Finance Unit Manager, was a main contact for Milliman and assisted with managing the Milliman contract and deliverables for fiscal year ended June 30, 2022 and 2023. We inquired with Sara regarding any non-compliance with any deliverables, and they were not aware of any. Services were on-going and had deliverables related to the following through a biennium:

- Generation of financial statement estimates (incurred but not paid liability, premium stabilization reserves, restricted fund amounts, etc.),
- Financial record keeping for PEBB operations,
- Future projections and other budgetary information used by HCA, OFM, the governor's office, and the legislature,
- Determination of premiums for employees, retirees, and other index rates (state agency employer contributions), and
- Information shared with various unions and collective bargaining units.

Milliman obtained claim data for all SEBB plans on a regular (daily, weekly, and monthly) basis directly from the following providers:

- Regence (claims processor for all Uniform Medical Plans, HCA's self-insurance health care plan family)
- Kaiser Permanente of Northwest (KPNW)
- Kaiser Permanente of Washington (KPWA)
- Kaiser Permanente of Washington Options (KPWAO)
- Premera Blue Cross

Based on Milliman's relationship with HCA, direct access to claims data, reasonable performance on all contract deliverables, and our experience with Milliman, we determined Milliman was a capable specialist.

Objectivity
To determine objectivity, we considered:

- *Any pressures or incentives on either specialists or management to misstate*
- *Threats to objectivity of the specialist (including self-interest, advocacy, familiarity, self-review or intimidation threats) and any safeguards in place (segregation of duties, lines of reporting, professional standards, formality and consistency of methods and assumptions, retrospective reviews, etc)*
- *Our Office's experience in using the specialist's work.*

We noted Milliman is a nation-wide actuary firm and leader in employee benefits, pensions, and health care. Milliman was not financially dependent on revenue generated from the Health Care Authority.

We inquired regarding the relationship between HCA and Milliman. HCA did not disclose any objectivity concerns.

We noted HCA contracted with Milliman for professional services (actuary and consulting services) in 2007 (contract awarded in 2006). We considered objectivity risks, specifically risks related to familiarity and self-review. Due to the length of HCA's and Milliman's relationship, the evolution of health care, and reliance on financial tools developed by Milliman, we inquired about safeguards. Milliman noted they used firm policies to prevent internal self-review and ensure actuary methods and assumptions were consistent with contract terms, prior years, understanding of HCA operations, and standard actuary methodologies. They also noted collaboration between Milliman offices (Seattle, Boise, and nation-wide) to prevent over familiarity (rotating reviewers). Milliman noted they used nation-wide health care trends in their models to ensure results produced relevant information that was not financially skewed (i.e. future health care costs did not exceed national GDP and were capped at a percent of national GDP). We noted Milliman used their internally developed nation trends. We reviewed descriptions of Milliman's Health Cost Guidelines (HCG) on their website. National trends included the following products: Ages 65 and Over, Commercial, Dental, Grouper, Prescription Drug Rating Manual, and Reinsurance.

Based on our inquiry and review of assumptions, we determined Milliman was an objective as a specialist.

Understanding of Specialist's Work and Conclusions
We gained an understanding of the specialist's procedures and conclusions, including the methods and assumptions used, and noted the following:

Milliman was HCA's external actuary and health care consultants. At the request of HCA, Milliman calculated the final risk adjustment transfer payments for each carrier that is participating in the School Employees Benefits Board (SEBB) health insurance program. The participating carriers in the SEBB program included Uniform Medical Plans (UMP), managed care organizations (MCOs) of Kaiser Permanente of Washington (KPWA), Kaiser Permanente of Washington Options (KPWAO), Kaiser Permanente Northwest (KPNW), and Premera. Milliman does this risk adjustment once a year as a true up after the completion of a plan year. HCA records the risk adjustment as a receivable when Milliman calculates amounts due from the participating carriers. We intend to evaluate and understand Milliman's work in relation to the SEBB risk adjustment to ensure values recorded by HCA are accurate.

Milliman's calculation for the SEBB risk adjustment transfer used claims incurred between 1/1/22 and 12/31/22 and paid between 1/1/22 and 3/31/23 provided by the Managed Care Organizations and enrollment data provided by HCA. For the analysis, Milliman used their own developed tool, the Milliman Advanced Risk Adjusters (MARA). The purpose of the MARA model is to assign each member of the participating MCOs a relative morbidity risk score which is used in the risk adjustment transfer calculations. To calculate the Risk Adjustment Transfer, Milliman performs the following steps:

- First, Milliman establishes the total SEBB revenue for the 2022 plan year.
- Then, Milliman calculates the area and risk adjustment relativities.
- Finally, Milliman ensures that the adjustments are revenue-neutral

For a detailed description of calculations performed, see exhibit A-1 of the August 18, 2023 Milliman Memo, "2022 Final SEBB Risk Adjustment Transfer - FINAL" at [Final SEBB 2022 Risk Adjustment Calculation]. Based on the risk score and area factors, it was determined amounts would be due from KPNW and KPWA. With adjustments from the prior year, Premera was also expected to have amounts due. Milliman concluded the following amounts due to/(from) each carrier:

- KPNW: ($7,429,615)
- KPWA: ($52,373,778)
- KPWAO: $33,280,109
- Premera: $901,860: This amount was affected by an adjustment due to the following:
  - Milliman calculated an update to the final risk adjustment transfer payments for each carrier participating in the 2021 School Employees Benefits Board (SEBB) health insurance program. This update replaced the results published on August 19, 2022. This update was due to revisions of Milliman’s data handling and processing of diagnosis codes and is consistent with changes identified during the carrier review of the draft 2022 Interim YTD SEBB Risk Transfer Report, which was updated on February 1, 2023. There was a data loss in August 2022, that affected the calculation and results of the 2021 SEBB risk adjustment transfer. The updated risk adjustment resulted in a transfer payment due from Premera in the amount of $1.86 million. HCA and Premera agreed that HCA would offset 50% of the adjusted transfer. With the 2022 payable of $901,860, less the 2021 adjustment of $932,225 (50% of 1.86 million), the result is a receivable of $30,365. This is consistent with HCA's journal entry and support. See updated 2021 SEBB risk adjustment transfer at [Updated Final 2021 SEBB Risk Adjustment Transfer].
- UMP: $25,621,425

Evaluation of Specialist’s Work

We considered the following in our evaluation of the work performed by Milliman:

- Relevance and reasonableness of the specialist’s methods and assumptions
- Appropriate tests of source data provided by the entity to the specialist.
- Relevance and reasonableness of the specialist’s conclusions.

- Verifying that the specialist’s conclusions are reflected in the financial statements

We reviewed the prior year SEBB Risk Adjustment Transfer to compare methods and assumptions used and noted the following:

- The transfer amounts continue to be calculated on a concurrent basis, meaning the risk score relativity explains the historical morbidity of the experience period and does not attempt to predict future morbidity.
- Enrollment data and claims data were from the same sources and the same period.
- Risk models used/databases used to refresh risk scores are the same, if not, similar.

We also inquired with Sara Whitley, HCA ERB Finance Unit Manager, about their processes for evaluating source data provided to the specialist and Milliman's work and conclusions. She noted the following:

- HCA (Specifically the Employee Retiree Benefits unit) and Milliman have a “Weekly Milliman Check-in” meeting that includes a discussion and review of Milliman deliverables, discussion of general program management topics, etc. At these meetings, Milliman will generally review documents with HCA ERB and the underlying conclusions, including the risk adjustment memo.
- Following these meetings, ERB then reads and reviews the memos, comparing the final calculations to previous interim analyses and follows up on any changes.
- HCA does not have access to the risk adjustment tool or underlying raw data to do an audit of the analysis but they do check the memo for general misrepresentations of information, reasonableness and ensures the underlying results are to be expected given their understanding of the data and detailed description of methodology.

We noted HCA's lack of review of source data as a control weakness. We would expect HCA to ensure source data provided by the entity to the specialist to be tested or reviewed to ensure calculations are based on accurate information.
See issue at [E: HCA Claims Data Accuracy].

We determined the specialist's methods and assumptions to be relevant and reasonable based on the review above.

To determine if Milliman's calculations were accurately reflected in the financial statements, we reviewed the journal entry made by HCA. See the entry made at [SEBB Risk Adjustment Transfer Testing]. We verified all amounts posted were supported by Milliman's memo.

We will include the following additional representation as part of the management representation letter [FS Letter of Representation]:

- We adequately considered the qualifications of Milliman and agree with conclusions regarding:
  - Health Insurance Fund - Receivables
  - Health Insurance Fund - Claims and Judgments Payable

F.5.PRG - Receivables

Procedure Step: Substantive Test
Prepared By: BM2, 10/17/2023
Reviewed By: SLB, 10/31/2023

Record of Work Done:

Substantive tests performed to meet the Valuation assertion:

Testing Procedures:

- We obtained the June 2022 Risk Adjustment Transfer Memo from Milliman and tied to HCAs workbook and entry to ensure amounts reported to AFRS are supported by actuarial calculation.
- We performed the rely on work of others - specialist step (obtained from teamstore) for Milliman to determine the actuary is creditable and experienced to perform the calculation of SEBB Risk Adjustment for receivables.

Testing Results:

- The SEBB fund 493 covers 99.58% of the total receivables balance based on our breakdown in the lead sheet [Line Item Lead Sheet]. We noted that the SEBB Risk Adjustment Transfer alone makes up 99.56% of the SEBB fund 493 Receivables balance. See [SEBB Risk Adjustment Transfer Testing]. We considered this review to provide sufficient coverage of the total receivables balance reported in the health insurance fund. ***No issues noted.***
- We obtained the Milliman Memo for the June 2022 Risk Adjustment Transfer [Final SEBB 2022 Risk Adjustment Calculation] and the Updated 2021 Risk Adjustment Transfer [Updated Final 2021 SEBB Risk Adjustment Transfer] from Sara Whitley, Employee Retiree Benefits Finance Unit Manager. We obtained HCA's year end journal entry, SAJV1297, from Rita Homan, HCA Assistant Accounting Section Manager. We tied amounts directly from HCA's year end entry for each carrier to Milliman's calculation without exception. All reported receivable amounts from carriers were supported by Milliman calculation. See review at [SEBB Risk Adjustment Transfer Testing]. ***No issues noted.***
- We performed a review of specialist work by Milliman to ensure we could rely on their work as part of substantive testing. Based on our review of the specialist's competence, capability, objectivity, and our understanding/evaluation of specialist's work and conclusions, we determined we can rely on Milliman's work. See [Rely on Specialist]. ***No issues noted.***

F.6.PRG - Accounts Payable

Procedure Step: Summary & Conclusion
Prepared By: DRR, 10/23/2023
Reviewed By: SLB, 10/31/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
We noted no issues in our substantive tests. We determined we did not need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
The quality and quantity of evidence obtained was sufficient and appropriate.

F.6.PRG - Accounts Payable

Procedure Step: Understanding of Line Item
Prepared By: DRR, 9/27/2023
Reviewed By: SLB, 10/31/2023

Record of Work Done:

(1) Prior Audit Exceptions:
None

(2) Composition & Change Analysis:
Line Item Leadsheet: [Line Item Lead Sheet].

This line item is the total of all GL 5111 balances in the PEBB and SEBB program funds, including administrative funds for the programs. Activity in this line item is for June or prior services (related to the Premiums and Claims line item) that will be paid after fiscal year end (typically in July or August).

ACFR Database
We performed an analysis to review the composition of this ACFR line item. Total Accounts Payable (GL_Sort Code = JA) for FY23 at HCA were $(97,229,682.51), see [Line Item Lead Sheet] for details.

We analyzed the payable amounts in the line item lead sheet and identified funds 493 (SEBB) and 721 (PEBB) as the significant funds for this line item. We also noted that the FY23 fund percentage compositions were in line with FY22 with the exception of funds 493 and 721 which each had changes of approximately 22 percent. Fund 493 decreased from the prior year by 22.36 percent and fund 721 increased by 22.24 percent.

We noted that this balance has doubled from the prior year. Per Rita Homan, Deputy Accounting Section Manager, this is due to the timing of payments and the cut-off period. There were payments to Regence and Delta Dental that would normally be paid prior to the cut-off that had to be accrued.

(3) Updates to Material Account Matrix:
We made the following updates to the material account matrix:

- Updated the "What Could Go Wrong?" column of the material account matrix to state: "There is a risk that accounts payable is not correctly calculated.
- Updated the "Account Description" column to include: "This balance consists of PEBB/SEBB premiums and claims services that occurred in June or prior that will be paid after fiscal year end."

F.6.PRG - Accounts Payable

Procedure Step:	Controls - AFRS
Prepared By:	DRR, 10/5/2023
Reviewed By:	SLB, 10/31/2023

Record of Work Done:

Material Balance and Assertions

Internal controls in the AFRS address the following balance(s):

- Accounts Payable

For the following assertions:

- Valuation - There is a risk that accounts payable is not correctly calculated.

Gain an Understanding of Internal Controls

We met with Rita Homan, Deputy Accounting Section Manager, and Katherine Plaquet, Fiscal Analyst 5, on September 20, 2023 to gain an understanding of the controls over Accounts Payable.

Every month, HCA receives invoices from third party administrators (MODA, Regence, and Delta Dental) which are placed in a shared accounts payable inbox. A Fiscal Analyst 3 or 4 will review the invoices and run a report from the claims SQL database for the specific date range. If the report and invoice amounts do not tie, the Fiscal Analyst and IT department work together to determine the error. When the claims detail and invoice tie, the Fiscal Analyst prepares the A19, and the SQL claims report to support the payment accrual. The Fiscal Analyst enters the transaction into AFRS and uploads documentation (A19, SQL claims report, invoice) into WebAX (HCA's digital documentation system) for review. A Fiscal Analyst 5 or Accounting Manager will review and release the transaction in AFRS. The Fiscal Analyst 5 or Accounting Manager reviews the transaction to ensure they are supported by appropriate documentation, and that coding and amounts are accurate**.**

At the end of every month, a Fiscal Analyst performs GL 5111 reconciliation for many of the funds associated with this GL. Reconciliations are performed on funds 418, 439, 492, 493, 494, and 721 as these are the funds with the most activity. The dental admin funds (438 and 475) only have one payment each month and are not reconciled with an official reconciliation document. The Fiscal Analysts perform the reconciliations using an "Outstanding Balance Detail" report to ensure that the vendors being paid are expected, transactions are properly clearing the GL, and transactions are coded (transaction code 736 - record accounts/vouchers payable) and valued correctly. Once complete, they will email the reconciliation to a Fiscal Analyst 5 or Accounting Manager for secondary review to ensure the the accounts payable balance is valued correctly **(Key Control #1 - Valuation)**.

How Transactions are Recorded in AFRS:

- The Fiscal Analyst enters the transaction into AFRS and uploads data into WebAX. A Fiscal Analyst 5 or the Accounting Manager review and release the transactions in AFRS.

Key Controls are as Follows:

- **Key Control #1 - (Valuation - Manual)** - At the end of every month, a Fiscal Analyst performs the GL 5111 reconciliations using an "Outstanding Balance Detail" report to ensure that the vendors being paid are expected, transactions are properly clearing the GL, and transactions are coded and valued correctly. Once complete, the Fiscal Analyst will email the reconciliation to a Fiscal Analyst 5 or Accounting Manager for secondary review to ensure the accounts payable balance is valued correctly.

Noted Weaknesses are as Follows:

- None

F.6.PRG - Accounts Payable

Procedure Step:	Key Control #1 (Manual)
Prepared By:	DRR, 10/5/2023
Reviewed By:	SLB, 10/31/2023

Record of Work Done:

Accounts Payable - Valuation (Manual)

Key Control #1 - At the end of every month, a Fiscal Analyst performs the GL 5111 reconciliations using an "Outstanding Balance Detail" report to ensure that the vendors being paid are expected, transactions are properly clearing the GL, and transactions are coded and valued correctly. Once complete, the Fiscal Analyst will email the reconciliation to a Fiscal Analyst 5 or Accounting Manager for secondary review to ensure the accounts payable balance is valued correctly.

The understanding for this system is documented above in the "Controls - AFRS" step.

1. Confirmation of Key Manual Control:

Rita Homan, Deputy Accounting Section Manager, and Katherine Plaquet, Fiscal Analyst 5, provided the fund 493 (SEBB) and fund 721 (PEBB) fiscal month 25 reconciliations, and the final GL 5111 break down spreadsheet for FY23.

PEBB - We reviewed the FM25 GL 5111 reconciliation for fund 721 and noted that the reconciliation was created by Michael Williamson, Fiscal Analyst, on 7/31/2023 and was reviewed and approved by Katherine Plaquet, Fiscal Analyst 5, on 7/31/2023. We also reviewed excel spreadsheet "721 - 5111 - Outstanding balance detail as of June 2023 FM25 closing" which detailed the amount owed to each vendor, the transaction code used, and the total amount payable for fund 721 as of 6/30/2023. We noted that transaction code 736 was used for each of these transactions with the exception of $885.86 that used transaction code 970R which are refunds to claimants. The final balance of ($36,415,063.18) on the reconciliation ties to the final fund 721 GL break down for FY23 spreadsheet and the outstanding balance detail spreadsheet without exception.

SEBB - We reviewed the FM25 GL 5111 reconciliation for fund 493 and noted that the reconciliation was created by Dawn Weatherbie, Fiscal Analyst, on 8/25/2023 and was reviewed and approved by Katherine Plaquet, Fiscal Analyst 5, on 8/25/2023. We also reviewed excel spreadsheet "493 - 5111 - Outstanding balance detail as of June 2023 FM25 closing" which detailed the amount owed to each vendor, the transaction code used, and the total amount payable for fund 493 as of 6/30/2023. We noted that transaction code 736 was used for each of these transactions which matches our expectations. The final balance of ($52,187,259.07) on the reconciliation ties to the final fund 493 GL break down for FY23 spreadsheet and the outstanding balance detail spreadsheet with no exceptions.

Noted Weaknesses are as follows:

- None

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

F.6.PRG - Accounts Payable

Procedure Step: Risk Assessment

Prepared By: DRR, 9/27/2023

Reviewed By: SLB, 10/31/2023

Record of Work Done:

(1) Inherent Risk (IR):

Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

- Valuation – MAX

(2) Control Risk (CR):
We assessed control risk as follows for each system and relevant assertion:

- **AFRS - Valuation – MAX** - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

- Valuation – MAX

(4) Testing Strategy:
We designed our substantive testing strategy based on our assessment of the risk of material misstatement.

- **Valuation -** We will use the sampling spreadsheet to determine our sample size. We will test year-end accruals (FM 24 and 25) to ensure that the valuation of the accrual is properly supported (invoice amount).

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

F.6.PRG - Accounts Payable

Procedure Step:	Substantive Test
Prepared By:	DRR, 10/30/2023
Reviewed By:	SLB, 10/31/2023

Record of Work Done:

Substantive tests performed to meet the Valuation assertion:

Testing Procedures:

We filtered GL5111 data to only include transaction code 736, funds 493 and 721, and FM 24 and 25. We used the filtered data and the sampling spreadsheet (tolerable misstatement 7.5% and assurance set to high) to get our sample. We tested year-end accruals (FM 24 and 25) to ensure that the valuation of the accrual was properly supported by a vendor invoice. We tested our sample for the following attributes:

- Does the recorded payable tie to the invoice from the vendor?
- Is the recorded payable valued correctly?

Testing Results: [Accounts Payable Testing]. We tested this balance for the valuation assertion with no exceptions noted.

G.2.PRG - Capital Outlays

Procedure Step: Summary & Conclusion

Prepared By: JLE, 10/30/2023

Reviewed By: SLB, 11/15/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?

The results of substantive tests do not indicate a need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?

The quality and quantity of evidence obtained was sufficient and appropriate.

G.2.PRG - Capital Outlays

State of Washington

Procedure Step: Understanding of Line Item
Prepared By: JLE, 5/31/2023
Reviewed By: SLB, 11/15/2023

Record of Work Done:

(1) Prior Audit Exceptions:
There were no prior audit exceptions noted for FY22.

(2) Composition & Change Analysis:
Capital Outlays Line Item Leadsheet: [Capital Outlay Line Item Lead Sheet].

Through inquiry with Jesse Daniels, Audit Liaison, we determined that there were no significant changes to the composition of the account balance; activities and transactions were comparable to prior years.

DOT considers capital outlays to be costs to construct and/or improve the highway system and acquire land, buildings, and equipment. Transportation expenditures are the costs of regular maintenance on highways, bridges, and railroads.

Capital Outlays
We analyzed the outlay amounts at the line item lead sheet and identified the following SubObjects that make up the majority of the balance:

- Highway Construction (SubObject JG) - 74%
- Architectural & Engineering (Subobject JK) - 15%

We analyzed the expenditure amounts at the line item lead sheet for subobject JG and identified the following funds that make up the majority of the balance:

Account	Fund Description	Sum of 2022	Percent of Total
09H	Transportation Partnership Account	$ 64,598,129	5%
108	Motor Vehicle Account	$ 415,448,988	33%
20H	Connecting Washington Account	$ 533,770,351	42%

Overall, we identified no unusual or unexpected elements that may indicate unidentified areas of risk for either capital outlays or transportation expenditures.

(3) Updates to Material Account Matrix:
We removed DOTTIME as a Significant Account System in the Material Account Matrix. DOTTIME is not relevant or significant to the classification assertion.

G.2.PRG - Capital Outlays

Procedure Step:	Controls - CPMS & TRAINS
Prepared By:	JLE, 6/14/2023
Reviewed By:	SLB, 11/17/2023

Record of Work Done:

Material Balance(s) and Assertion(s) [Interim Planning Material Account Matrix**]**
Internal controls in the Capital Program Management System (CPMS) and the Transportation Reporting and Accounting Information System (TRAINS) address the following balance(s):
- Capital Outlays
- Transportation Expenditures

For the following assertion(s):
Classification - There is a risk that transportation expenditures meet capitalization policies and should have been reported as capital outlays. Based on prior audit history, there is a risk DOT does not perform sufficient research to evaluate expenditures which may represent improvements to the state's highway system.

Gain an Understanding of Internal Controls
On 4/27/23, we met with Tim Rydholm (Deputy Director, CPDM), Beth DeVaul (Transportation Financial Consultant, AFS), Kim Amrine (CAPS Specialist 2), and Jesse Daniels (Audit Liaison).
On 5/26/23, we met with Tim Rydholm (Deputy Director, CPDM), and Rob Charbenneau (Program Manager, CPDM).
On 6/5/23, we met with Suzi Freelund (Manager of Accounting and Reporting, AFS), Beth DeVaul (Transportation Financial Consultant, AFS), and Jesse Daniels (Audit Liaison).
On 6/8/23, we met with Debi Diamond (Transportation Engineer 4), Tim Rydholm (Deputy Director, CPDM), and Jesse Daniels (Audit Liaison).

All meetings were to discuss internal controls relating to capital outlays and transportation expenditures.

The significant systems used are as follows:
1. CPMS is a project management system, which contains information relating to all DOT projects (including capital projects). The system specifies how each project is budgeted relative to the overall transportation budget.
2. TRAINS is DOT's accounting system. TRAINS is responsible for communicating with AFRS.

Project Classification Coding
The first step in the classification decision process is when a project is initiated into CPMS. For each project, regional offices are responsible for writing proposals and assigning classification codes prior to a project being initiated into the CPMS system. The classification codes always include three components: program, sub-program, and improvement type code (ITC). Each project is also assigned a unique program item number (PIN). For example - A paving preservation project, such as asphalt crack sealing, would be coded as follows: P, P1, FC. This indicates program 'P' (preservation), sub-program 'P1' (pavements), and ITC 'FC' (asphalt crack sealing).

The Capital Projects Development Management Office (CPDM) is responsible for overseeing all scoping and classification code decisions for DOT projects. CPDM has provided its staff with written guidance to assist in understanding and assigning classification coding: the 'CPMS Users' Guide', and 'Highway Scoping Instructions'. The following information is provided from these documents:

- I - Highway Improvements
  Program Objective: relieve congestion, improve safety, support economic development, and retrofit existing facilities for environmental reasons.
  SubPrograms:
    - I1 Mobility - improve mobility within congested highway corridors (considered legislatively-directed)
    - I2 Safety - improve vehicular and pedestrian safety (focus on crash reduction, e.g., rumble strip installation, breakaway cable terminal retrofits, high friction surface treatment, etc.)
    - I3 Economic Initiative - reduce delay of freight movement, target improvements to support international trade and emergent economic development, provide integrated traveler services and tourism support
    - I4 Environmental Retrofit - reduce existing environment al impacts
    - I5 Program Support - e.g., administrative labor
    - I6 Sound Transit - non defined, for funding in partnership with Central Puget Sound Regional Transit Authority
    - I7 Tacoma Narrows - non specific, private firm partnership improving mobility in SR 16 Tacoma Narrows Bridge corridor

- P - Highway Preservation
  Program Objectives: preserve the highway infrastructure for protection of public investment.

SubPrograms:
- P1 Roadways - repave highways, restore existing safety features
- P2 Structures - rehabilitate/replace existing bridges, reduce risk of naturally caused catastrophic bridge failure
- P3 Other Facilities - stabilize unstable slopes; construct weigh facilities; rehabilitate existing drainage structures, electrical, electronic, and mechanical systems to preserve traveler safety and operational service
- P4 Program Support - e.g., administrative labor

- Q - Traffic Operations
  Program Objectives: relieve congestion and improve safety.

- W - Ferries
  Program Objectives: preserve terminal & vessel construction

- Y - Rail
  Program Objectives: preserve passenger & freight rail services

- Z - Local Agencies
  Note that projects coded as 'Z' are not included within CPMS, as these are projects which are performed by DOT on behalf of local governments/agencies, for which DOT is reimbursed.

To help ensure consistency, the Highway Scoping Instructions also specify the standards for CPMS entries for typical projects. For example, a Standalone Stormwater Retrofit has the following standard CMPS entry:
- - Sub-Program: I4
- - Sub-Category: IK
- - Improvement Type Code: P2

Once regional offices assign classification codes, the CPDM office reviews and determines if they agree with the coding for the scope of the project. CPDM considers whether the coding aligns with past practices and current scoping instruction standards. Staff at CPDM receive a Project Summary, and complete a 'Project Summary Review Checklist' during their review **(Key Control 1).** One of the questions included on the checklist asks "Is ITC correct?". This review, in certain ways, can be a somewhat subjective process. There are times that an uncommon or new project is not defined within written guidance, and so a new coding decision must be made based on collaboration between regional offices and CPDM. Additionally, if a project contains mixed elements, such as improvements and preservation, the project is not split up. The project will fall entirely within one type of program and sub-program.

In addition to the above-mentioned coding procedures, CPDM will also classify certain workorders as either 'XL', 'RW', or 'MS'. They are defined by the WSDOT Chart of Accounts (Chapter 2), below as follows:

- XL - Preliminary Engineering
  Per the WSDOT Design Manual (M.22-01.22) "preliminary engineering, also known as the project design phase, begins after a project is scoped. Once the Basis of Design has been completed and approved along with an updated estimate, the pre-design phase is concluded, and the design phase begins." According to the Chart of Accounts, these job numbers are used to accumulate costs for compiling information, production of preliminary estimate designs, right of way and access plans, conducting hearings (for city-county access), final right of way an design details, quantities, construction plans, and other costs incidental to the design of a highway project.

- RW - Right of Way
  These job numbers are used to accumulate costs for activities such as the review of appraisals, preparation of title information, negotiation for acquisition of highway right of way, preparation and trial for condemnation cases, acquisition, management of acquired properties, furnishing of relocation advisory assistance, and any necessary related labor expense such as mapping and recording.

- MS - Miscellaneous
  These workorders are for miscellaneous services performed by DOT which cannot be specifically classified in some other job.

We found that it is AFS policy to automatically expense all workorders which are classified as XL, RW, or MS. SAO notes that according to GASB No. 34, and SAAM 30.20.10.c, ancillary costs are defined as "normal or necessary costs required to place the asset in its intended location and condition for use", and are to be included in the valuation of a capital asset. Although not all of the above-identified project classifications necessarily represent ancillary costs, there is the possibility that these types of activities do represent such costs and should be included as a capital outlay. For FY23, there were $72,685,039 associated with these coding classification types **(See issue 1 in conclusion)**.

<u>The Capitalization Matrix</u>
The Matrix is a type of lookup table which lists every possible combination of sub-program and ITC, as described above. The majority of capitalization decisions are currently made based on information in the Matrix spreadsheet. Columns in the capitalization matrix spreadsheet are as follows:

- Subprogram and ITC Combination
- SubProgram
- SubProgram Title
- ITC
- ITC Description
- Definition
- AFS Decision to Capitalize (Based on combination of sub-program and ITC) - Yes/No
- Capacity/Efficiency Decision Change Reasoning

Although the Yes/No capitalization decision column is labeled as an Accounting and Financial Services (AFS) decision, our internal control meetings have indicated that additions to this spreadsheet are performed by Tim Rydholm (Deputy Director) at CPDM. The Matrix contains notes from individuals that no longer hold key positions; therefore, the Matrix capitalization decisions for common and frequent projects may have been initially made by the AFS department. However, current practices assign CPDM responsibility for maintaining the Matrix and making new spreadsheet project additions. This was confirmed to us by Tim Rydholm (CPDM).

Suzi Freelund (AFS) asserted - both verbally at our meeting, and via email on 6/20/2023 - that Debi Diamond (CPDM) maintains the Matrix. Suzi explained that if AFS has any questions regarding Matrix information, or if a new project emerges which is not currently within the Matrix, then they would communicate with Debi to gain an understanding of scope and make an accurate capitalization decision. It is AFS' understanding that Debi then makes relevant additions to the Matrix. This is also supported by AFS Procedure CA-7-001, which states "If there are any items not on the current Capitalization Matrix, send the list of new items to CPDM (Debi Diamond) to research and add to Capitalization Matrix."

We scheduled a meeting with Debi Diamond (CPDM) on 6/8/2023, and learned that Debi is only listed as a contact person at CPDM. She does not have knowledge of the Matrix, CPDM project scope, or GASB accounting criteria as asserted by AFS. Debi's only role is to forward email communication to Tim Rydholm, who then researches and adds information to the Matrix. AFS is not actively communicating with Tim regarding new project additions or questions about Matrix information, rather, they are more passively forwarding information. This is considered a weakness in internal controls because as a non-accountant, Tim does not have the appropriate knowledge of GASB criteria to be making capitalization decisions. During our meeting on 5/26/2023, we specifically asked Tim what criteria relating to capitalization he considers when assigning classification codes to DOT projects. He stated that additions to capacity, such as additional lanes, are considered. We asked if improvements to efficiency are considered, and he answered no. New additions to information in the Matrix are primarily determined by Tim's understanding of relevant legislature and budgetary considerations **(See issue 2 in conclusion)**.

How Transactions are Recorded in AFRS

Once classification coding is reviewed and approved by CPDM, AFS reviews all projects which are entered into CPMS. AFS will review to ensure that each project has a PIN number, and they also review that the capitalization decision adheres to information in the Matrix. It's important to note that this level of review by AFS does not determine whether classification codes were correctly assigned, or whether Matrix information is accurate. The review only ensures that the project and the Matrix are in alignment.

After a project has been reviewed and approved, the CAPS staff within AFS will enter the project into the CAPS system (*CAPS is the system responsible for capturing payments made on DOT projects and not considered to be significant for the classification assertion. It is a 'pass through' system responsible for communicating with TRAINS*). As a project progresses, payment estimates are entered at the regional level, and CAPS automatically releases payments to TRAINS via an overnight automatic interface.

TRAINS automatically records all payments within AFRS as transportation expenditures via nightly upload, regardless of the capitalization decision for each project. To correct for this, Beth DeVaul (AFS) performs a quarterly adjustment, in a process called 'Updating the IPQZ Worksheet', according to instructions in Procedure CA-7-001, 'Highway Infrastructure Classification' **(Key Control 2)**. First, a query is ran to identify TRAINS expenditures which would potentially be eligible as capital outlays, based on sub-program type. This data is pulled into an Excel pivot table. Next, in a new column, Beth writes a lookup formula which combines sub-program and ITC, finds that combination on the Capitalization Matrix, and inserts the corresponding 'Yes' or 'No' from the Matrix into the pivot table. The pivot table also tracks whether coding combinations were capitalized in prior years.

Procedure CA-7-001 instructs that the spreadsheet should then be forwarded to the Account & Reporting Manager and Assistant Manager for verification of capitalization. The Procedure does not specify how the Managers are to verify capitalization, or how to indicate the verification has been completed. From conversation and documentation provided by AFS, it appears that verification or further research is not performed for every item **(See issue 3 in conclusion)**. The only costs which appear to be further researched are those which are new, which are not listed on the Matrix, or situations where Matrix information and prior-year classification treatment is contradictory. Therefore, the primary drivers of ultimate classification for each item are historical capitalization treatment, and information provided by the Capitalization Matrix. For example, if an item was not capitalized in prior years, and the Matrix returned a 'No' to the capitalization column for that coding combination, then AFS would not capitalize the item in the current year. This indirectly places the responsibility of the capitalization decision on CPDM staff, who are responsible for maintaining the Matrix.

We also noted that Procedure CA-7-001 does not fully detail important steps such as: how questioned costs are researched, how prior-quarter outstanding questioned costs are tracked, and how Excel formulas are validated. Additionally, GASB specifies that if a project increases capacity or efficiency, then "the portion of costs associated with the increased capacity or efficiency should be estimated and capitalized". However, the Procedure only states "If capacity is added that results in original infrastructure being removed, replaced, or altered, then costs are split between preservation/maintenance and capitalizable costs". The Procedure does not specify that costs should also be split if a project contains both preservation/maintenance and efficiency elements; and as detailed above under 'The Capitalization Matrix' header, CPDM does not split costs for mixed element projects when assigning classification coding **(See issue 4 in conclusion).**

<u>Key Controls are as Follows:</u>
Key Control 1 (Manual). CPDM reviews all project classification codes utilizing a Project Summary Review checklist, ensuring that projects were correctly coded according to guidance in the 'CPMS Users Guide' and 'Highway Scoping Instructions'.

Key Control 2 (Manual). On a quarterly basis, the AFS Transportation Financial Consultant prepares a JV adjustment according to Procedure CA-7-001, in order to adjust the transportation expenditure balance in AFRS for the amounts which should have been recorded as capital outlays.

<u>Noted Issues are as Follows:</u>
- **See issue in conclusion above.**

G.2.PRG - Capital Outlays

Procedure Step: Key Control #1 (Manual)
Prepared By: JLE, 6/14/2023
Reviewed By: SLB, 11/15/2023

Record of Work Done:

Transportation Expenditures - Classification
Key Control 1 - CPMS (Manual)
CPDM reviews all project classification codes utilizing a Project Summary Review checklist, ensuring that projects were correctly coded according to guidance in the 'CPMS Users' Guide' and 'Highway Scoping Instructions'.

The understanding for this system is documented in the "Controls - CPMS & TRAINS" step.

1. Confirmation of Key Manual Control:
We obtained the Project Summary and Project Summary Review Checklist from Tim Rydholm, for a project relating to US 395/Loon Lake. This project had SubProgram I2, ITC *1, and PIN number 639519D. The project was approved at the regional level on 12/22/22, and received CPDM Headquarters approval on 3/10/23.

According to the CPMS Users' Guide, Program I is for highway improvements, such as congestion relief and safety improvements. Also, according to the CPMS Users' Guide, SubProgram I2 is for safety projects - those that improve vehicular and pedestrian safety. Finally, according to the 'Highway Scoping Instructions', I2 is for crash reduction projects.

According to the Improvement Type Code Table spreadsheet, ITC *1 is for projects which create a single lane roundabout.

The Project Summary described the project as "conversion of a 4-leg stop controlled intersection to compact roundabout." The description also detailed how this intersection had been the site of five or more fatal and/or injury crashes in the last five years, and that the intersection experienced enter-at-angle type crashes. This appears to be in line with a highway improvement safety project, the nature of which is creating a single lane roundabout, for crash reduction, as described above.

We were able to see that D. Biering completed the Summary Review Checklist on 3/2/22, and that he agreed with the determination that the ITC code of *1 was correct. Based on our understanding of ITC *1 and the US395/Loon Lake project, this is a reasonable determination. No issues noted.

Noted Weaknesses are as follows:
- None.

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

G.2.PRG - Capital Outlays

Procedure Step:	Key Control #2 (Manual)
Prepared By:	JLE, 7/28/2023
Reviewed By:	SLB, 11/17/2023

Record of Work Done:

Transportation Expenditures - Classification
Key Control 2 - TRAINS
On a quarterly basis, the AFS Transportation Financial Consultant prepares a JV adjustment according to Procedure CA-7-001, in order to adjust the transportation expenditure balance in AFRS for the amounts which should have been recorded as capital outlays.

The understanding for this system is documented above in the "Controls - CPMS & TRAINS" step.

1. Confirmation of Key Manual Control
We obtained the Infrastructure Capitalization Adjustment JV prepared by Beth DeVaul (Transportation Financial Consultant) on 2/24/2023 for combined Quarters 1 and 2.

We noted that the 'Backup' tab of the excel workbook appeared to contain a pivot table created in accordance with instructions in Procedure CA-7-001. The spreadsheet contained the following columns:

- SubProg PIN
- Sum of Amount
- Capitalized in FY22? - Y/N
- Capitalization Matrix? - Y/N
- Capitalize in Q1-2 FY23? - Y/N
- Reason for Capitalizing or Not (new additions)

For total costs of $821,385,183.92:
$139,285,388.86 of costs were capitalized for Q1 and 2.
$518,698,714.57 of costs were not capitalized.
$163,401,080.49 of costs are marked as 'research' and were not capitalized.

During our review, we noted one example where Project P2!T100021NMS8711 returned 'Yes' per the Capitalization Matrix column, however, AFS notations indicate that the project was *not* on the Capitalization Matrix. Suzi explained that this was an error, where the 'Yes' value was typed over the Excel formula which should have been in the cell. Suzi asserted that prior to the final JV adjustment, AFS validates the formula in this column to make sure there are no cells where the formula has been written-over. Ultimately, the project was not capitalized because it related to a tunnel lighting replacement.

We were able to see that Robert Sirghie (Accounting & Reporting Assistant Manager) approved the batch to be released on 2/24/2023.

Noted Weaknesses are as follows:

- We have not been able to view evidence that AFS is performing adequate reviews of project scope prior to making the ultimate capitalization decision; in that AFS does not appear to review costs for which a capitalization decision has already been determined per the Capitalization Matrix. Coding decisions are made by CPDM, and the Capitalization Matrix is maintained by Tim Rydholm at CPDM. By not reviewing these costs, AFS is indirectly placing responsibility for making accounting decisions on CPDM staff, who do not have adequate accounting knowledge to be making capitalization decisions.

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

<u>3. Control Risk at LOW - Test Key Manual Control</u>
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

<u>G.2.PRG - Capital Outlays</u>

Procedure Step: Risk Assessment
Prepared By: JLE, 6/14/2023
Reviewed By: SLB, 11/15/2023

Record of Work Done:

<u>(1) Inherent Risk (IR):</u>
Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

- **Classification – MAX**

<u>(2) Control Risk (CR):</u>
We assessed control risk as follows for each system and relevant assertion:

- **CPMS – Classification**
- **TRAINS – Classification**

MAX - We noted <u>no matters</u> involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

<u>(3) Risk of Material Misstatement (RMM):</u>
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

- **Classification – MAX**

<u>(4) Testing Strategy:</u>

We designed our substantive testing strategy based on our assessment of the risk of material misstatement. Our testing strategy is documented below.

We will request the FY23 Infrastructure Capitalization Decisions workbook, which lists all infrastructure-related expenditures and is used to determine whether transactions will be expensed or capitalized. Using the Infrastructure Capitalization Decisions Workbook, we will reconcile the total expenditures made per the workbook to the AFRS JV, to consider the completeness of the population.

Using the TeamStore sampling spreadsheet, we will randomly select transactions from the population for overall testing coverage, and as a supplement, we will judgmentally select additional risk-based transactions. For each selected transaction, we will request the project summary, project definition, and work order, reviewing for: the scope of work, intended purpose, consistency with prior AFS capitalization decisions, and if the project increases capacity or efficiency per GASB and AFS Procedure CA-7-001, to determine if we agree with the classification decision made by AFS.

We anticipate that these tests will provide sufficient, appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

G.2.PRG - Capital Outlays

Procedure Step: Substantive Test
Prepared By: JLE, 10/30/2023
Reviewed By: SLB, 11/15/2023

Record of Work Done:

Substantive tests performed to meet the Classification assertion:

Testing Procedures

We compared the AFRS Capital Outlays balance for FY23 to FY22, noting no significant changes to balance composition from the prior year. See work at: [Capital Outlay Line Item Lead Sheet]. We noted infrastructure expenditures make up about 47% of the Capital Outlays Balance, see [Reconciliation - Population Completeness] for details. All other expenditures within the Capital Outlays balance are for furniture and equipment, land, buildings, and relocation costs. The risk identified in planning is specific to capital outlays for the state's highway system. As such, we will focus our testing only on infrastructure related expenditures.

We requested the FY23 Infrastructure Capitalization Decisions workbook from Suzi Freelund (AFS Accounting Manager) to use as a testing population. This workbook lists all infrastructure related expenditures for the fiscal year, and is used by AFS to determine whether transactions will be expensed or capitalized. We performed a high-level analysis of the project SubProg-ITC coding combinations found in this workbook, and the Capitalization Matrix. We noted that there were inconsistencies between historical and current year practices. For example, there were several instances where a coding combination which had been used in prior years changed its sub-program, but retained its exact same ITC, ITC description, and project definition. For example: I1*C to I2*C, which adds channelization to at-risk intersections, was changed from a Mobility Improvement sub-program to a Safety Improvement sub-program. AFS had, in prior years, capitalized this type of work when it was coded as a Mobility Improvement, but expensed it when it was coded as a Safety Improvement.

As found during our control understanding, TRAINS automatically captures all recorded project outlays as transportation expenditures within AFRS; the capitalized costs are then adjusted out of the balance via a quarterly adjusting JV made by AFS. To consider population completeness, we reconciled the total amount of expenditures identified as capital outlays per the Capitalization Decisions workbook to backup documentation of the quarterly AFRS adjusting JVs, to ensure that classification decisions per the workbook were accurately reflected within the reported AFRS balances. We noted a variance of $156,700,053, in which Quarter 3 identified capital outlays were not properly adjusted out of the transportation expenditures balance. This issue was corrected by Beth DeVaul on 8/4/23, with no further issues noted. Based upon our reconciliation of transaction-level detail to AFRS adjusting JVs, we consider the population to be complete. See work at: [Reconciliation - Population Completeness].

Using the TeamStore sampling spreadsheet, we randomly selected 24 transactions to test from our population of expenditures which were capitalized during FY23. Given the risk identified in our control understanding and our high-level analysis of the Capitalization Matrix, we judgmentally selected 4 key items for additional assurance, for a total of 28 testing transactions. Our additional 4 selections were made based on SubProgITC coding combinations we considered to be particularly risk prone, based on inconsistencies between historical and current year AFS capitalization decisions, as noted in our analysis of the Capitalization Matrix. We did not include any additional selections for our risk identified regarding the classification of XL, RW, and MS workorders, as theses were already represented in our randomly-selected sample.
For each selected transaction, we requested the project summary, project definition, and work order, reviewing for: the scope of work, intended purpose, consistency with prior AFS capitalization decisions, and if the project increases capacity or efficiency per GASB No. 34 and AFS Procedure CA-7-001, to determine if we agree with the classification decision made by AFS. See testing performed at: [Capital Outlay Testing]

Testing Results
During testing we noted one immaterial exception from our sampled selections, totaling $34,107, where expenditures were misclassified as a capital outlay. There were no exceptions noted from our additional, risk-based selections. The testing exception rate was 4.2%, which is beneath our tolerable misstatement rate of 7.5%. Known and likely misstatements from our 24 sampled items was $314,365, which is beneath the floor for the aggregate remaining funds opinion unit.

G.3.PRG - Tax Collections For Other Governments

Procedure Step: Summary & Conclusion
Prepared By: BFW, 10/17/2023
Reviewed By: SLB, 10/18/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
The results of substantive tests do not indicate a need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
The quality and quantity of evidence obtained was sufficient and appropriate.

G.3.PRG - Tax Collections For Other Governments

Procedure Step: Understanding of Line Item
Prepared By: BFW, 5/9/2023
Reviewed By: RKM, 5/15/2023

Record of Work Done:

(1) Prior Audit Exceptions:
No exceptions noted in the prior audit.

(2) Composition & Change Analysis:
Line Item Leadsheet: [Line Item Lead Sheet].

State of Washington

The Tax Collections for Other Governments is a summary of all taxes collected on behalf of local governments by DOR. These taxes are then distributed to local governments (counties, cities, transportation authorities, public facilities districts) based on the collection amount on a monthly basis. The revenue is recorded as miscellaneous revenues as custodial funds and are not considered funds of the state since they are held until distributed to the local governments. See [Controls - ATLAS] for our understanding of Payments of Taxes to Other Governments.
The Tax Collections for Other Governments is made up of the following taxes:

- Fund 034 - Local Sales and Use Tax - State share (6.5% per statute) and Add-on (decided by city and county)
- Fund 01T - Local Leasehold Excise Tax
- Fund 16C - Real Estate and Property Tax Administration Assistance
- Fund 17A - County Enhanced 911 Excise Tax
- Fund 768 - Local Real Estate Excise Tax (REET)
- Fund 797 - Local Tourism Promotion Tax

On May 8, 2023, we met with Tax Account Administration (TAA) and Business and Financial Services to discuss any changes to the transactions and process in relation to the prior year. For fiscal year 2023, Business and Financial Services (B&FS) makes quarterly adjustments manually in AFRS until automated entries can be implemented in Automated Tax and Licensing Administration System (ATLAS). This quarterly adjustment process is similar to prior years. Per inquiry with B&FS staff, we also noted the composition of the balance remains the same as the prior year.

Upon review of the line item lead sheet for FY22 balances, we noted 98% of the balance is collections for fund 034, local sales and use tax. We expect the FY23 balance to remain similar based on our discussion with the agency. Therefore, we will focus our control understanding and testing on the local sales and use tax portion of the balance.

(3) Updates to Material Account Matrix:
No updates to the Material Account Matrix is needed.

G.3.PRG - Tax Collections For Other Governments

Procedure Step:	Controls - ATLAS
Prepared By:	BFW, 5/9/2023
Reviewed By:	RKM, 5/23/2023

Record of Work Done:

State of Washington

Internal controls in the Automated Tax and Licensing Administration System (ATLAS) address the following balance(s):

- **Tax Collections for Other Governments -** Custodial Fund

For the following assertions:

- **Classification -** There is a risk that revenues are incorrectly classified as local when they were actually state taxes.
- **Valuation -** There is a risk that taxes were incorrectly valued (wrong tax rate).
- **Completeness -** There is a risk that not all taxes collected on behalf of local governments have been identified.

Gain an Understanding of Internal Controls
We met with Ayano Faasumalie, Revenue and Financial Reporting Coordinator, Jason Hartwell, Tax Administration Manager, Courtney Tornquist, Systems Specialist, on May 8, 2023 to discuss controls related to the Tax Collections for Other Governments.

Local Tax Rates
Counties, cities, and local tax codes have the authority to assess local taxes in addition to the state's regular 6.5% sales and use tax (note – use tax is the same rate as sales tax, taxpayers would pay this when purchasing a television in Oregon for example). These taxes are regulated by ordinances or resolutions set by the local governments. Each jurisdiction has a collection agreement on file with DOR that includes the administration fee charged (if applicable) and how refunds and redistributions are handled. When a jurisdiction passes a resolution or ordinance to collect a new tax, they must provide DOR with written notification, a copy of certified election results and a copy of the ordinance or resolution. The jurisdiction must provide the documentation at least 75 days before the effective date (January 1, April 1, and July 1). Taxpayer Account Administration (TAA) has an Excise Tax Examiner (ETE) on the local tax team that will monitor and review election result documentation quarterly to verify if any new taxes or rates have passed.

Local Tax Rate Testing in ATLAS
The process for updating the local tax (LT) rates is:
1. An LT manager receives documentation from a jurisdiction indicating they have passed a resolution/ordinance. Once the documents are review/verified, the manager puts the changes on a spreadsheet and emails that spreadsheet to the LT system specialist.
2. In a test environment, a programmer updates rate tables as necessary. This environment is verified by reviewing the rates in the Automated Tax and Licensing Administration System (ATLAS) and from various ad hoc reports. Then the changes are moved to the production environment.
3. A programmer will then make system application changes in the test environments. The LT system specialist file test batches (tax returns) for this environment and ensures that they post and calculate properly. ATLAS is then verified for proper accumulation and distribution. Then the application changes are moved to the production environment.

The LT system specialist conducts testing in production to ensure accumulation and distribution amounts are accurate and only local tax codes are included prior to distribution to jurisdictions. TAA will also verify local tax calculations using the new rates on a monthly basis. Money is not distributed to local governments by OST until TAA verifies the data in ATLAS **(Key Control 1 - Valuation/Classification - Manual)**.

Distributions usually occur the following month after tax returns are due. This allows TAA to work through any identified issues.

Calculation of Local Sales and Use Tax

Businesses are assigned a location code in ATLAS. The location codes feed back to the jurisdiction for tax collection and local taxes accumulate to the reported locations based on the taxes imposed in each jurisdiction. Filers are required to submit Excise Tax returns where local tax data is captured in ATLAS. The Combined Excise Tax Return form requires businesses input a location name and location code when reporting local sales tax collected. Based on the information input by the taxpayer, ATLAS captures the total taxes collected and sums it up by the type of local tax by location code **(Key Control 2 - Valuation - Automated)**. Local sales and use tax are calculated and recorded within ATLAS similar to the other types of tax revenues reviewed at [Controls - ATLAS]. If a return is filed with a wrong location code or any errors, the return will error out in the system and will not be recorded until it is manually reviewed and resolved by a TAA examiner. The error will go into a work queue task that is pulled and reviewed by the examiners. If corrections are required, they will make the adjustment and save it in the system.

Local Sales and Use Tax are not the State's and are only collected and distributed by DOR on behalf of the local jurisdictions. When a taxpayer submits a payment, DOR initially uses ATLAS to record the amount in the Suspense Account within the Office of the State Treasurer (OST). The money is held in trust and redistributed monthly by OST. When the payment is applied to the tax return, ATLAS generates a JV to record a "Due to Other Funds" (Short-Term) in AFRS. On the last day of the month DOR enters a JV to reclassify the amount to be distributed by OST as "Due to Other Governments" (MC).

How transactions are recorded in AFRS - Gross Receipts Accrual and Adjusting Entries

The local sales and use tax collected for FY23 are recorded in two different ways depending on the timing of expected distribution:

- For amounts collected but not distributed at year end to local distributions, they are recorded as due to other governments manually in the year end gross receipts accrual entry.
- For amounts collected and distributed during the year, they are recorded using adjusting entries from Business and Financial Services (B&FS) on a quarterly basis.

Gross Receipts Accrual

For monthly filers, Excise Tax returns for June activity are due July 25th. For quarterly filers the tax returns for the 4th fiscal quarter (April, May, and June) are due July 31st. At June 30th, tax has been collected by businesses (taxpayers), from their customers, for sales occurring during the month of June; however, they are not required to file their tax returns and turn over the amount collected on their June sales until July 25th, when the June tax return is due. The Due to Other Governments portion is the amount collected by the tax payer for their location (i.e. city) and then sent to DOR when the taxpayer files and remits their monthly taxes (state and local). After year end, an AFRS entry is made to recognize these revenues and due to other governments in the proper accounting period (current year under audit). This is because at June 30th these revenues will not have been recorded (as received or as a receivable) due to Excise Tax returns not being received by year-end.

In August, B&FS runs a report (B9901FI1Y Gross Receipts Accrual Report) in ATLAS to pull data of June excise tax returns and the 4th fiscal quarter (April, May, and June) returns received from July 1st to August 15th. The Department estimates that 90 to 96% of the June returns and the 4th fiscal quarter (April, May, and June) returns are received by the time the report is run and therefore included on the report. Using this report, an AFRS entry is made to show the June returns received as a June 30th receivable and accrued revenue. The accrued revenue is an estimated amount of tax returns that will be paid within 12 months of the fiscal year end**.**

Adjusting Entries

We spoke with Ayano Faasumalie, Revenue and Financial Reporting Coordinator, to discuss the process for recording all tax collections and distributions for FY 2023. Due to guidance received from OFM in the prior year, DOR changed their reporting of local sales and use tax starting in FY21. This change resulted in all collections and distributions of taxes being recorded as additions and deductions in the Fiduciary Statement of Net Position. ATLAS already prepares monthly journal entries to record excise tax receivable, accrued revenue, and unavailable revenue. After ATLAS creates JVs, B&FS has 6 business days to review the JVs before it is transmitted to AFRS. The receivable and revenue calculations are then reversed out for the beginning of the next month. At the end of each month, Revenue Accounting will also prepare a monthly JV to record the distributions of taxes. Revenue Accounting will retrieve a report from the Treasury Management System (TM$) that shows how much OST distributed to local jurisdictions. Based on this report, a JV is recorded in ATLAS to match the distribution from TM$. If the JV does not match with the OST reports, the transaction will show up on DOR's unbalanced in-process report.

Using the monthly JVs created by Revenue Accounting and the ATLAS automated JVs, the Revenue and Financial Reporting Coordinator prepares an adjusting entry to record all collections and distributions for each quarter. The Revenue and Financial Reporting Coordinator runs a Webi report for all data included in GL 5152 (Due To Other Governments) for the quarter to determine the amounts to be reported as collections (GL 3205) and distributions (GL 6505). She separates the Webi query into different excel tabs based on funds. For each fund and subsidiary account, she further separates the amounts into the following:

- Collection for Distribution
    - From the prior quarter to be distributed in the current
    - From the current quarter to be distributed in the current
- Distributions
- Collection for Future Distribution

The amounts are summarized in the quarterly Activities Summary by Fund spreadsheet and highlighted to track exactly where the figures came from. Based on the summary, the Revenue and Financial Reporting Coordinator prepares the journal voucher to record collections and distributions. The final JV is reviewed and approved by Binh Vu, Accounting Manager, to ensure all collections and distributions are recorded for the quarter **(Key Control 3 - Completeness - Manual).**

Key controls are as follows:

- **Key Control 1 - Valuation/Classification - Manual -** The LT system specialist conducts testing in production to ensure accumulation and distribution amounts are accurate and only local tax codes are included prior to distribution to jurisdictions. TAA will also verify local tax calculations using the new rates on a monthly basis. Money is not distributed to local governments by OST until TAA verifies the data in ATLAS.

- **Key Control 2 - Valuation - Automated -** Based on the location code entered by the tax filer, ATLAS calculates the local sales and use taxes due.
- **Key Control 3 - Completeness - Manual -** The Revenue and Financial Reporting Coordinator prepares an adjusting entry to record all collections and distributions for each quarter. The final JV is reviewed and approved by the Accounting Manager to ensure all collections and distributions are recorded for the year and match.

Noted Weaknesses are as follows:

- None

G.3.PRG - Tax Collections For Other Governments

Procedure Step: Key Control 1 (Manual)

Prepared By: BFW, 5/9/2023

Reviewed By: RKM, 5/23/2023

Record of Work Done:

Key Control 1 Valuation/Classification - Manual - The LT system specialist conducts testing in production to ensure accumulation and distribution amounts are accurate and only local tax codes are included prior to distribution to jurisdictions. TAA will also verify local tax calculations using the new rates on a monthly basis. Money is not distributed to local governments by OST until TAA verifies the data in ATLAS.

The understanding for this system is documented above in the "Controls - ATLAS" step.

1. Confirmation of Key Manual Control:

We spoke with Jason Hartwell, Tax Administration Manager for Local Tax, and Courtney Tornquist, System Specialist, about reconciliations performed on a monthly basis to ensure local tax accumulated per jurisdiction are accurate. Jason explained that Courtney performs the quarterly tax rate change testing as well as the monthly production testing. Courtney stated the monthly production testing is done on a sample basis to verify the accumulations are accurate before OST distributes the funds back to the local jurisdictions. During the monthly testing, she will also include jurisdictions that had recent changes. She provided the March 2023 production testing. The March testing included the following jurisdictions:

- 6 Clark
- 13 Grant
- 28 San Juan
- 34 Thurston

Each county selected for testing has its own individual tab and data feeds into the summary table where recalculations are compared to accumulation amounts from ATLAS. Any variances not attributed to rounding are investigated and corrected if needed. We noted the system specialist identified a few variances between ATLAS and the recalculated accumulation. The largest variances were reconciled and were identified as variances due to the payment timing of rural state shared tax. We reviewed the reconciliation and noted the variances were reduced to reasonable differences (no more than 0.5% of variance for any jurisdiction). ***No issues noted.***

Noted Weaknesses are as follows:

- None.

2. Preliminary Control Risk Assessment

Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test of Key Manual Control:

Not applicable - we are not planning to rely on controls and therefore do not need to test controls; control risk will be assessed at maximum.

G.3.PRG - Tax Collections For Other Governments

Procedure Step:	Key Control 2 (Automated)
Prepared By:	BFW, 10/17/2023
Reviewed By:	SLB, 10/17/2023

State of Washington

Record of Work Done:

Key Control 2 Valuation - Automated - Based on the location code entered by the tax filer, ATLAS calculates the local sales and use taxes due.

The understanding for this system is documented above in the "Controls - ATLAS" step.

<u>1. Confirmation and Testing of Key Automated Control:</u>
We confirmed this control in the step for Retail Sales and Use and B&O taxes, which can be seen here:[<u>Key Control 2 (Automated)</u>] Additionally, we obtained tax return information from ATLAS for a sample of taxpayers that paid local sales and use taxes during FY23 and re-performed the tax calculations. See testing at [<u>Local Tax Collection Distribution Testing - CONFIDENTIAL</u>], see tabs "IT Control Testing - Valuation" and "7+ Tax Rates Calculation". **No issues noted.**

Noted Weaknesses are as follows:

- none

<u>2. Preliminary Control Risk Assessment</u>
Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX- We noted <u>no matters</u> involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

<u>3. Control Risk at LOW – Test General Controls:</u>
Not applicable - we are not planning to rely on automated controls and therefore do not need to test general controls; control risk will be assessed at maximum.

<u>G.3.PRG - Tax Collections For Other Governments</u>

Procedure Step: Key Control 3 (Manual)

Prepared By: BFW, 8/2/2023

State of Washington

Reviewed By: RKM, 8/4/2023

Record of Work Done:

Key Control 3 Completeness - Manual - The Revenue and Financial Reporting Coordinator prepares an adjusting entry to record all collections and distributions for each quarter. The final JV is reviewed and approved by the Accounting Manager to ensure all collections and distributions are recorded for the year and match.

The understanding for this system is documented above in the "Controls - ATLAS" step.

1. Confirmation and Testing of Key Manual Control:
Ayano Faasuamalie, Revenue and Financial Reporting Coordinator, provided the FY23 quarter 1 adjusting entry and support.

Quarterly Adjusting Entry Review
We obtained AFRS journal voucher (Current Document Number 14030765). We noted the explanation of the entry was "To record additions and deductions for Fund 01T, 034, 16C, 17A, 768, 797 for Qtr 1, FY 2023 (July - September, 2022)." Per the line item lead sheet, we noted the majority of the balance is included in fund 034, Local Sales and Use Tax, which is where we focused our control review and testing. We noted the total amount of local sales and use tax collected account for $2,488,305,054.77. The collection amounts are based on the monthly JV entries automatically created by ATLAS. We agreed the amounts reported in the JV to a summary of all monthly JVs in quarter 1 from ATLAS. The total collection of local sales and use tax that was distributed in 2023 totaled to $2,488,305,054.77. Amounts tie without exception. The JV was prepared by Ayano Faasuamalie, Revenue and Financial Reporting Coordinator, on October 25, 2022 and reviewed by Binh Vu, Accounting Manager, on October 25, 2022. *No issues noted.*

Noted Weaknesses are as follows:

- None

2. Preliminary Control Risk Assessment
Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX- We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW – Test of Key Manual Control:

State of Washington

Not applicable - we are not planning to rely on automated controls and therefore do not need to test general controls; control risk will be assessed at maximum.

G.3.PRG - Tax Collections For Other Governments

Procedure Step: Risk Assessment
Prepared By: BFW, 5/31/2023
Reviewed By: RKM, 9/27/2023

Record of Work Done:

(1) Inherent Risk (IR):
Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

Classification - MAX

Completeness - MAX

Valuation - MAX

(2) Control Risk (CR):
We assessed control risk as follows for each system and relevant assertion:

Automated Tax and Licensing Administration System (ATLAS) -

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

Classification - MAX

Completeness - MAX

Valuation - MAX

(4) Testing Strategy:

We designed our substantive testing strategy based on our assessment of the risk of material misstatement.

Classification - We will review automated ATLAS calculations for a sample of registered taxpayers and ensure amounts included in Tax Collections for Other Governments are based on local tax rates and are not state tax rates. We will review quarterly JVs to ensure amounts reported as collections/distributions for other governments are only local taxes.

Completeness - We will use the same sample of registered taxpayers as above, review ATLAS for a filed return, and trace revenue to the accumulation GL within ATLAS and to AFRS. We will also review quarterly JVs to ensure monthly automated accumulations within ATLAS were included in the JV.

Valuation - We will recalculate taxes paid for the same sample of registered taxpayers as above, to ensure taxes are recorded at proper values. We will also review quarterly collection/distribution JVs to ensure that collections and distributions match and are recorded at accurate values.

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

G.3.PRG - Tax Collections For Other Governments

Procedure Step: Substantive Test

Prepared By: BFW, 10/17/2023

Reviewed By: SLB, 10/18/2023

Record of Work Done:

Tax Collections for Other Governments Testing Coverage

We reviewed the line item leadsheet [Line Item Lead Sheet] and noted Fund 034 - Local Sales & Use Tax accounts for 98.14% of all tax collections for other governments. We determined focusing our testing on Fund 034 collections would provide sufficient coverage over the balance to meet the relevant assertions. See testing details below.

*For all assertions below, we used the same sample of 39 taxpayers.

Substantive tests performed to meet the Completeness assertion:
We obtained a list of all active taxpayers that paid local sales and use taxes as of 6/30/2023 and randomly selected a sample of 39 taxpayers for various periods to ensure the return was accurately filed and posted to AFRS. Jason Hartwell, Tax Administration Manager, provided a screenshot of all taxpayers' tax returns entered in ATLAS as well as their payment of the calculated taxes. We reviewed the return for the selected taxpayers in ATLAS to ensure a return was filed and payments were received for the entire amount recorded in the return. See testing performed at [Local Tax Collection Distribution Testing - CONFIDENTIAL]. **No issues noted.**

During our testing of retail, sales, use, and B&O taxes at [Accrual JV Testing], we also ensured the amount recorded in AFRS for local sales and use tax that was to be distributed in the next 12 months was complete based on gross receipts by taxpayer. This covers the portion of local tax that was collected for FY23 but not distributed to local governments based on the timing of filing returns ($672,619,943.06). We noted there was no difference between the supporting documentation and the amount posted in AFRS.

Business and Financial Services makes an adjusting entry to record local tax collections as tax collections for other governments and tax payments to other governments to comply with GASB 84 regulations on a quarterly basis. When payments for local taxes are collected, ATLAS automatically accumulates revenues to the appropriate fund and GL in a monthly JV. The quarterly collection/distribution JVs includes the monthly accumulation JV activity and moves 5152 - Due to Other Governments to the revenues and expenditures GL (32XX and 65XX). We reviewed each quarter's adjusting JV to ensure:

- All automated ATLAS JVs are recorded and in the proper period
- Quarterly JV amounts only include local taxes
- Collections and Distributions for each month match

We noted the quarterly JVs were complete based on the testing above. See testing at [Quarterly Collection Distribution JVs]. ***No issues noted.***

Substantive tests performed to meet the Valuation assertion:
Using the same randomly selected sample of 39 taxpayers, as mentioned above, we recalculated taxes paid based on local tax rates to ensure that revenues related to local sales and use tax were valued at proper amounts. Jason Hartwell, Tax Administration Manager, provided a screenshot of all selected taxpayers' tax returns entered in ATLAS. We obtained the local sales and use tax rates for each selected period from the DOR website. Based on the taxable amount in the tax returns, we recalculated the collected local sales and use tax. Any differences noted were small rounding errors. We determined all selected local sales and use tax collections/distributions were reported at properly valued and calculated amounts. See testing performed at [Local Tax Collection Distribution Testing - CONFIDENTIAL]. ***No issues noted.***

Substantive tests performed to meet the Classification assertion:

Using the same randomly selected sample of 39 taxpayers, as mentioned above, we tested to ensure that collections/distributions were based on local tax rates and were not related to state tax revenues. Jason Hartwell, Tax Administration Manager, provided a screenshot of all selected taxpayers' tax returns entered in ATLAS. We obtained the local sales and use tax rates for each selected period from the DOR website. We reviewed the ATLAS tax return and tied all tax rates used in the calculation of the local tax due to the sales and use tax rates from the DOR website. All tax rates used in the calculation were the appropriate rate and relevant to local tax. We determined all selected taxpayers were properly categorized and reported. See testing performed at [Local Tax Collection Distribution Testing - CONFIDENTIAL]. ***No issues noted.***

Business and Financial Services makes an adjusting entry to record local tax collections as tax collections for other governments and tax payments to other governments to comply with GASB 84 regulations on a quarterly basis. When payments for local taxes are collected, ATLAS automatically accumulates revenues to the appropriate fund and GL in a monthly JV. The quarterly collection/distribution JVs includes the monthly accumulation JV activity and moves 5152 - Due to Other Governments to the revenues and expenditures GL (32XX and 65XX). We reviewed each quarter's adjusting JV to ensure:

Quarterly JV amounts only include local taxes

We noted the quarterly JVs were classified appropriately based on the testing above. See testing at [Quarterly Collection Distribution JVs]. ***No issues noted.***

G.4.PRG - Payments of Taxes to Other Governments

Procedure Step:	Summary & Conclusion
Prepared By:	BFW, 10/17/2023
Reviewed By:	SLB, 10/18/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
The results of substantive tests do not indicate a need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?

State of Washington

The quality and quantity of evidence obtained was sufficient and appropriate.

G.4.PRG - Payments of Taxes to Other Governments

Procedure Step:	Understanding of Line Item
Prepared By:	BFW, 5/9/2023
Reviewed By:	SLB, 10/17/2023

Record of Work Done:

(1) Prior Audit Exceptions:
No exceptions noted in the prior audit.

(2) Composition & Change Analysis:
Line Item Leadsheet: [Line Item Lead Sheet].

The Payment of Taxes to Other Governments is a summary of all taxes collected by DOR and distributed back to local governments. Based on the Collection of Taxes for Other Governments (See understanding at [Controls - ATLAS]), these taxes are distributed to local governments (counties, cities, transportation authorities, public facilities districts) on a monthly basis. The expense is recorded in custodial funds for State ACFR purposes since they are not state funds but are held by the state.
The Payment of Taxes to Other Governments is made up of the following taxes:

- Fund 034 - Local Sales and Use Tax - State share (6.5% per statute) and Add-on (decided by city and county)
- Fund 01T - Local Leasehold Excise Tax
- Fund 16C - Real Estate and Property Tax Administration Assistance
- Fund 17A - County Enhanced 911 Excise Tax
- Fund 768 - Local Real Estate Excise Tax (REET)
- Fund 797 - Local Tourism Promotion Tax

On May 8, 2023, we met with Tax Account Administration (TAA) and Business and Financial Services to discuss any changes to the transactions and process in relation to the prior year. For fiscal year 2023, Business and Financial Services (B&FS) makes quarterly adjustments manually in AFRS until automated entries can be implemented in Automated Tax and Licensing Administration System (ATLAS). This quarterly adjustment process is similar to prior years. Per inquiry with B&FS staff, we also noted the composition of the balance remains the same as the prior year.

No significant changes were noted.

Upon review of the line item lead sheet for FY22 balances, we noted 98% of the balance is payments for fund 034, local sales and use tax. We expect the FY23 balance to remain similar based on our discussion with the agency. Therefore, we will focus our control understanding and testing on the local sales and use tax portion of the balance.

(3) Updates to Material Account Matrix:
No updates to the Material Account Matrix is needed.

G.4.PRG - Payments of Taxes to Other Governments

Procedure Step:	Controls - ATLAS
Prepared By:	BFW, 5/9/2023
Reviewed By:	SLB, 10/17/2023

Record of Work Done:

Internal controls in the Automated Tax and Licensing Administration System (ATLAS) address the following balance(s):

Payments of Taxes to Other Governments - Custodial Fund

For the following assertions:

Classification - There is a risk that Local tax payments to other governments were actually state taxes.

Valuation - There is a risk that Tax payments were incorrectly valued (wrong tax rate).

Completeness - There is a risk that Not all taxes collected on behalf of local governments have been identified and distributed to those governments.

Gain an Understanding of Internal Controls

State of Washington

We met with Ayano Faasumalie, Revenue and Financial Reporting Coordinator, on May 8, 2023 to discuss controls related to the Payments of Taxes to Other Governments.

Local Tax Rates

Counties, cities, and local tax codes have the authority to assess local taxes in addition to the state's regular 6.5% sales and use tax (note – use tax is the same rate as sales tax, taxpayers would pay this when purchasing a television in Oregon for example). These taxes are regulated by ordinances or resolutions set by the local governments. Each jurisdiction has a collection agreement on file with DOR that includes the administration fee charged (if applicable) and how refunds and redistributions are handled. When a jurisdiction passes a resolution or ordinance to collect a new tax, they must provide DOR with written notification, a copy of certified election results and a copy of the ordinance or resolution. The jurisdiction must provide the documentation at least 75 days before the effective date (January 1, April 1, and July 1). Taxpayer Account Administration (TAA) has an Excise Tax Examiner (ETE) on the local tax team that will monitor and review election result documentation quarterly to verify if any new taxes or rates have passed.

Local Tax Rate Testing in ATLAS

The process for updating the local tax rates is:

1. An LT manager receives documentation from a jurisdiction indicating they have passed a resolution/ordinance. Once the documents are review/verified, the manager puts the changes on a spreadsheet and emails that spreadsheet to the LT system specialist.
2. In a test environment, a programmer updates rate tables as necessary. This environment is verified by reviewing the rates in the Automated Tax and Licensing Administration System (ATLAS) and from various ad hoc reports. Then the changes are moved to the production environment.
3. A programmer will then make system application changes in the test environments. The LT system specialist file test batches (tax returns) for this environment and ensures that they post and calculate properly. ATLAS is then verified for proper accumulation and distribution. Then the application changes are moved to the production environment.

The LT system specialist conducts testing in production to ensure accumulation and distribution amounts are accurate and only local tax codes are included prior to distribution to jurisdictions. TAA will also verify local tax calculations using the new rates on a monthly basis. Money is not distributed to local governments by OST until TAA verifies the data in ATLAS **(Key Control 1 - Valuation/Classification - Manual)**. Distributions usually occur the following month after tax returns are due. This allows TAA to work through any identified issues.

Calculation of Local Sales and Use Tax

Businesses are assigned a location code in ATLAS. The location codes feed back to the jurisdiction for tax collection and local taxes accumulate to the reported locations based on the taxes imposed in each jurisdiction. Filers are required to submit Excise Tax returns where local tax data is captured in ATLAS. The Combined Excise Tax Return form requires businesses input a location name and location code when reporting local sales tax collected. Based on the information input by the taxpayer, ATLAS captures the total taxes collected and sums it up by the type of local tax by location code **(Key Control 2 - Valuation - Automated)**. Local sales and use tax are calculated and recorded within ATLAS similar to the other types of tax revenues reviewed at [Controls - ATLAS]. If a return is filed with a wrong location code or any errors, the return will error out in the system and will not be recorded until it is manually reviewed and resolved by a TAA examiner. The error will go into a work queue task that is pulled and reviewed by the examiners. If corrections are required, they will make the adjustment and save it in the system.

Local Sales and Use Tax are not the State's and are only collected and distributed by DOR on behalf of the local jurisdictions. When a taxpayer submits a payment, DOR initially uses ATLAS (Automated Tax and Licensing Administration System) to record the amount in the Suspense Account within the Office of the State Treasurer (OST). The money is held in trust and redistributed monthly by OST. When the payment is applied to the tax return, ATLAS generates a JV to record a "Due to Other Funds" (Short-Term) in AFRS. On the last day of the month DOR enters a JV to reclassify the amount to be distributed by OST as "Due to Other Governments" (MC).

How transactions are recorded in AFRS - Gross Receipts Accrual and Adjusting Entries

The local sales and use tax collected for FY23 are recorded in two different ways depending on the timing of expected distribution:

For amounts collected but not distributed at year end to local distributions, they are recorded as due to other governments manually in the year end gross receipts accrual entry.

For amounts collected and distributed during the year, they are recorded using adjusting entries from Business and Financial Services (B&FS) on a quarterly basis.

Gross Receipts Accrual

For monthly filers, Excise Tax returns for June activity are due July 25th. For quarterly filers the tax returns for the 4th fiscal quarter (April, May, and June) are due July 31st. At June 30th, tax has been collected by businesses (taxpayers), from their customers, for sales occurring during the month of June; however, they are not required to file their tax returns and turn over the amount collected on their June sales until July 25th, when the June tax return is due. The Due to Other Governments portion is the amount collected by the tax payer for their location (i.e. city) and then sent to DOR when the taxpayer files and remits their monthly taxes (state and local). After year end, an AFRS entry is made to recognize these revenues and due to other governments in the proper accounting period (current year under audit). This is because at June 30th these revenues will not have been recorded (as received or as a receivable) due to Excise Tax returns not being received by year-end.

In August, B&FS runs a report (B9901FI1Y Gross Receipts Accrual Report) in ATLAS to pull data of June excise tax returns and the 4th fiscal quarter (April, May, and June) returns received from July 1st to August 15th. The Department estimates that 90 to 96% of the June returns and the 4th fiscal quarter (April, May, and June) returns are received by the time the report is run and therefore included on the report. Using this report, an AFRS entry is made to show the June returns received as a June 30th receivable and accrued revenue. The accrued revenue is an estimated amount of tax returns that will be paid within 12 months of the fiscal year end.

Adjusting Entries

We spoke with Ayano Faasumalie, Revenue and Financial Reporting Coordinator, to discuss the process for recording all tax collections and distributions for FY 2023. Due to guidance received from OFM in the prior year, DOR changed their reporting of local sales and use tax starting in FY21. This change resulted in all collections and distributions of taxes being recorded as additions and deductions in the Fiduciary Statement of

Net Position. ATLAS already prepares monthly journal entries to record excise tax receivable, accrued revenue, and unavailable revenue. After ATLAS creates JVs, B&FS has 6 business days to review the JVs before it is transmitted to AFRS. The receivable and revenue calculations are then reversed out for the beginning of the next month. At the end of each month, Revenue Accounting will also prepare a monthly JV to record the distributions of taxes. Revenue Accounting will retrieve a report from the Treasury Management System (TM$) that shows how much OST distributed to local jurisdictions. Based on this report, a JV is recorded in ATLAS to match the distribution from TM$. If the JV does not match with the OST reports, the transaction will show up on DOR's unbalanced in-process report.

Using the monthly JVs created by Revenue Accounting and the ATLAS automated JVs, the Revenue and Financial Reporting Coordinator prepares an adjusting entry to record all collections and distributions for each quarter. The Revenue and Financial Reporting Coordinator runs a Webi report for all data included in GL 5152 (Due To Other Governments) for the quarter to determine the amounts to be reported as collections (GL 3205) and distributions (GL 6505). She separates the Webi query into different excel tabs based on funds. For each fund and subsidiary account, she further separates the amounts into the following:

- Collection for Distribution
  - From the prior quarter to be distributed in the current
  - From the current quarter to be distributed in the current
- Distributions
- Collection for Future Distribution

The amounts are summarized in the quarterly Activities Summary by Fund spreadsheet and highlighted to track exactly where the figures came from. Based on the summary, Ayano prepares the journal voucher to record collections and distributions. The final JV is reviewed and approved by Binh Vu, Accounting Manager, to ensure all collections and distributions are recorded for the quarter **(Key Control 3 - Completeness - Manual).**

Key controls are as follows:

Key Control 1 - Valuation/Classification - Manual - The LT system specialist conducts testing in production to ensure accumulation and distribution amounts are accurate and only local tax codes are included prior to distribution to jurisdictions. TAA will also verify local tax calculations using the new rates on a monthly basis. Money is not distributed to local governments by OST until TAA verifies the data in ATLAS**.**

Key Control 2 - Valuation - Automated - Based on the location code entered by the tax filer, ATLAS calculates the local sales and use taxes due.

Key Control 3 - Completeness - Manual - The Revenue and Financial Reporting Coordinator prepares an adjusting entry to record all collections and distributions for each quarter. The final JV is reviewed and approved by the Accounting Manager to ensure all collections and distributions are recorded for the year and match.

Noted Weaknesses are as follows:

None

G.4.PRG - Payments of Taxes to Other Governments

Procedure Step: Key Control #1 (Manual)

Prepared By: BFW, 5/23/2023

Reviewed By: SLB, 10/17/2023

Record of Work Done:

Key Control 1 - Valuation/Classification - Manual - The LT system specialist conducts testing in production to ensure accumulation and distribution amounts are accurate and only local tax codes are included prior to distribution to jurisdictions. TAA will also verify local tax calculations using the new rates on a monthly basis. Money is not distributed to local governments by OST until TAA verifies the data in ATLAS.

The understanding for this system is documented above in the "Controls - ATLAS" step.

1. Confirmation of Key Manual Control:

We spoke with Jason Hartwell, Tax Administration Manager for Local Tax, and Courtney Tornquist, System Specialist, about reconciliations performed on a monthly basis to ensure local tax accumulated per jurisdiction are accurate. Jason explained that Courtney performs the quarterly tax rate change testing as well as the monthly production testing. Courtney stated the monthly production testing is done on a sample basis to verify the accumulations are accurate before OST distributes the funds back to the local jurisdictions. During the monthly testing, she will also include jurisdictions that had recent changes. She provided the March 2023 production testing. The March testing included the following jurisdictions:

6 Clark
13 Grant
28 San Juan
34 Thurston

Each county selected for testing has its own individual tab and data feeds into the summary table where recalculations are compared to accumulation amounts from ATLAS. Any variances not attributed to rounding are investigated and corrected if needed. We noted the system specialist identified a few variances between ATLAS and the recalculated accumulation. The largest variances were reconciled and were identified as variances due to the payment timing of rural state shared tax. We reviewed the reconciliation and noted the variances were reduced to reasonable differences (no more than 0.5% of variance for any jurisdiction). ***No issues noted.***

Noted Weaknesses are as follows:

None.

2. Preliminary Control Risk Assessment

Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test of Key Manual Control:

Not applicable - we are not planning to rely on controls and therefore do not need to test controls; control risk will be assessed at maximum.

G.4.PRG - Payments of Taxes to Other Governments

Procedure Step:	Key Control #2 (Automated)
Prepared By:	BFW, 10/17/2023
Reviewed By:	SLB, 10/17/2023

Record of Work Done:

Key Control 2 Valuation - Automated - Based on the location code entered by the tax filer, ATLAS calculates the local sales and use taxes due.

The understanding for this system is documented above in the "Controls - ATLAS" step.

1. Confirmation and Testing of Key Automated Control:

We confirmed the automated control as part of our understanding of tax collections for other governments at [Key Control 2 (Automated)]. The testing was performed at [Local Tax Collection Distribution Testing - CONFIDENTIAL], see tabs "IT Control Testing - Valuation" and "7+ Tax Rates

Calculation". **No issues noted.**

Noted Weaknesses are as follows:
none

2. Preliminary Control Risk Assessment
Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX- We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW – Test General Controls:
Not applicable - we are not planning to rely on automated controls and therefore do not need to test general controls; control risk will be assessed at maximum.

G.4.PRG - Payments of Taxes to Other Governments

Procedure Step: Key Control #3 (Manual)
Prepared By: BFW, 8/2/2023
Reviewed By: RKM, 8/4/2023

Record of Work Done:

Key Control 3 Completeness - Manual - The Revenue and Financial Reporting Coordinator prepares an adjusting entry to record all collections and distributions for each quarter. The final JV is reviewed and approved by the Accounting Manager to ensure all collections and distributions are recorded for the year and match.

The understanding for this system is documented above in the "Controls - ATLAS" step.

1. Confirmation and Testing of Key Manual Control:
We confirmed this control as part of our understanding of tax collections for other governments at [Key Control 3 (Manual)]. ***No issues noted.***

Noted Weaknesses are as follows:

None

2. Preliminary Control Risk Assessment

Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX- We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW – Test of Key Manual Control:

Not applicable - we are not planning to rely on automated controls and therefore do not need to test general controls; control risk will be assessed at maximum.

G.4.PRG - Payments of Taxes to Other Governments

Procedure Step:	Risk Assessment
Prepared By:	BFW, 5/31/2023
Reviewed By:	SLB, 10/17/2023

Record of Work Done:

(1) Inherent Risk (IR):

Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

Classification - MAX

Completeness - MAX

Valuation - MAX

(2) Control Risk (CR):

We assessed control risk as follows for each system and relevant assertion:

Automated Tax and Licensing Administration System (ATLAS) -

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):

We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

Classification - MAX
Completeness - MAX
Valuation - MAX

(4) Testing Strategy:

We designed our substantive testing strategy based on our assessment of the risk of material misstatement.

Classification - We will review automated ATLAS calculations for a sample of registered taxpayers and ensure amounts included in Tax Collections for Other Governments are based on local tax rates and are not state tax rates. We will review quarterly JVs to ensure amounts reported as collections/distributions for other governments are only local taxes.

Completeness - We will use the same sample of registered taxpayers as above, review ATLAS for a filed return, and trace revenue to the accumulation GL within ATLAS and to AFRS. We will also review quarterly JVs to ensure monthly automated accumulations within ATLAS were included in the JV.

Valuation - We will recalculate taxes paid for the same sample of registered taxpayers as above, to ensure taxes are recorded at proper values. We will also review quarterly collection/distribution JVs to ensure that collections and distributions match and are recorded at accurate values.

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

G.4.PRG - Payments of Taxes to Other Governments

Procedure Step: Substantive Test

State of Washington

Prepared By: BFW, 10/17/2023
Reviewed By: SLB, 10/18/2023

Record of Work Done:

Tax Collections for Other Governments Testing Coverage
We reviewed the line item leadsheet [Line Item Lead Sheet] and noted Fund 034 - Local Sales & Use Tax accounts for 98.16% of all payments of taxes to other governments. We determined focusing our testing on Fund 034 collections would provide sufficient coverage over the balance to meet the relevant assertions. ***We performed testing of the local tax collections/distributions simultaneously at the G.3 folder.*** See testing details below.

*For all assertions below, we used the same sample of 39 taxpayers.

Substantive tests performed to meet the Completeness assertion:
We obtained a list of all active taxpayers that paid local sales and use taxes as of 6/30/2023 and randomly selected a sample of 39 taxpayers for various periods to ensure the return was accurately filed and posted to AFRS. Jason Hartwell, Tax Administration Manager, provided a screenshot of all selected taxpayers' tax returns entered in ATLAS as well as their payment of the calculated taxes. We reviewed the return for the selected taxpayers in ATLAS to ensure a return was filed and payments were received for the entire amount recorded in the return. See testing performed at [Local Tax Collection Distribution Testing - CONFIDENTIAL].

During our testing of retail, sales, use, and B&O taxes at [Accrual JV Testing], we also ensured the amount recorded in AFRS for local sales and use tax that was to be distributed in the next 12 months was complete based on gross receipts by taxpayer. This covers the portion of local tax that was collected for FY23 but not distributed to local governments based on the timing of filing returns ($672,619,943.06). We noted there was no difference between the supporting documentation and the amount posted in AFRS.

Business and Financial Services makes an adjusting entry to record local tax collections as tax collections for other governments and tax payments to other governments to comply with GASB 84 regulations on a quarterly basis. When payments for local taxes are collected, ATLAS automatically accumulates revenues to the appropriate fund and GL in a monthly JV. The quarterly collection/distribution JVs includes the monthly accumulation JV activity and moves 5152 - Due to Other Governments to the revenues and expenditures GL (32XX and 65XX). We reviewed each quarter's adjusting JV to ensure:

- All automated ATLAS JVs are recorded and in the proper period
- Quarterly JV amounts only include local taxes
- Collections and Distributions for each month match

We noted the quarterly JVs were complete based on the testing above. See testing at [Quarterly Collection Distribution JVs]. ***No issues noted.***

Substantive tests performed to meet the Valuation assertion:
Using the same randomly selected sample of 39 taxpayers, as mentioned above, we recalculated taxes paid based on local tax rates to ensure that revenues related to local sales and use tax were valued at proper amounts. Jason Hartwell, Tax Administration Manager, provided a screenshot of all selected taxpayers' tax returns entered in ATLAS. We obtained the local sales and use tax rates for each selected period from the DOR website. Based on the taxable amount in the tax returns, we recalculated the collected local sales and use tax. Any differences noted were small rounding errors. We determined all selected local sales and use tax collections/distributions were reported at properly valued and calculated amounts. See testing performed at [Local Tax Collection Distribution Testing - CONFIDENTIAL]. ***No issues noted.***

Substantive tests performed to meet the Classification assertion:
Using the same randomly selected sample of 39 taxpayers, as mentioned above, we tested to ensure that collections/distributions were based on local tax rates and were not related to state tax revenues. Jason Hartwell, Tax Administration Manager, provided a screenshot of all selected taxpayers' tax returns entered in ATLAS. We obtained the local sales and use tax rates for each selected period from the DOR website. We reviewed the ATLAS tax return and tied all tax rates used in the calculation of the local tax due to the sales and use tax rates from the DOR website. All tax rates used in the calculation were the appropriate rate and relevant to local tax. We determined all selected taxpayers were properly categorized and reported. See testing performed at [Local Tax Collection Distribution Testing - CONFIDENTIAL]. ***No issues noted.***

Business and Financial Services makes an adjusting entry to record local tax collections as tax collections for other governments and tax payments to other governments to comply with GASB 84 regulations on a quarterly basis. When payments for local taxes are collected, ATLAS automatically accumulates revenues to the appropriate fund and GL in a monthly JV. The quarterly collection/distribution JVs includes the monthly accumulation JV activity and moves 5152 - Due to Other Governments to the revenues and expenditures GL (32XX and 65XX). We reviewed each quarter's adjusting JV to ensure:

Quarterly JV amounts only include local taxes

We noted the quarterly JVs were classified appropriately based on the testing above. See testing at [Quarterly Collection Distribution JVs]. ***No issues noted.***

G.5.PRG - Other Taxes

Procedure Step: Summary & Conclusion

State of Washington

Prepared By: MEC, 10/17/2023

Reviewed By: SLB, 10/18/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
Our results of substantive test did not indicate we needed to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
The quality and quantity of evidence obtained was sufficient and appropriate.

G.5.PRG - Other Taxes

Procedure Step: Understanding of Line Item

Prepared By: MEC, 9/25/2023

Reviewed By: SLB, 10/17/2023

Record of Work Done:

(1) Prior Audit Exceptions:
There were no prior audit exceptions for this line item.

(2) Composition & Change Analysis:
Line Item Leadsheet: [Line Item Lead Sheet].

We determined that the Other Taxes line of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds in fund 08A the Education Legacy Trust Account is composed of tax revenue collected by the Department of Revenue, agency 140, for source 128-

Solid waste collection tax, source 135- Public Utilities tax, source 175- Penalties & Interest (related to Estate Tax), and source 155- Estate Tax.

Source 155 Inheritance/Estate Tax represents 91% of the Other taxes line item at $853,610,027, so we will focus our control understanding and testing on this component of Other Taxes.

Source 155 Inheritance/Estate Tax revenue increased by 130% or $482 Million from the prior year. We met with Sandi Fairchild, Chief Financial Officer, about this large increase and she stated it was due to several large returns being filed during FY23.

Balance Calculations:
Estate Tax revenues are determined using the Automated Tax and Licensing Administration System (ATLAS) based on returns submitted in the system. ATLAS automatically calculates the Estate Tax due based on information provided on the tax return. DOR Tax examiners verify the documents provided by tax payers to support the amount of taxes due. Tax payments automatically update in the system, which sends the information to AFRS in a nightly batch process. The batch information is reviewed and reconciled by staff in the Business & Financial Services (B&FS) division. Estate tax revenue is accrued in AFRS the same way as other taxes receivable are recorded in ATLAS.

(3) Updates to Material Account Matrix:
We identified no changes that need to be made to the Material Account Matrix.

G.5.PRG - Other Taxes

Procedure Step: Controls - ATLAS

Prepared By: MEC, 10/9/2023

Reviewed By: SLB, 10/17/2023

Record of Work Done:

Material Balance(s) and Assertions
Internal controls in the ATLAS system address the following balance(s):

Other Taxes – Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

Source 155 -Estate Tax represents 91% of the Other Taxes line item at $853,610,027, so we will focus our control understanding and testing on this component of Other Taxes.

For the following assertions:

Occurrence - There is a risk that Year end revenue accrual is overstated.
Valuation - There is a risk that tax revenues are not recorded at properly valued amounts.
Completeness - There is a risk that tax revenues are not complete.

Gain an Understanding of Internal Controls

We met with Sara Saavedra, Internal Audit Manager, Jessica Clark, Tax Administration Manager - Estate Tax, and her supervisor, Kent Thompson, Regional Audit Manager, on September 25, 2023 to gain an understanding of Internal Controls over Estate Taxes. Jessica outlined the Estate Tax Return process and internal control procedures in place at the Department of Revenue to ensure that estate taxes are assessed and collected in accurate amounts.

We also spoke with Anyano Faasuamalie, Revenue and Financial Reporting Coordinator, on 9/25/23 to gain an understanding of year end journal entries related to the accrual of Estate Tax Revenue.

Background

An inheritance tax is a tax on the beneficiaries of an estate whereas an estate tax is a tax on the decedent's estate.
Washington does not have an inheritance tax, and Washington Estate Taxes are outlined in RCW 83.100.040 and WAC 458-57-005.

Estate Taxes

The estate tax is a tax on the right to transfer property at the time of death. A Washington decedent or a non-resident decedent who owns property in Washington state may owe estate tax depending on the value of their estate for deaths that occurred on or after Jan. 1, 2014. "Property" includes but is not limited to, real estate, stocks, bonds, interest in business entities, cash, notes, life insurance policies, assets owned jointly with a spouse, assets owned jointly with others, vehicles, recreational vehicles, royalties, pension plans, refunds, assets held in trust, annuities, etc. All assets owned by a decedent are valued at their actual value or fair market value for the valuation date.

The "actual value" of an asset is its cash value or unpaid principal plus any interest accrued to the valuation date.

The "fair market value" is the price at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of the relevant facts. The fair market value would be a sale in an arm's-length transaction and never determined by a forced sale. Fair market value for a business entity would include any goodwill inherent in the business. For most stocks and bonds, the fair market value is the mean between the highest and lowest selling prices quoted on the valuation date.

The "valuation date" is the date of death of the decedent. However, an alternate value date (six months after the date of death) may be elected.

When filing the estate tax return, taxpayers must include all supporting documentation showing the actual or fair market value. Supporting documentation can include, but is not limited to, real estate appraisals, date of death brokerage statements, and business appraisals.

State of Washington

The executor for a decedent's estate is required to file an estate tax return if the gross estate meets the filing threshold for the date of death, which is currently $2.193 million for deaths occurring 2018-2024. If the total gross estate is below the filing threshold, no estate tax return needs to be filed. If the total gross estate is above the filing threshold, an estate tax return must be filed even if no tax would be due. If a Washington return is required to be filed and a Federal Form 706 is filed, a copy of the Federal Form 706 must be included with the Washington estate tax filing. For decedents who died in 2023, Federal Form 706 must be filed by the executor of the estate of every U.S. citizen or resident whose gross estate, plus adjusted taxable gifts and specific exemption, is more than $12.92 million. Jessica indicated that if the taxpayer was required to file IRS form 706, then DOR will consider the results of any IRS audits to ensure that amendments are also made to the WA Estate Tax forms.

To pay the estate tax, the tax payer files the estate tax return and applicable addendum (or files for an estimated payment with an extension), and pays the estate tax due electronically using My DOR services.

Estate tax forms, rules, and information are specific to the date of death. One of the following is due nine months after the decedent's date of death:

- Washington estate tax forms and estate tax payment.
- A request for an extension to file the Washington estate tax return and an estimated payment.
- A return or extension may be submitted without payment if the estate does not owe any tax.
    - A return or extension submitted without payment is still due nine months after the decedent's date of death.
- Any tax due must be paid within nine months after the date of death or interest will accrue daily on any unpaid principal.
    - An extension of time to file a return does not grant relief from the accrual of interest.

Taxpayers can apply for a six-month extension to file online through My DOR Services before any amount is due. Approval of an extension of time to file the Washington estate tax return does not grant additional time to pay the estate tax. DOR recommends submitting an estimated tax payment with the extension if the estate anticipates there will be tax due. Any amounts that remain unpaid after the nine-month due date will accrue daily interest. Interest rates are outlined on the DOR web site's interest rate table. If the taxpayer is applying for a federal extension, they are required to submit a copy of the Federal Form 4768 at the time they file for a Washington extension.

Estate Tax Calculation

The "Washington taxable estate" means the gross estate less:
Allowable deductions from Schedule J, K, L, M and O (Such as: funeral costs, attorney 's fees, appraisal fees, decedent's personal debt at death)
Applicable exclusion amounts for date of death (currently $2.193 million - the same as the filing threshold)

If applicable:
Estate tax farm deduction or Qualified family-owned business interest (QFOBI) deduction

The Washington taxable estate is the amount after all allowable deductions, including the applicable exclusion amount.

Taxable amount (Table W):		
(Line 7 under Part 2 of the Estate Tax Return)	Rate	Tax owed
$0 to $1,000,000	10.0%	$10% of taxable amount
$1,000,000 to $2,000,000	14.0%	$100,000 plus 14% of the amount over $1,000,000
$2,000,000 to $3,000,000	15.0%	$240,000 plus 15% of the amount over $2,000,000
$3,000,000 to $4,000,000	16.0%	$390,000 plus 16% of the amount over $3,000,000
$4,000,000 to $6,000,000	18.0%	$550,000 plus 18% of the amount over $4,000,000
$6,000,000 to $7,000,000	19.0%	$910,000 plus 19% of the amount over $6,000,000
$7,000,000 to $9,000,000	19.5%	$1,100,000 plus 19.5% of the amount over $7,000,000
$9,000,000 and up	20.0%	$1,490,000 plus 20% of the amount over $9,000,000

Education Legacy Trust Fund - 08A

The estate tax funds are deposited into the Education Legacy Trust Fund. It provides funding for:

- The student achievement fund for reducing class sizes, professional development of teachers, extended learning such as before- and after-school programs, and pre-kindergarten learning.
- Learning assistance program to help kindergarten through 12th-grade students who are not up to standards.
- Higher education (which includes monies for financial aid, supporting additional enrollment of students, adult basic education programs in community colleges, work-study programs, etc).

Automated Tax and Licensing Administration System (ATLAS):

Implemented on March 19, 2018, ATLAS replaced all of the Department's legacy systems specific to taxpayer administration. ATLAS is driven by the taxpayer return, which the majority of regular taxpayers file on-line through MyDOR, part of the State's SecureAccess Washington (SAW) single sign-on application gateway. This was created by the Washington State Department of Information Services (which in 2011 became part of Department of Enterprise Services) to simplify access to a list of government services accessible via the Internet. **ATLAS's automated tax return form is programmed with the appropriate codes for each of the tax types so the fund, tax revenue source, general ledger codes, etc. is properly recorded. Key Control #1 - Automated - (Valuation/Completeness)**

- Only about 10% of Estate Tax forms are submitted through MyDOR. Jessica let us know that approximately 90% of estate tax forms filed by taxpayers are submitted using the paper form, rather than through the My DOR services portal. The paper forms that are received in the Estate Taxes division are hand keyed into the ATLAS System by tax examiner staff. All supporting documents, including the paper form, are scanned and uploaded into the system - usually within two weeks of receipt.

All estate tax forms received and entered into the system are audited for assurance that the tax was calculated correctly by the ATLAS system and that all supporting documents have been verified for completion and accuracy (Key Control #2 -Manual-

Valuation/Completeness).

All supporting documents are verified based on the type of document provided. Evidence of amounts held in bank accounts, properties held, or appraisals are verified based on the source.

Rarely, it may be discovered during the verification process or through county assessment sites that an asset was not reported as required by the form. The new information requires an amendment to the estate tax return in the system and a letter will be sent to the taxpayer or estate alerting them to the amended amount due and the reason.

Filing the Estate Tax Form

Jessica indicated that submission of Estate Tax forms to the DOR is mainly by voluntary compliance with the law. The agency does not assess possible infractions of the law, mostly due to the fact that the courts are required to be involved with probate for any estate over $100K, which is well below the filing threshold for estate tax. Filing the estate tax forms and settling/paying the required federal or state estate taxes is **required to close probate** per **RCW 11.68.100**.

If Decedent died with a Will, then Decedent's Will is required to be filed with the Clerk's Office of the Superior Court of Decedent's resident county at death regardless of whether or not Decedent's estate will be probated per RCW 11.20.010

The majority (approximately 90%) of Estate tax forms in Washington are filed with DOR by attorneys.

Jessica indicated that to ensure **completeness**, the department reviews risky Estate Tax returns and checks that nothing is missing or incomplete during the review and audit process. They review the return vs. the support, review all the asset schedules and ensure that there is support for the value of all the assets and ensure there is support for all the amounts, and to ensure no support is missing. If anything appears unusual from the return vs. what support is provided, they would go back to the taxpayer and request it from them. They also do the same thing for reported deductions.

DOR believes the following laws would provide sufficient deterrent to not filing an estate tax form as required:

RCW 83.100.120, "any personal representative who distributes any property without first paying, securing another's payment of, or furnishing security for payment of the taxes due under this chapter is personally liable for the taxes due to the extent of the value of any property that may come or may have come into the possession of the personal representative".

RCW 83.100.140 states, "Any person required to file the Washington return who willfully fails to file a Washington return when required by this chapter or who willfully files a false return commits a gross misdemeanor as defined in Title 9A RCW and shall be punished as provided in Title 9A RCW for the perpetration of a gross misdemeanor."

When the return is submitted in ATLAS, the calculated taxes due and the payment amount are recorded in the transactions tab of ATLAS. ATLAS automatically calculates the tax due based on the form submitted (Key Control #1 - Automated - Valuation). Additionally, information such as the date filed, the date paid, and any changes or adjustments made to the return or the taxpayer's account will also be recorded in the transactions tab of ATLAS. Logic checks are run when the return is processed. If there is an error, the return is flagged and sent to a work queue for an Examiner to review. Returns flagged for review do not get recorded to the appropriate revenue source until errors are resolved and released from the queue.

How Transactions are Recorded in AFRS:

Cash Journal Entries

When payments are received via ACH/debit, ACH/credit, wire transfer, and cash/check from field offices, ATLAS automatically generates an A8 cash journal (CJ) to record the cash receipts. For payments received by credit card, lockbox and via mail/FedEx/UPS, a manual CJ is created in ATLAS by Treasury Management in Business & Financial Services (B&FS). Treasury Management staff batch the documents and prepare the deposits assuring they both balance. Once they are entered, the Batch Control System (BCS) compares the total of the individual batches to what was deposited for the day. The A8s are sent to the State Treasurer's Office (OST) for deposit entry into the Treasury Management System and verification that all funds have been received. If the payment amount received by the OST does not match DOR's A8, they will contact DOR and inform them of the out of balance condition. Treasury Management will follow up on the difference by totaling and comparing the documents and payments. The Batch Sheet which contains the batch amount totals, document count, batch date, and batch number is placed on top, and the batch is forwarded to Taxpayer Account Administration (TAA). Treasury Management then reconciles the ATLAS cash journal report totals to the total deposit recorded in the OST's concentration account to ensure they match.

DOR's Revenue Accounting section in B&FS verifies the CJ batches are error free and releases for processing in AFRS at the end of each day. ATLAS initially records the deposit in Fund 01P (Suspense Account) and then distributes from suspense to the proper revenue source codes once the returns and payments are applied to the taxpayers' accounts. **Once the payment has been applied to the taxpayer's account, ATLAS will automatically create a journal voucher to move the funds to the appropriate revenue sources in AFRS (Key Control #3 - Automated- Valuation/Occurrence/Completeness).** Batches are created and transmitted to AFRS in the evening. Revenue Accounting reviews the batch the following day and releases them in AFRS.

One business day after the tax return is due, ATLAS will automatically create a receivable on the taxpayer's account if there is a balance due (no payment or partial payment with a return). If no return has been filed, one week after the due date, ATLAS will automatically estimate the tax amount due based on historical information in the taxpayer's account. Compliance is responsible for collecting the receivables from all revenue sources, which account for a majority of the agency's debt. DOR does not use an external collection agency to aid in the collection process. The Compliance staff does not receipt any payments on the delinquent accounts. Electronic delinquency notices are sent automatically to taxpayers. We gained an understanding of taxes receivable at [Controls - ATLAS].

Ayano indicated that Estate tax revenue is accrued the same way as other taxes receivable recorded in ATLAS. For FY 2023 they accrued $10 million for estate tax for JVs generated in ATLAS on 6/30/23. These were not processed in AFRS till 7/4/23 (first business day in July) account for the day lag between when JV is generated in ATLAS and when it is processed in AFRS.

Reconciliation Process

ATLAS receives a daily reconciliation file from AFRS and performs an automatic reconciliation between the data recorded in AFRS and ATLAS to ensure revenues recorded are accurate and complete. Revenue Accounting reviews each batch in ATLAS for a "reconciliation date" to ensure the reconciliation took place. If the AFRS file is not received, Revenue Accounting will contact OFM for the file. However, if the request is made 10 days or more after the date the batches were processed in AFRS, the AFRS data is no longer available for transmission. If the batch does not go through the automatic reconciliation, Revenue Accounting will perform a manual reconciliation.

Key Controls are as Follows:

Key Control #1 - Automated - (Valuation): ATLAS's automated tax return forms are programmed with the appropriate codes for each of the tax types so the fund, tax revenue source, general ledger codes, etc. is properly recorded. ATLAS automatically calculates the tax due based on the form submitted.

Key Control #2 - Manual - (Valuation/Completeness): All estate tax forms received and entered into the system are audited for assurance that the tax was calculated correctly by the ATLAS system and that all supporting documents have been verified for completion and accuracy.

Key Control #3 - Automated - (Valuation/Occurrence): Once the payment has been applied to the taxpayer's account, ATLAS will automatically create a journal voucher to move the funds to the appropriate revenue sources in AFRS. DOR's Revenue Accounting section in B&FS verifies the CJ batches are error free and releases for processing in AFRS at the end of each day.

Noted Weaknesses are as Follows:

None.

G.5.PRG - Other Taxes

Procedure Step:	Key Control # 1 (Automated)
Prepared By:	MEC, 10/17/2023
Reviewed By:	SHW, 10/17/2023

Record of Work Done:

This record may contain information considered exempt from public disclosure under RCW 42.56.420 of the Public Records Act. As such, distribution of this record is limited.

Other Taxes- Valuation

When the return is submitted in ATLAS, the calculated taxes due and the payment amount are recorded in the transactions tab

of ATLAS. ATLAS automatically calculates the tax due based on the form submitted (Key Control #1 - Automated - Valuation). Additionally, information such as the date filed, the date paid, and any changes or adjustments made to the return or the taxpayer's account will also be recorded in the transactions tab of ATLAS. Logic checks are run when the return is processed. If there is an error, the return is flagged and sent to a work queue for an Examiner to review. Returns flagged for review do not get recorded to the appropriate revenue source until errors are resolved and released from the queue.

The understanding for this system is documented above in the "Controls - SYSTEM" step. [Controls - ATLAS]

2. Key Automated Control Confirmation and Testing:

We confirmed that the Atlas system is accurately calculating the tax due for estate tax forms submitted in the system. We recalculated 38 tax forms submitted in the ATLAS system on the "Tax Recalculation" tab of our substantive testing spreadsheet here: [Other Taxes Testing].

We randomly selected a sample from a list of Estate Tax payers in the system provided by client. We tied the report to enterprise reporting "Revenue Summary by Account" run for Agency 140 through FY2 Adjustment period with no variance. We determined our population is complete.

We obtained screen shots of the Estate Tax form, page 1, and the tax as calculated by ATLAS from the ATLAS system from the Client for comparison. We input the information from the form into a table and used DOR's table W in column Y to recalculate the tax due. We compared the tax due that we calculated with the amount on the form and what was recorded in the system. We also verified the FY23 tax payments in the ATLAS system to amounts recorded as FY23 Revenue for each taxpayer.

No issues noted.

Noted Weaknesses are as follows:
none.

2. Preliminary Control Risk Assessment
Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test of Key Manual Control:
Not applicable - we are not planning to rely on controls and therefore do not need to test controls; control risk will be assessed at maximum.

State of Washington

G.5.PRG - Other Taxes

Procedure Step: Key Control #2 (Manual)

Prepared By: MEC, 9/27/2023

Reviewed By: SLB, 10/17/2023

Record of Work Done:

Other Taxes - Valuation/Completeness

Key Control #2 - Manual - Valuation/Completeness:

All estate tax forms received and entered into the system are audited for assurance that the tax was calculated correctly by the ATLAS system and that all supporting documents have been verified for completion and accuracy.

The understanding for this system is documented above in the "Controls - ATLAS SYSTEM" step. [Controls - ATLAS]

1. Confirmation of Key Manual Control:

We requested to see documentation of an Estate Tax return audit/review in the ATLAS system performed by the Estate Tax department's tax examiner staff in FY23. Jessica Clark, Tax Administration Manager, Estate Tax, provided us with an excel document "Log 202309251510.ods" on 9/25/2023. Jessica explained that the data is keyed into ATLAS from the paper return at the Return Received (Keying) stage, data is verified at the Initial Review stage, then it is also checked when the audit is completed. Verification that the data is keyed into ATLAS correctly from the paper return is a required step in both of these stages.

Jessica exported the user log from the ATLAS system which shows the trail of those who initially keyed in the return and then who reviewed it:

Action	Type	When	Who
Created	Return Received (Keying)	10/15/2021	Thuy Huynh
Staged	Initial Review	10/29/2021	Jeanette Bashaw
Staged	Unassigned	11/16/2021	Jeanette Bashaw
Note	UNASSIGNED	11/16/2021	Jeanette Bashaw

Staged	Under Examination	04/11/2023	Jina Pak
Staged	Bill Issued (Waiting for Payment)	04/17/2023	Renee Rhodes
Note	Balance due issued for incorrect deduction amount on page one, does not match page two.	04/17/2023	Renee Rhodes
Closed	Exam Completed (Closed)	06/08/2023	Renee Rhodes
Note	ECL is not required, balance due issued in error as the preparer made an error on the return.	06/08/2023	Renee Rhodes

Using the state employee directory for DOR, we verified that the return was initially keyed in by an Office Assistant 3, reviewed by a Lead Office Assistant, and examined by an Excise Tax Examiner 2. The return was then reviewed again by an Excise Tax Examiner 3, and it was noted that there was an inconsistency between pages 1 and 2 and a bill was issued for the incorrect deduction on the form (Valuation). The bill was later rescinded since it was determined to be due to an error made by the preparer, and the tax examination was closed by the Tax Examiner 3.

We determined that Estate Tax Forms entered into the ATLAS system are subsequently reviewed/audited for completion and the accuracy of the tax calculation based on the supporting documents by more than one Tax Examiner. The specific instance we documented above found an error in the tax calculation which resulted in an updated tax bill issued to the taxpayer's estate. ***No issues noted.***

Noted Weaknesses are as follows:

None.

2. Preliminary Control Risk Assessment

Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test of Key Manual Control:

Not applicable - we are not planning to rely on controls and therefore do not need to test controls; control risk will be assessed at maximum.

G.5.PRG - Other Taxes

Procedure Step: Key Control # 3 (Automated/Manual)

State of Washington

Prepared By: MEC, 10/10/2023

Reviewed By: SLB, 10/17/2023

Record of Work Done:

This record may contain information considered exempt from public disclosure under RCW 42.56.420 of the Public Records Act. As such, distribution of this record is limited.

Other Taxes- Occurrence/ Valuation/ Completeness

Key Control 3 -Once the payment has been applied to the taxpayer's account, ATLAS will automatically create a journal voucher to move the funds to the appropriate revenue sources in AFRS. DOR's Revenue Accounting section in B&FS verifies that the batches are error free and then manually releases the batch for processing in AFRS at the end of each day. (Manual/Automated-Valuation/Occurrence/Completeness)

The understanding for this system is documented above in the "Controls - ATLAS" step.

2. Key Automated/Manual Control Confirmation and Testing:

We requested to view documentation for one of the Estate Tax accrual journals from our list of Estate tax transactions from Fy23. We asked to see the support from the ATLAS system and the review and approval of the ATLAS batch before it was released by B&FS staff for JV#140E1445- Current doc# 140M4898 , batch number 403, Batch date 7/11/2023 for 6/30/2023.

Ayanao Faasuamalie, Revenue and Financial Reporting Coordinator, provided us the AFRS Accounting transaction Batch header- Form A62JV- for the journal entry, dated 7/12/2023, which contained 882 transactions including Estate Tax Payments, and the batch amount was $5,436,180,657.84.

The AFRS Batch Header was prepared by B&FS Revenue Accounting and it noted that it included JV 140M4898 and was entered by "ATLAS". The batch header was physically signed and dated 7/12/23 as prepared by Ngoc-Ha Nguyen, Revenue Accounting Fiscal Analyst. She verified the total count and amount in batch in ATLAS to the batch total count and amount in AFRS. Andrew Arnold, Revenue Account Supervisor, digitally signed on 7/12/23 as reviewed/ approved on the batch header. He digitally signed the batch header in the "released by" section on 7/12/2023 as well.

We were also provided the General ledger interface batch print out from ATLAS :GL Int Batch 0-000-002-256 - ATLAS, which detailed the 882 items contained in the Receivables journal voucher 140M4898. We identified four lines containing estate tax transactions labeled in the system as Miscellaneous tax receivable JV coded to fund 08A, Current doc# 140M4898 to be posted to GLs 3205, 1311, and 5192 using trans codes 347, 121, 348, and 011.

We were also provided a word document containing screen shots from ATLAS for Miscellaneous Tax Receivable JV 140M4898.
There was a screen shot of the Receivables Accumulation General ledger that indicated the "balances as of 6/29/23" for 08A-3205-01-55-01 "Estate Tax" transactions were included in the JV 140M4898.
We identified that the batch that included JV 140M4898 was marked as reconciled in the Receivables GL.
The document included a screen shot of a taxpayer's account (Estate of Kenneth G Rudd) included in the receivable JV above. On the transactions tab of the account, the return tax for $1,551,820.51 is posted on 6/29/23. The payment of $1,508,465.75 is offsetting $1,499,707.53 (Estate tax 01-55) and $8,758.22 (interest 01-75). The Receivable posted on the account listed the account coding as "08A- 01-55-010000 Estate Tax A/R".

We determined that the ATLAS system automatically generates batches based on taxpayer transactions in the system (completeness/occurrence) to be posted to AFRS by tax type using appropriate period, fund, and revenue sources. These batches are then reviewed, approved, and released by DOR B&FS Revenue Accounting staff to ensure amounts are properly valued, and posted to the correct fund and period (Valuation).

No issues noted.

Noted Weaknesses are as follows:
None.

2. Preliminary Control Risk Assessment
Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test of Key Manual Control:
Not applicable - we are not planning to rely on controls and therefore do not need to test controls; control risk will be assessed at maximum.

G.5.PRG - Other Taxes

Procedure Step: Risk Assessment
Prepared By: MEC, 10/10/2023

State of Washington

Reviewed By: SLB, 10/17/2023

Record of Work Done:

(1) Inherent Risk (IR):

Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

Occurrence/Valuation/Completeness - MAX

(2) Control Risk (CR):

We assessed control risk as follows for each system and relevant assertion:

ATLAS – Occurrence/Valuation/Completeness

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):

We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

Occurrence/Valuation/Completeness - MAX

(4) Testing Strategy:

We designed our substantive testing strategy based on our assessment of the risk of material misstatement. We plan to perform the following tests:

We will be recalculating Estate Tax revenues based on tax forms and related documentation contained in the ATLAS system for randomly selected taxpayers. (**Valuation)**

We will review each selected sample for occurrence to ensure the revenue occurred in the proper period. (**Occurrence)**

We will review each selected sample's ATLAS audit history to ensure it was audited and reviewed by more than one Tax Examiner for accuracy and completion. (**Completeness)**

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

G.5.PRG - Other Taxes

Procedure Step: Substantive Test
Prepared By: MEC, 10/17/2023
Reviewed By: SLB, 10/18/2023

Record of Work Done:

Testing population:
See "Testing Population" tab of the testing spreadsheet here; [Other Taxes Testing]
We requested a listing of FY23 Estate Tax detailed transaction information from the Client, and they provided us a list of 2049 Estate Taxpayers with account numbers, filing periods, and amounts, which totaled $846,265,976. They also provided us a list of 8 journal vouchers (JV) with entries related to FY22 receivable reversals, interfund payables, and FY23 receivables, totalling $7,344,051. We reviewed the largest of the receivable accrual JVs totaling $7,177,377 during our control confirmations.

We tied our population (provided by client) to FAP GL 3205 and 3210 Two-Year Comparative report with a small variance of $23,749, and to the OFM Enterprise report " Revenue Summary by Account Through Subsource" run for Agency 140- Department of Revenue account 08A for the Biennium with no variance. We determined our population complete. We identified that 3 tax payers in the population were Individually significant with total revenue amounts over $64 Million. We randomly selected 39 other taxpayers for testing as well.

Substantive tests performed to meet the Existence / Occurrence assertion:

Testing Procedures:
To test that reported revenues represent actual amounts relating to the period, we met with Jessica Clark, Tax Administration manager over Teams on October 10, 2023 and she walked us through each selected taxpayer's account in the ATLAS system. We obtained approval to take screen shots during the walk through for our testing. We obtained images of the actual signed and dated paper " Washington State Estate and Transfer Tax Return" form (page 1) submitted by the taxpayer's Estate and uploaded into the system by DOR staff, the Tax Calculation screen in ATLAS ("Part 2: Tax Computation") to ensure these matched, the ATLAS taxpayers account screen showing payments made, with dates and amounts (from the Financial Tab), which also included included recent notes by Tax Examiner Staff. Jessica showed us that other supporting documents were also uploaded into the system for taxpayers, and that some accounts can have over 30,000 pages of support added.

We obtained the screen shots for each taxpayer selected and utilized them to complete our testing for Occurrence. We tested that the reported revenue occurred during the period and was supported by the signed and dated Estate Tax Form and that the related required documentation existed in the system.

Testing Results:
We determined that all 42 of the taxpayers selected for testing existed in the system, and the FY23 revenue was supported by a actual signed and dated paper " Washington State Estate and Transfer Tax Return" form or had filed an extension for filing the form- as was the case for 4 of our selected taxpayers. Payment is still due 9 months from the death of the decedent, so these taxpayers also made estimated payments, which were evidenced by their ATLAS taxpayers account screen showing payments made, with dates and amounts and notes about the extension filed.
No issues noted.

Substantive tests performed to meet the Completeness assertion:

Testing Procedures:
In order to test for completeness of the Estate Tax Revenue reported by DOR to AFRS, we obtained screen shots of the Taxpayer's "workflow" review and audit history during our walk through. We identified during control work that each Estate Tax form filed is reviewed and audited by more than one Tax Examiner for valuation accuracy and completion of the necessary schedules and support required for filing. We tested that each selected taxpay's account had been reviewed by more than one Tax Examiner, or that the second review was currently in process. We noted the names of the reviewers from the work flow report screen shots.

Testing Results:
We determined that all selected taxpayers accounts (excluding 4 that filed extensions) had been reviewed by at least one Tax Examiner, and verified that the Initial reviewer was different from the person keying in the return from the paper form.
No issues noted.

Substantive tests performed to meet the Valuation assertion:

Testing Procedures:
To confirm that the ATLAS system is accurately calculating the tax due for estate tax forms submitted in the system. We **recalculated** 38 tax forms submitted in the ATLAS system on the "Tax Recalculation" tab of our substantive testing spreadsheet here: [Other Taxes Testing].

We obtained screen shots of the Estate Tax form, page 1, and the tax as calculated by ATLAS from the ATLAS system from the Client for comparison. We input the information from the form into a table and used DOR's table W in column Y to recalculate the tax due. To test for valuation, we determined if the tax payer's revenue was recorded at properly valued amounts and confirmed that the tax form amounts agreed with the amounts shown in the Tax Calculation screen in ATLAS ("Part 2: Tax Computation") as well. We compared the tax due that we calculated with the amount on the form and what was recorded in the system. We also verified the FY23 tax payments in the ATLAS system to amounts recorded as FY23 Revenue for each taxpayer.

Testing Results:

We determined that the ATLAS system is accurately valuing the tax due based on the Estate Tax form and tax table W, and accurately recording the revenue amounts from payments as input into the system.

No issues noted.

H.1.PRG - Cash & Investments

Procedure Step: Summary & Conclusion
Prepared By: EWS, 11/15/2023
Reviewed By: SLB, 11/17/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
We determined the results of substantive tests do not indicate a need to modify our risk assessment (IR, CR and RMM).

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
We determined the quality and quantity of evidence obtained was sufficient and appropriate.

H.1.PRG - Cash & Investments

State of Washington

Procedure Step: Understanding of Line Item

Prepared By: EWS, 5/18/2023

Reviewed By: SLB, 11/15/2023

Record of Work Done:

(1) Prior Audit Exceptions:

We identified no prior audit exceptions from FY2022. In prior years, we noted exceptions when reviewing year-end procedures and journal voucher entries. We will maintain our awareness of the past issue when performing year-end procedures related to Cash and Investments.

(2) Composition & Change Analysis:

Line Item Lead Sheet: [Line Item Lead Sheet]

The Office of the State Treasurer's (OST's) responsibilities include managing the cash flow of all major state accounts and allocating cash to investments (both long-term and short-term). Here, we will gain an understanding of the following balances as shown on the lead sheet:

Cash and Cash Equivalents (sort codes 1A and AC)
Restricted Cash and Investments (sort codes 1H and AF)
Investments (sort code AM)

OST's allocation to investments includes the Local Government Investment Pool (LGIP). LGIP investments (sort codes AM, DJ, BE, LF, and TW) are examined by an external CPA audit, and we will place reliance on their work as documented at: [Work of Other Audits - LGIP].

For interim planning, we selected the majority of cash and cash equivalents, and investment accounts as material accounts in the material balance spreadsheet at: [Interim Planning_Material Balance Spreadsheet]. SAO policy requires that we select all cash balances as material, however, the Higher Education Student Services Fund contains balances that are quantitatively small and spread across multiple Colleges and Universities. UW and Community Colleges will be selected for audit to cover majority of balance. Historically, these balances have been relatively small and immaterial.

To determine the agency/departmental composition of cash and cash equivalents, we ran queries using the 2022 ACFR database to determine amounts for each opinion unit. See our summary of planned coverage by opinion unit on tab "Summary" [Interim Planning_Material Balance Spreadsheet] and coverage for governmental activities: [Interim Planning_Material Balance Spreadsheet].

State of Washington

Cash and Pooled Investments can be separated into the following treasury type codes for analysis:

T = Treasury
U = Treasury Trust
L = Local (Accounts outside control of OST)

We used the treasury codes referenced above to determine cash coverage for each agency and opinion unit. Only the Treasury (T) and Treasury Trust (U) accounts are under the Treasurer's control. Local accounts (L) are controlled by each agency or department. Therefore, in computing our cash and investment(s) line item audit coverage, we will exclude funds held in local accounts.

Restricted Cash and Investments

Restricted Cash and Investment line item(s) include the following GL account balances: *Note: GL Codes listed in SAAM 75.40.20

GL1140 Restricted Cash and Investments - Current Operations

GL code is used to record restricted cash and investments held by escrow agents and trustees that will be used in current operations for the payment of current liabilities.

Fund Statement Sort Code: GL Sort Code AF, Restricted Cash and Investments (AFRS D54 Table)
Statement of Net Position Sort Code: Gov't Wide Sort Code 1H, Restricted Cash and Investments (AFRS D54 Table)

GL 1240 Restricted Cash and Investments - Noncurrent

GL code is used to record cash and investments held by escrow agents and trustees that are restricted and will not be used in current operations.

Fund Statement Sort Code: GL Sort Code AF, Restricted Cash and Investments, DM Restricted Cash and Investments- Non-current (AFRS D54 Table)
Statement of Net Position Sort Code: Gov't Wide Sort Code 1H, Restricted Cash and Investments, 1S Restricted Cash and Investments-Non-current (AFRS D54 Table)

GL1150 Cash with Fiscal Agents

GL code is used to record cash deposited with fiscal agents for the payment of state obligations. Amounts held may be restricted.

OFM requires agencies to complete a disclosure form at FYE to identify any balances that may need to be restricted. OFM staff makes a worksheet adjustment to allocate restricted cash and investment balances at the roll-up fund level. This adjustment is not reflected in AFRS but will affect the balances on the financial statements. The current year adjustments will be reviewed as part of our year-end procedures for the FY23 ACFR audit.

(3) Updates to Material Account Matrix:

We identified no updates to the Material Account Matrix based on our understanding of the line item.

State of Washington

H.1.PRG - Cash & Investments

Procedure Step: Controls - TM$
Prepared By: EWS, 7/19/2023
Reviewed By: SLB, 11/15/2023

Record of Work Done:

Internal controls in the **Treasury Management System (TM$)** address the following balance(s):

Cash and Cash Equivalents
Governmental Activities-GOV-Opinion Unit
Business-Type Activities-BUS-Opinion Unit
Fund FAA-General Fund - Opinion Unit
Fund FBG-Higher Education Special Revenue Fund - Opinion Unit
Fund FEA-Higher Education Endowment - Opinion Unit
Fund FFJ - Health Insurance - Opinion Unit
Aggregate Remaining Funds - NON- Opinion Unit

For the following assertions:
Existence - That cash and cash equivalents are not on hand, in transit, on deposit with third parties (depositories) in the name of the State, or are held by a third party (trust or custodian agent) on behalf of the State.
Completeness - All cash is not reported.
Classification - Cash balances do not reflect a proper cutoff of receipts and disbursements and are not reported in the proper fund type.

Investments
Fund FAA - General Fund - Opinion Unit
Fund FFH - Higher Education Student Services - Opinion Unit
Fund FFJ - Health Insurance - Opinion Unit

For the following assertions:

Existence - That investments are not on hand, in transit, on deposit with third parties (depositories) in the name of the State, or are held by a third party (trust or custodian agent) on behalf of the State.
Completeness - All investments are not reported.
Valuation - There is a risk investments are not reported at fair value.
Classification - Investment balances do not reflect a proper cutoff of receipts and disbursements and are not reported in the proper fund type.

Restricted Cash and Investments
Governmental Activities-GOV - Opinion Unit
Fund FAA-General Fund - Opinion Unit
Fund FBG-Higher Education Special Revenue Fund - Opinion Unit
Aggregate Remaining Funds - NON- Opinion Unit

For the following assertion:
Classification - Balances are appropriately classified as restricted on the financial statements.

NOTE: The controls ensuring that cash is properly restricted take place at OFM, not the Office of the State Treasurer (TRE), and will be addressed at: [Controls - Restricted C&I**]**

Gain an Understanding of Internal Controls
A. Background
Funds:
The Office of the State Treasurer (TRE) invests daily for Fund 076, the State Treasury Income Account for State Agencies, and Fund 523, the Public Funds Investment Account, for the Local Government Investment Pool (LGIP). It also invests on an irregular basis for Fund 845, which is a separately managed account (SMA). This account holds longer term securities, so its activities are irregular.

Bank Contracts:
TRE contracts with two different banks:
The Concentration Account is contracted with US Bank and holds all Treasury and Treasury Trust Funds.
The Custodian Account is contracted with Northern Trust for investment purposes.
TRE uses US Bank to hold the LGIP funds.
An external auditor audits cash held in the LGIP account and we rely on the work of the external auditor.

System:
TRE uses the Treasury Management System (TM$) as the primary system to account for the cash investing cycle. It is a subsidiary accounting

system that uploads to AFRS at the end of each business day.

Key Roles
Three divisions at TRE perform integral parts of the investment process: The Investment Division, the Investment Accounting Division, and the Cash Management Division. The following summarizes their functions:

Investment Division – execute trades throughout the day, enter into TM$. Initiates the wiring of funds to and from Custodian Account.

Investment Accounting Division – verify trade tickets settled for the day and confirm in TM$. Following day, reconcile AFRS balances from previous day.

Cash Management Division – moves money by executing daily wires in or out between the concentration (US Bank), LGIP, verified all wires have completed properly and that accounting documents are entered into TM$, and backs up the Investment Accounting Division for work on custodian (Northern Trust) accounts.

See auditor prepared flowchart for high-level overview of daily process at: **[**OST Flowchart of Key Controls Cash & Inv**]**
We gained an understanding of controls at each division, as documented below:

1. Investment Division Staff
This division directs the investing of excess cash through sales and purchases of investments. Investment staff determine the investing amounts for fund 076 and 523 on a daily basis, and fund 845 when needed. The investment division initiates and wires funds from the LGIP to local governments when they receive requests for withdrawals from members. LGIP staff also account for all incoming wires from local governments that are deposited in the pool. Employees initiate wires to transfer funds from Northern Trust (custodian bank) to fund(s) 076, 523 and 845. **We verified and updated our understanding with James Rosenkoetter - Portfolio Manager, on May 18, 2023.**

2. Investment Accounting Division Staff
Staff ensure portfolio transactions are accounted for properly. Accounting staff also ensure that the bank, TM$, and AFRS reconcile. The Investment Accounting Division cross-trains their staff members so different roles may be performed by multiple staff members. **We verified and updated our understanding with Katie Davis - Investment Accounting Manager, on May 18, 2023.**

3. Cash Management Division Staff
By law, this group acts as the bank for most state agencies. Cash management staff perform duties linking the State's bank concentration account and state agencies. A few agencies, like Higher Education and Employment Security Department, operate locally controlled bank accounts outside TRE. Once the Investment Division initiates a wire, Cash Management Staff receive the authority and responsibility to process wire payments, ACH files (between agencies), and receipt investment transaction sales. **We verified and updated our understanding with Ryan Pitroff - Cash Management Manager on May 18, 2023.**

B. Control Activities

<u>Day 1 - Trade Purchases/Sales</u>
Investment Division Process
Every morning, Shawn Reed, Portfolio Manager, reviews the cash projections to see what will settle that day to determine overnight investment needs. Shawn informed us that she will also check bank balances to review the prior day's activity. Portfolio managers review TM$ reports to determine investment decisions for longer term portfolios.

Placing trades
Investment Division Staff purchase and sell investments throughout the day using the Bloomberg investment platform. Most of these trades settle on the following business day after the actual trade date except for overnight repos (repurchase agreements), which settle on the same day. Chris Mattoon, Portfolio Administrator, uses trade tickets produced in Bloomberg from all investment staff member and enters trades into TM$. Shawn Reed or Amanda Hudson, Portfolio Managers, perform Chris's duties if he is unavailable. Northern Trust, TRE's custodian bank, determines investment valuation. Investment Division staff receive an electronic feed from Northern Trust of the fair market value amount(s) through TM$.

Northern Trust constructs its prices from a variety of sources, with the three main sources used being ICE-IDC, Thomson-Reuters, and Bloomberg. Investment professionals consider their main sources as three of the most highly reputable, trusted, and widely used pricing sources for the current investment market. Investment staff determined they can rely on Northern Trust's fair value pricing based on the reputation of their pricing sources and trusts the provided accuracy. Portfolio managers rely on their experience in trading to determine if Northern Trust provided an unreasonable price. When investment staff determine a price is unreasonable, they run reports in Bloomberg to further evaluate the price. For example, Bloomberg's "B-val" report performs a simulation of a similar security, which is compared to Northern Trust's valuation.

TM$ uses an automated control to alert Investment Division staff when prices change in excess of 10% of their previous value. TM$ generates an email to staff with a report which they use to investigate the price warning **(Key Control #1 - Valuation).** Interest rate fluctuations most commonly trigger the automated control. The automated email contains values from Northern Trust, so investment staff confirm the automated email values to Bloomberg to determine if there was a system error or if the values did change outside of these parameters. Once portfolio staff determine the value is outside of the parameter, a portfolio manager decided to either buy, sell, or hold the investment.

After trades occur, the Portfolio Administrator manually prepares the daily ticket summary in Excel with all the settling purchases and sales for the day. Once complete, the Portfolio Administrator emails the trade tickets and daily ticket summary to the Investment Accounting Division **(Key Control #2 - Existence, Completeness).** Portfolio Managers email trade tickets for investment transactions that could include purchases and sales of treasury notes, bonds, and discount notes to the Accounting Division email box, who then validate the information entered into TM$. Once these trades settle, the tickets will be included on a future daily ticket summary. Repurchase agreements, cash deposits, and cash withdrawals settle on the same date as the trade. Investment Division staff email the Investment Accounting Division with all settled transactions for the day along with the daily ticket summary, which ensures timely settlement. This process concludes Day 1 activities and transitions to Day 2, as further described below.

Initiation and review of incoming and outgoing investment wires
The Investment Division initiates all wires between the Custodian account (Northern Trust) and the Concentration account. Each afternoon, the Investment Division accesses a report from Northern Trust (Custodian) showing that all trades have settled and reports the cash balance in each of the accounts. A Portfolio Administrator matches the cash balances to what is displayed in TM$. If there are no discrepancies, the Administrator initiates the wire. To initiate the wire, an Administrator logs into Northern Trust's website using their user name and password as well as a multi-factor authentication security token. After the wire is initiated, a second employee from the Investment Division releases the wire after comparing the wire amounts to the displayed amount in TM$. Northern Trust's website prevents the same person from initiating and reviewing the wire **(Key Control #3 - Existence).**

Investment Accounting Division Process
As noted above, the Investment Division sends trade tickets for future settlement to the Investment Accounting Division's inbox. Once the Investment Accounting staff receive the new trade tickets in the afternoon, they print out the TM$ "Trade Verification." A fiscal analyst cross checks the tickets to the TM$ "Trade Verification" screen printout, ensuring key information such as fund number, transaction type, CUSIP, settlement amount, trade and settlement date(s) par amounts, interest rate, broker name, and security classification all match. Investment Accounting Staff also compare the information in TM$ on the "Detail Projection Receivable-Cash Receipts" report with the projection report from Northern Trust-"Projected Cash Detail-7day" report **(Key Control #4 - Existence, Completeness).** Investment Accounting Staff confirm reports against the cash detail to confirm values are the same and identify any unexpected changes or transactions in advance. The Investment Division and the Investment Accounting division communicate throughout the day to ensure there are no discrepancies or errors known between departments.

<u>Day 2 - Final Confirmation and Investment Activities</u>
Investment Accounting Division Process
On the day following the trade date, a fiscal analyst repeats procedures from the previous day with updated reports to ensure all information in TM$ is accurate. Another fiscal analyst then reviews the work at a subtotal level by reviewing the Confirmation screen in TM$ and the "Projected Cash Detail-Today" from Northern Trust to re-confirm the final transaction amounts. Chris Mattoon, Portfolio Administrator, from the Investment Division, emails the Accounting Services Division with any differences he sees between Northern Trust and TRE. The fiscal analyst also verifies and adjusts interest amounts where rounding is needed. Rounding typically causes differences between Northern Trust's rate calculations and individual line item subtotals. When values differ, TRE uses Northern Trust values as they are the exact amounts received by Northern Trust.

The fiscal analyst prints out the TM$ Verification Screen and verifies it with the daily trade tickets and other transactions to make sure all the transactions exist and are completely recorded in TM$. The analyst also ties TM$ to a "Daily Ticket Summary" report, which is sent to the Investment Accounting Division by the Investment Division Staff when they are done with the morning trading. The "Daily Ticket Summary" also contains information on reverse repurchase, repurchase trades, and CDs. These transactions trade and settle on the same date and do not have activity on day one (see write up above of day one).

For all three funds (076 Concentration Account, 523 LGIP and 845 SMA), if the total amount received from sales, maturity, and interest, is less than the amount needed for planned purchases, the Investment Division wires the difference between US Bank and Northern Trust. If the amount coming in from maturity is more than the amount of scheduled purchases, TRE receives a wire for the difference from Northern Trust to US Bank. Investment Accounting Staff receive another email from Chris Mattoon, Portfolio Administrator in the Investment Division, to notify them that the investment activities have settled for the day. Investment Accounting then use the Pre-Confirm report and checks it against the TM$ Confirmation Screen **(Key Control #4 - Existence, Completeness)**. This control ensures investment data input is correct, all transactions are recorded in the correct period, transactions actually exist, and TM$ settle amounts are correct.

To create the accounting transactions & documents in TM$, Investment Accounting staff click the "confirmation" button and TM$ automatically sends an email to the Cash Management Division and the Investment Accounting alerting them to the confirmation status.

After the final confirmation in TM$, the fiscal analyst clicks the reports button to receive emailed reports from TM$, which are used for reconciliation purposes later on:

- Purchases for Accounting Transactions for Funds 076 and 523 (and fund 845 if applicable)
- Redemptions for Accounting Transactions for Funds 076 and 523
- Investment Accounting Transactions for Fiscal Month (All funds)
- Cash Receipts Journal Report
- Non-Cash Summary
- Cash Disbursement Journal Report
- Cash Receipts Detail
- Non-Cash Journal Detail
- Cash Disbursements Journal Detail

The analyst accesses TM$ Document Detail Browse to print the cash documents automatically created by TM$, to ensure all transactions are completed. A "V" next to a transaction means it was automatically validated and a "C" means it will be manually validated by the Cash Management Division. The fiscal analyst ticks/matches the details to the transaction summaries, the confirmation screen, and the document detail browse amounts.

Cash Management Division Process

Every afternoon, Vicki Boudia, Banking Services Administrator, or other designated staff, reconciles all of the outgoing payments for investment activity for the day **(Key Control #5 - Existence, Completeness).** Once all wires are confirmed, processed, and settled, Vicki reconciles outgoing payments to TM$ in an excel template called “Afternoon Reconciliation.” It reconciles the total outgoing wire and ACH amounts to the individual wire/ACH transactions. The reconciliation does not net wire transactions. Around 2:00 PM, the Cash Management Division receives the daily automated TM$ email confirming that all investment activity for the day has settled. The email contains the wire template name, and the account and routing numbers used for the investment activities. TM$ generates this email once Investment Accounting Staff click the daily confirmation button within TM$.

Vicki logs into US Bank SinglePoint Application using her password store feature. The application does not require a token ID since there are no wires being initiated or released. Vicki prints the daily outgoing wire report “Current Day Summary and Detail Report” from US Bank Single Point and labels each transaction with the corresponding agency. Vicki highlights the dollar amount, agency, receiving bank and other relevant information on the report. Then she validates that the amounts on the wire out report match the documents cash management receives (the memo from accounting, TM$ email, and EFT JV).

Once Vicki validates all the documents match, she signs the wire out report. Investment staff serve as primary and secondary approvers for all wires and Vicki performs a third review. The reconciliation continues until there are no variances. Finally, Vicki pulls an “ACH Log Browse” Report in TM$ and confirms that the status of all transactions is "match" and "ack" for acknowledged. She prints this report and attaches all supporting documentation, then gives it to the accounting department to file. Vicki pulls the TM$ document listing by category for the outgoing payments. She double checks that both a document and a bank transaction are verified and entered into TM$, which then interfaces with AFRS.

<u>Day 3 (Prior Day) - Reconciliation</u>
Investment Accounting Division Process
Investment Accounting perform the reconciliation of the prior day TM$ Confirmation Report to Northern Trust Cash Transaction Detail Report using an excel spreadsheet. They receive the "Settled Transactions with Debit Credit" from Northern Trust, which shows the daily investment activity and any outstanding cash balance (which should be zero since the goal is to match inflows and outflows of funds from the account) (Day 2). The analyst places the information from the Northern Trust report and the TM$ confirmation screen on a "Cash Balance Reconciliation" spreadsheet, to make sure they agree **(Key Control #6 - Existence, Completeness, Classification).**

Investment Accounting receives scheduled reports by email from AFRS Enterprise Reporting (ER). Investment Accounting staff review the "AFRS Un-Balanced In-Process Report” for funds 076, 523, and 845. This is in the backup reports package.

They review “AFRS Transaction History,” Revenue, & Expenditure reports from ER for the three funds. A fiscal analyst reconciles these reports to TM$. A fiscal analyst performs a reconciliation of the TM$ book amount listed for the investments to the amount recorded in AFRS in GL 1205 (Temporary and/or Pooled Cash Investments). The reconciliation compares information from AFRS Enterprise General Ledger Trial Balance Report to the book value on the TM$ Investment Statement, which involves staff making tick marks on copies of the reports. Staff review the AFRS 4300 GLs (Cash in Custody of State Treasurer) daily by adding the prior day's ending balances from the AFRS General Ledger Trial Balance Reports and compare the total to the TM$ Fund book balance for the day using the "DlyBalRecon" Spreadsheet. In addition to the daily reconciliation, staff performs a monthly reconciliation for fund 076, fund 523 and fund 845 to ensure that the par and market value amount on the monthly Northern Trust Position Report agrees to the monthly investment statement holding report.

Cash Management Division Process

A Fiscal Analyst performs a full reconciliation of the previous day's transactions. The analyst obtains a US Bank Statement from the bank's web site and compares it to the TM$ Valid Bank Transactions Reconciliation Report Screen for the previous day **(Key Control #6 - Existence, Completeness, Classification).**

<u>How transactions are recorded in AFRS:</u>
TM$ automatically prepares vouchers for upload into AFRS. Agency Accounting staff prepare manual JVs for items like miscellaneous bank fees and reimbursements (076). An Accounts Payable staff member creates the JV and the Accounts Payable Manager reviews the JV's daily before releasing them. IT staff upload the automatically prepared accounting documents for the entire agency. On the following day, a fiscal analyst reconciles the AFRS general ledger(s) relevant to cash, the balance-in-process report, and TM$ to ensure they agree and amounts are posted to the proper account. The Investment Accounting Manger performs a high-level review of this reconciliation, which is also performed at the end of each month.

Classification of Investments between Current and Non-current at Year-end
TRE uses GL1205 for all investments throughout the year, which is reconciled daily as described above. At the end of the year, Investment Accounting staff prepare JV's to reclassify investments based on their scheduled maturity date. TM$ produces the report "Investment Statement for General Ledger Postings" for Funds 523 (LGIP), 076 (Concentration) and 845 (SMA). At fiscal year-end, the Investment Accounting Manager and other staff work together to run the TM$ report, export it into Excel, and review the worksheet to determine if any corrections are needed. Based on the maturity date(s), the report allocates the investments into the following separate categories:

GL 1205	Temporary and/or pooled cash investments-liquid/mature 3 months from purchase (short-term investments)
GL 1209	Short-term portion of long-term investments (maturing by 6/30/2022)
GL 1210	Investments-Maturing past 6/30/2022 (non-current)

Once Investment Accounting staff have determined the correct allocation and made necessary adjustments (if any), they enter a JV in AFRS to apportion the balances among the appropriate accounts. A Fiscal Analyst prepares and enters the JV and the Accounting Manager approves and releases the batch. Once released into AFRS, TRE prepares a "Disclosure Form A" with the final amounts, which OFM requires annually. The form allocates investments by type and by maturity. **(Key Control #7 - Classification, Valuation).**

Key controls are as follows:

Key Control 1 (Valuation): Valuation of Investments **-** When an investment is above or below a certain threshold amount, (below $90 per unit or above $110 a unit) TM$ will alert the Investment Division with an automated email Staff will investigate the price warning and determine if they should buy, sell, or hold the security.

Key Control 2 (Existence, Completeness): Verification of Trade Data – Investment Division staff input data for trades into TM$ daily. The trade tickets are emailed to Investment Accounting, who check that the information has been entered correctly on the trade verification screen in TM$.
Key Control 3 (Existence): Investment Division Staff initiate and review all incoming and outgoing investment wires.
Key Control 4 (Existence, Completeness): Re-verification of activity for today's confirmation and new trades on settlement date - Investment Accounting reconcile a "Projected Cash Detail - Today" report from Northern Trust to the TM$ "Investment Custody Wires" report. In addition, a daily reconciliation of the TM$ pre-confirmation report to all of the transactions of the daily investing activities is performed.
Key Control 5 (Existence, Completeness): Afternoon reconciliation of outgoing payments - Cash Management Staff reconcile all outgoing investment activity for the day.
Key Control 6 (Existence, Completeness, Classification): Reconciliation of Northern Trust, TM$ and AFRS - Investment Accounting Staff compare various TM$ reports to Northern Trust reports from the prior day to ensure nothing has been posted to the incorrect fund.
Key Control 7 (Classification, Valuation): Investment Accounting staff allocates investments between current and non-current based on maturity date in TM$.

Noted Weaknesses are as follows:
None noted.

H.1.PRG - Cash & Investments

Procedure Step: Key Control #1 - TM$ (Manual)
Prepared By: EWS, 6/12/2023
Reviewed By: SLB, 11/15/2023

Record of Work Done:

Cash & Investments - Valuation
Key Control #1: TRE receives automated emails when investment values break thresholds for TM$.

The understanding for this system is documented above in the "Controls - TM$" step [Controls - TM$].

1. Confirmation of Key Manual Control:

Key Control 1: Valuation of Investments - When an investment is above or below a certain threshold amount, (below $90 per unit or above $110 a unit) TM$ will alert the Investment Division with an automated email and they will investigate the price warning.

We reviewed an email, provided by Chris Mattoon, addressed to the "TRE MI Investment Team Mailbox" from the "TRE MI Invest TM$ Mailbox" with the following information:

The following prices are outside the normal price range:
TM$ Cusip = 91282CAY7; Date = 05/22/2023; Price = 86.777344

The email included a total of 47 alerts on 05/23/2023 for prices below 90.

The price threshold is 90.0 - 110.0, anything outside the threshold will trigger this email notification. Investment outside the threshold amount triggered the automated email of the price warning. We followed-up with Chris Mattoon on 6/9/2023 to determine what investigating, if any, was done regarding this alert. Investment staff confirmed the numbers provided by Northern Trust against Bloomberg to determine if Northern Trust provided incorrect values. The portfolio manager then determined which investments in the automated alert should be bought, sold, or held. ***No issues noted.***

Noted Weaknesses are as follows:

None

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

H.1.PRG - Cash & Investments

Procedure Step: Key Control #2 - TM$ (Manual)

Prepared By: EWS, 6/16/2023

State of Washington

Reviewed By: SLB, 11/15/2023

Record of Work Done:

Cash & Investments - Existence, Completeness
Key Control #2 - Investment division staff input and verify trade data for TM$.

The understanding for this system is documented above in the "Controls - TM$" step.

1. Confirmation of Key Manual Control:
Key Control 2: Verification of Trade Data – Investment Division staff input data for trades into TM$ daily. The trade tickets are emailed to Investment Accounting, who check that the information has been entered correctly on the trade verification screen in TM$.

Investment Division:
We reviewed a Bloomberg trade ticket dated 5/11/2023 for US Treasury Bonds.
Cusip 912797FR3; Broker = DB; Settle date = 5/12/2023; Quantity = 250,000,000; Principal = $248,331,250; Disc Rate = 4.4500; Yield = 4.4500.
TRE staff noted this trade as "42732 Sell LGIP 5.12". We traced the trade ticket to the "Daily Ticket Summary" excel spreadsheet and TM$ Confirmation Screen. We confirmed that everything matched. ***No issues noted.***

We reviewed the Northern Trust "Projected Cash Detail -Today" report, dated 5/12/2023. The report showed the following:
12 May 2023, 912797FR3 "UNITED STATES OF AMER TREAS BONDS T-BILL" Shares 05-11-23 At a price of $99.320738 NET T198199810

To confirm the transaction on Northern Trust "Projected Cash Detail -Today" report, we reviewed the 5/12/2023 TM$ Trade Verification Screenshot. All transaction information matched. ***No issues noted.***

Accounting Division:
We reviewed the trade tickets that the Investment Division emailed to the Investment Accounting Division, dated 5/11/2023. The trade tickets include information such as the CUSIP number, broker name, amount, and trade date. We noted that tick marks were made next to each piece of input information (e.g. buy/sell, quantity, principal, and settle date) of the investment on the tickets. We reviewed the Daily Ticket Summary for 5/12/2023 and noted it ties to the TM$ Trade Verification Screenshot ***No issues noted.***

Noted Weaknesses are as follows:

None

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

H.1.PRG - Cash & Investments

Procedure Step: Key Control #3 - TM$ (Manual)

Prepared By: EWS, 6/7/2023

Reviewed By: SLB, 11/15/2023

Record of Work Done:

Cash & Investments - Existence
Key Control #3 Investment Wire Review for TM$

The understanding for this system is documented above in the "Controls - TM$" step.

1. Confirmation of Key Manual Control:
Key Control 3: Investment Division Staff initiate and review all incoming and outgoing investment wires.

Traced Transaction Detail:
We reviewed the TM$ Confirmation Screen for 5/12/2023 and confirmed that Invoice #42732, Cusip 912797FR3, for $248,331,250 (the trade being traced) was included under Portfolio 523 (LGIP), added by "Chris090" (Chris Mattoon). The net amount of trades listed for 523 is $243,659,861.11, which is the incoming wire amount. We compared the TM$ "Investment Custody Wires and Bank Transfers" report for 05/12/2023 to the TM$ Confirmation Screen and noted a planned wire to the LGIP account for $543,659,861.11. We also noted an incoming wire for $243,659,861.11 to the LGIP account on the US Bank "Previous Day Summary and Detail." We tied the traced transaction to documents used

to confirm this control. ***No issues noted.***

Full Control Walk-through:
We reviewed the TM$ Confirmation Screen for 5/12/2023 and noted 11 wires: Fund 523 - $3,843,659,861.11 IN and $3,400,000,00 OUT for a NET of $243,659,861.11.

We reviewed the 5/12/2023 TM$ Investment Custody Wires report and the "Previous Day Summary and Detail" reports from US Bank for the LGIP account and Custodian accounts. The TM$ Investment Custody Wires report shows outgoing wires to Northern Trust for $101,766,000 from the Concentration Account, $275,250 from the Treasury and Treasurer's Trust Concentration Account, and $243,659,861.11 from the LGIP Account. We reviewed the confirmation email for the trades that have settled for 5/12/2023. Chris Mattoon sent the email to the TRE MI Investment Team Mailboxes and noted "All trades have settled. Wires (2) are ready for approval please." Staci Ashe replied to the email from Chris Mattoon on the same day noting "Two wires approved." This confirmed that the wire was prepared by Chris and approved by a second Portfolio Administrator.

We also reviewed the "Projected Cash Detail - Today" report (also called the Settlements Report) as well as the Northern Trust "Cash Activity Detail" report for 5/12/2023, which had agreeing amounts of received funds of $243,659,861.11. This confirmed the wire was in a pending status on the Settlements Report and that the wire moved funds from LGIP to Northern Trust on the Cash Activity Detail. ***No issues noted.***

Noted Weaknesses are as follows:
None

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

H.1.PRG - Cash & Investments

Procedure Step:	Key Control #4 - TM$ (Manual)
Prepared By:	EWS, 7/14/2023
Reviewed By:	SLB, 11/15/2023

Record of Work Done:

Cash & Investments - Existence, Completeness
Key Control #4 Staff re-verify daily trade activity and perform a daily reconciliation for TM$

The understanding for this system is documented above in the "Controls - TM$" step.

1. Confirmation of Key Manual Control:
Key Control 4: Re-verification of activity for today's confirmation and new trades on settlement date - Investment Accounting reconcile a "Projected Cash Detail - Today" report from Northern Trust to the TM$ "Investment Custody Wires" report. In addition, a daily reconciliation of the TM$ pre-confirmation report to all of the transactions of the daily investing activities is performed.

Investment Accounting Division staff reconcile a "Projected Cash Detail - Today" report (also called the Settlements Report) from Northern Trust to the TM$ "Investment Custody Wires" report. We reviewed a daily reconciliation of the TM$ pre-confirmation report to all of the transactions of the daily investing activities is performed as well as a Trade Verification Screenshot.

We reviewed a TM$ Trade Verification Screen that contained trades to be settled on 5/12/2023, "Projected Cash Detail - Today" report from Northern Trust for 5/12/2023, the "Daily Ticket Summary" report for 5/12/2023, and the TM$ "Investment Custody Wires" report for settlement date 5/12/2023. We noted that staff use tickmarks across the Trade Verification Screen and there all boxes in the “Verified” column were marked. We confirmed the amounts between the reports tied. Investment Accounting Division performs this comparison to re-confirm the final transaction amounts.

We reviewed the Pre-Confirmation Report from TM$ that shows information such as the Fund, CUSIP, Trade Date, Settlement Date, Settlement Amount, and Par value. We traced Bloomberg trade ticket for Invoice 42732 to the Pre-Confirmation Report for 5/12/2023 under Fund 523, Custody In Sale. The transaction tied to the confirmation screen in TM$ and the "Projected Cash Detail - Today" report from Northern Trust. *No issues noted.*

Noted Weaknesses are as follows:
None

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be

effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

H.1.PRG - Cash & Investments

Procedure Step: Key Control #5 - TM$ (Manual)
Prepared By: EWS, 7/14/2023
Reviewed By: SLB, 11/15/2023

Record of Work Done:

Cash & Investments - Existence, Completeness
Key Control #5 Cash Management Staff reconcile all outgoing investment activity for the day for TM$

The understanding for this system is documented above in the "Controls - TM$" step.

1. Confirmation of Key Manual Control:
Key Control 5: Afternoon reconciliation of outgoing payments - Cash Management Staff reconcile all outgoing investment activity for the day.

Auditor's Note: When the daily trades result in a net wire out, TRE staff utilize an EFTJV Recon file to ensure the amounts paid are correct. When the trades result in a net wire in, TRE staff utilize a DIB screenshot and reconcile it against the trades for the day.

We reviewed an email from Ryan Pitroff's outlook with the subject -"5/12/2023 - Daily Confirmation WOST - InvAcct", 1:20 PM. The email lists details of a wire confirmation with Northern Trust for a net amount of $243,659,861.11. We observed that the US Bank "Previous Day Summary and Report" statement for 5/12/2023 recorded an Incoming Fedwire for $243,659,861.11. The transaction ties to email records noted in the Key Control 3 confirmation. The DIB Screenshot for 5/12/2023 confirmed the amount of $243,659,861.11 (difference of listed "custody in" and "custody out" amounts). We noted that the amounts on the bank statement and the TM$ reconciliation matched. We also reviewed an AFRS JV (23051201) and A8 (23051201) from Fund 523 for a credit of $243,659,861.11, which ties to the transaction. ***No issues noted.***

Noted Weaknesses are as follows:
None

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

H.1.PRG - Cash & Investments

Procedure Step: Key Control #6 - TM$ (Manual)
Prepared By: EWS, 7/13/2023
Reviewed By: SLB, 11/15/2023

Record of Work Done:

Cash & Investments - Existence, Completeness, Classification
Key Control #6 Investment Accounting Staff compare various TM$ reports to Northern Trust reports to ensure nothing has been posted to the incorrect fund for TM$

The understanding for this system is documented above in the "Controls - TM$" step.

1. Confirmation of Key Manual Control:
Key Control 6: Reconciliation of Northern Trust, TM$, AFRS, and US Bank - Investment Accounting Staff compare various TM$ reports to Northern Trust reports from the prior day to ensure nothing has been posted to the incorrect fund.

We reviewed the documents listed in the table below. We noted that the custodian (Northern Trust), AFRS, TM$, and US Bank all agree that the daily change to Fund 523 was $243,659,861.11. *No issues noted.*

Daily Change	WOST Email (net)	Settled Trans (NT)	Cash Activity (NT)	AFRS JV & A8 (net)	Investment Cust. Wires (TM$)	Trade Verification Screen (TM$)	US Bank Statement	Accounting Recon
	$243,659,861.11	$243,659,861.11	$243,659,861.11	$243,659,861.11	$243,659,861.11	$243,659,861.11	$243,659,861.11	$243,659,861.11

We reviewed the documents listed in the table below. We noted that AFRS ties to TM$ Investment Statement balance for Fund 523. Northern Trust daily change agrees to the US Bank Statement. The accounting reconciliation ties the AFRS GLs, TM$ Fund 523 Investment Statement, Northern Trust and US Bank daily changes together to ensure that Northern Trust, TM$, AFRS, and US Bank information is correct. *No issues noted.*

Documents & Accounts	AFRS Subsidiary GL TB	TM$ 523 Investment Stmt	Settled Transactions (NT)	US Bank Statement	Accounting Reconciliation
AFRS GL 1205	$23,791,503,396.11	$23,791,503,396.11			
AFRS GL 4310	$(5,177,147.85)				$(5,177,147.85)
AFRS GL 4320	$6,002,496.70				$6,002,496.70
Daily Change			$243,659,861.11	$243,659,861.11 (net)	$243,659,861.11 (net)
Account Balance				$825,348.85	$825,348.85

Noted Weaknesses are as follows:

None

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

State of Washington

Procedure Step: Key Control #7 - TM$ (Manual)
Prepared By: EWS, 6/7/2023
Reviewed By: SLB, 11/15/2023

Record of Work Done:

Cash & Investments - Classification, Valuation
Key Control #7 - Current and Non-current investment determination for TM$

The understanding for this system is documented above in the "Controls - TM$" step.

Auditor's Note: Substantive testing for this key control cannot occur before Phase 2 cut-off in September 2023.

1. Confirmation of Key Manual Control:
Key Control 7: Investment Accounting staff allocates investments between current and non-current based on maturity date in TM$

Our confirmation uses documents retained in the PY audit file under TM$ Testing, Test 6.
We reviewed the "Investment Statement for General Ledger Postings" for 6/30/2022 from TM$. It shows information such as the Investment number, CUSIP, Settlement Date, Trade Date, and Days from settlement or trade to maturity. The investments are organized in columns by which ones should remain in GL1205 (where all investments are held throughout the year), or be moved to GL 1209 or GL 1210 (based on maturity date).
GL1205 = Liquid/Mature 3 months from purchase
GL1209 = Maturing by 6/30/2023
GL1210 = Maturing past 6/30/2023

If investments have been allocated to the incorrect column, staff will mark the report and deduct or add amounts to the total at the end of the report. The report we looked at had check marks next to the GL account totals verifying they were the correct amounts to be allocated.

We reviewed the AFRS JV "A7-A" used to reallocate the funds. We tied the following transaction details to the "Investment Statement for General Ledger Postings":
1209v/1205 – Fund 076 - $4,996,673,620.84
1210v/1205 – Fund 076 - $7,619,555,081.18

1209v/1205 – Fund 523 - $6,506,466,181.25
1210v/1205 – Fund 523 - $3,090,703,851.62
1209v/1205 – Fund 845 - $151,190,780.93
1210v/1205 – Fund 845 - $712,320,112.90

The JV is marked as prepared by Katie Davis on 7/27/2022 and signed as approved by Denise Nguyen on 8/3/2022. ***No issues noted.***

Noted Weaknesses are as follows:
None

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

H.1.PRG - Cash & Investments

Procedure Step:	Risk Assessment - TM$
Prepared By:	EWS, 10/18/2023
Reviewed By:	SLB, 11/15/2023

Record of Work Done:

(1) Inherent Risk (IR):
Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:
Existence **- MAX**
Completeness **- MAX**
Classification - **MAX**
Valuation **- MAX**

(2) Control Risk (CR):
We assessed control risk as follows for each system and relevant assertion:
Existence - **MAX**
Completeness - **MAX**
Classification - **MAX**
Valuation - **MAX**

We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:
Existence - **MAX**
Completeness - **MAX**
Classification - **MAX**
Valuation - **MAX**

(4) Testing Strategy:
Cash and Investments in the Treasurer's Local Government Investment Pool (LGIP) are reported in a stand alone financial statement which will be audited by a CPA firm and reliance will be placed on that audit.
See work performed here: [Work of Other Audits - LGIP].

Based on our assessment of the risk of material misstatement, we plan to perform the following tests:

AU-C Guidance for Audit Evidence:
AU-C Section 501 outlines specific considerations for selected audit items to ensure auditors obtain sufficient and appropriate audit evidence. 501 reference paragraphs .A1-.A4, "Investments in Securities and Derivative Instruments" requires the auditor to:

A1. - Review Section 540 and address the auditor's responsibilities relating to accounting estimates, including fair value accounting estimates and related disclosures, in an audit of financial statements. This is **not applicable** for the Treasurer's cash and investments as it is for audits of financial statements for periods ending on or after December 15, 2023, by SAS No. 143. We will consider this for the FY2024 ACFR.

A2. - Evaluate audit evidence for assertions about investments in securities and derivative instruments because the assertions, especially those about valuation, are based on highly subjective assumptions or are particularity sensitive to changes in the underlying circumstances. This is **not applicable** for the Treasurer's cash and investments because they do not invest in derivatives, and the Treasurer's portfolio consists of high quality, primarily short-term cash and investments strictly regulated by statute.
A3. - Paragraph Deleted by issuance of SAS No. 143, July 2020 and **does not apply**.
A4. - Investments in Securities When Valuations are Based on Cost. Procedures to obtain evidence about the valuation of securities that are recorded at cost may include inspection of documentation of the purchase price, confirmation with the issuer or holder of those securities, and testing discount or premium amortization either by recomputation or through the use of analytical procedures. We **will include these considerations** as part of our testing procedures.
AU-C Section 501.05 and .06 do not apply to this line item as the Treasurer records investments at fair value. AU-C Section 501.07-.11 were deleted by the issuance of SAS No. 143, July 2020, and **do not apply** to this line item.

Based on our assessment of the risk of material misstatement and our review of the above audit evidence requirements, we plan to perform the following tests:

Confirm the balances for Fund 076, Fund 523, and Fund 845 in TM$ with the amount recorded at US Bank at year-end. (Existence)
Confirm par and fair value amounts for Fund 076, Fund 523, and Fund 845 in TM$ with the amount recorded in Northern Trust at year-end. (Valuation)
Recalculate the investment income and accrued revenue amounts to ensure accuracy, completeness, and reliability of TM$. (Valuation, Completeness)
Reconcile the balances for Fund 076, Fund 523, and Fund 845 in TM$ with the amounts recorded in AFRS at year-end. (Existence)
Reconcile the aggregate amount of cash in general ledger numbers 4310 and 4320 to the Treasurer's cash balance in TM$ at year-end. (Existence)
Review year-end journal entries for the apportionment of cash between current and long-term investments. (Classification)

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

H.1.PRG - Cash & Investments

Procedure Step:	Controls - Restricted C&I
Prepared By:	EWS, 5/24/2023
Reviewed By:	SLB, 11/15/2023

State of Washington

Record of Work Done:

Internal controls for the **worksheet adjustments** address the following balance(s):

Restricted Cash and Investments

Governmental Activities-GOV - Opinion Unit
Fund FAA - General Fund - Opinion Unit
Fund FBG - Higher Education Special Revenue Fund - Opinion Unit
Aggregate Remaining Funds - NON- Opinion Unit

For the following assertion:
Classification - Balances are appropriately classified as restricted on the financial statements.

<u>Gain an Understanding of Internal Controls</u>
We met with Sara Rupe, Senior Staff Consultant, on May 19, 2023, to review OFM's process of accounting and reclassifying restricted cash and investments.

OFM State Wide Accounting requires **<u>all</u>** state agencies complete a year-end "Cash and Investments Restricted Disclosure" to determine the classification of all cash and investments not available in current operations or restricted for a specific purpose **(Key Control 1- Classification).**

AFRS loads data into the disclosure form application each night, which automatically prefills the GL data for certain forms, including the Cash and Investment Restricted disclosure form. The disclosure form includes the following sections:

Question 1 - Prefills Account and amount for GL Code 1140 (Restricted Cash and Investments-Current Operations) at June 30
Question 2 - Prefills Account and amount for GL Code 1240 (Restricted Cash and Investments- Non-Current) at June 30
Question 3 - Prefills Account and amount for AFRS in GL Code 1150 (Cash with Fiscal Agents) at June 30
Question 4 - Unspent Bond Proceeds: Amounts are not prefilled but contain data in dropdown boxes. The disclosure form contains the following dropdown GLs: 1110, 1120, 1205, 1206, 1209, 1210, 4310.
Question 5 - Other Externally Restricted Cash & Investments: Agencies holding funds for balances and accounts outside of these sections (other externally restricted cash and investments held outside the state treasury) must provide the account, GL Code, amount and nature of the external restriction.

Agencies complete the disclosure form online. OFM provides instructions on how to complete the form in SAAM 90.40.20.

Laura Lopez initiates an analytical pre-review of the related GLs before agencies begin submitting disclosure forms. The analysis includes certifying AFRS data to ensure the forms are complete and accurate **(Key Control 2 - Classification).** She reviews the composition of the balances then reviews unusual GL information. Laura also reviews submitted disclosure forms to ensure the information provided is complete and that the balance is properly restricted or should be restricted based on the agency's explanation. Each agency head or CFO must certify that the statements listed are true for their agency on the "Financial Disclosure Certification" form **(Key Control 3 - Classification).** The certification process includes affirming AFRS data and any other statements are accurate and complete. See SAAM 90.40.95 for the certification. If Laura determines that an agency needs to prepare a disclosure, she contacts the agency to have them prepare and sign it. Sara and Anna review the final fund statements **(Key Control 4 - Classification).**

How transactions are recorded in AFRS:
Based on the analysis described above, OFM performs a worksheet adjustment outside of AFRS. OFM manually adjusts the fund statements and does not upload them to AFRS because adjustments work in conjunction with the data provided by AFRS. OFM uses WDesk, a program that has separate columns to include AFRS amounts, adjustments made, and new amounts (AFRS + adjustments). If OFM identifies an error before prior to Phase 2 financial closure, they request that the agency makes a correction in AFRS.

Summary of Key Controls

Key Control 1 - OFM State Wide Accounting requires **all** state agencies complete a year-end "Cash and Investments Restricted Disclosure" to determine the classification of all cash and investments not available in current operations or restricted for a specific purpose
Key Control 2 - Prior to the receipt of all disclosure forms, a fiscal analyst (Laura Lopez) starts an analytical pre-review of the related GLs. This includes certifying AFRS data to ensure the forms are complete and accurate.
Key Control 3 - Each agency head or CFO must certify that their statements listed are true for their agency on the Financial Disclosure Certification form.
Key Control 4 - The final fund statements are reviewed by Sara Rupe and Anna Quichocho.

Noted Weaknesses are as follows:
None noted.

H.1.PRG - Cash & Investments

Procedure Step:	Key Control #1 - OFM (Manual)
Prepared By:	EWS, 6/21/2023
Reviewed By:	SLB, 11/15/2023

Record of Work Done:

Restricted Cash & Investments - Classification
Key Control 1 - Cash & Investments Restricted Disclosure for AFRS

The understanding for this system is documented above in the "Controls - Restricted C&I" step [Controls - Restricted C&I].

1. Confirmation of Key Manual Control:
Key Control 1 - OFM State Wide Accounting requires **all** state agencies complete a year-end "Cash and Investments Restricted Disclosure" to determine the classification of all cash and investments not available in current operations or restricted for a specific purpose.

This control confirmation uses documents from the previous fiscal year.
We viewed the disclosure form for agency 540 (Employment Security Department) for fiscal year 2022 on 6/21/2023 using the following criteria: Enterprise Reporting, Financial Reports, Disclosure Reports, State, Cash/Investment, Restricted Cash and Investments. We noted that GL Code 1150 totaled $3,471,284,901. OFM determined the funds were correctly classified. ***No issues noted.***

We reviewed the phase II planning financial disclosures at [Financial Disclosures] to determine if all agencies submitted Financial Disclosure Certification Forms. Our work reviewed all required disclosures, by agency, and determined that all agencies submitted the appropriate and required disclosures. ***No issue noted.***

Noted Weaknesses are as follows:
None

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

H.1.PRG - Cash & Investments

State of Washington

Procedure Step: Key Control #2 - OFM (Manual)

Prepared By: EWS, 6/21/2023

Reviewed By: SLB, 11/17/2023

Record of Work Done:

Restricted Cash & Investments - Classification

Key Control 2 - Analytical pre-review of related GLs for AFRS

The understanding for this system is documented above in the "Controls - Restricted C&I" step [Controls - Restricted C&I].

1. Confirmation of Key Manual Control:

Key Control 2 - Prior to the receipt of all disclosure forms, a fiscal analyst (Laura Lopez) starts an analytical pre-review of the related GLs. This includes certifying AFRS data to ensure the forms are complete and accurate.

We obtained and reviewed the support of adjustments for FY23. See: [Adjustments]. We reviewed the State Financial Disclosure Certification form as part of year-end audit procedures. See: [Financial Disclosures].

Noted Weaknesses are as follows:

None

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

H.1.PRG - Cash & Investments

State of Washington

Procedure Step:	Key Control #3 - OFM (Manual)
Prepared By:	EWS, 6/21/2023
Reviewed By:	SLB, 11/17/2023

Record of Work Done:

Restricted Cash & Investments - Classification
Key Control 3 - Agency Restricted Cash & Investment Certification for AFRS

The understanding for this system is documented above in the "Controls - Restricted C&I" step [Controls - Restricted C&I].

1. Confirmation of Key Manual Control:
Key Control 3 - Each agency head or CFO must certify that their statements listed are true for their agency on the Financial Disclosure Certification form.

We reviewed the State Financial Disclosure Certification form as part of year-end audit procedures. See: [Financial Disclosures]. **No issues noted.**

Noted Weaknesses are as follows:
None

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

H.1.PRG - Cash & Investments

Procedure Step: Key Control #4 - OFM (Manual)

State of Washington

Prepared By: EWS, 6/21/2023
Reviewed By: SLB, 11/17/2023

Record of Work Done:

Restricted Cash & Investments - Classification
Key Control 4 - Final Fund Statement Review for AFRS

The understanding for this system is documented above in the "Controls - Restricted C&I" step [Controls - Restricted C&I].

1. Confirmation of Key Manual Control:
Key Control 4 - The final fund statements are reviewed by Sara Rupe and Anna Quichocho.

We received the financial statements [2023 ACFR Version No. 2 11.09.2023] on November 9, 2023. We reviewed our internal control understanding and confirmed internal controls over financial statement preparation in [Financial Statement Preparation]. **No issues noted.**

Noted Weaknesses are as follows:
None

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

H.1.PRG - Cash & Investments

Procedure Step: Risk Assessment - Restricted C&I
Prepared By: EWS, 8/28/2023

State of Washington

Reviewed By: SLB, 11/15/2023

Record of Work Done:

(1) Inherent Risk (IR):
Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

Classification – MAX

(2) Control Risk (CR):
We assessed control risk as follows for each system and relevant assertion:

Restricted Cash & Investments (Classification) – MAX

MAX – We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

Restricted Cash & Investments (Classification) – MAX

(4) Testing Strategy:
Based on our assessment of the risk of material misstatement, we plan to perform the following tests:

Obtain year-end cash and investment disclosure forms and verify restricted amounts are properly reported in the proper GL.
Obtain and review worksheet adjustments prepared by OFM restricting cash or investments in the governmental or business-type activities, general fund, and aggregate non-major opinion units.

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

State of Washington

H.1.PRG - Cash & Investments

Procedure Step: Substantive Test

Prepared By: EWS, 11/15/2023

Reviewed By: SLB, 11/17/2023

Record of Work Done:

Substantive tests performed to meet the Existence / Occurrence assertion:

Test 1: Confirm the balances for Fund 076 Concentration, Fund 523 LGIP, and Fund 845 SMA, in TM$ with the amount recorded by US Bank as of June 30, 2023 (Existence)

We obtained and reviewed the bank reconciliations performed by Ryan Pitroff, Banking Services Manager, Cash Management Division, for all three funds at 6/30/2023. See bank reconciliations and TM$ Balance Summaries for Fund 076 Concentration, 523 LGIP and 854 SMA here: **[**Tests 1, 5 Bank Reconciliation Documents**]**. We tied the balances of each fund to the corresponding US Bank statements for each account, see here: **[**Tests 1, 5 Bank Reconciliation Documents**]**. We compared the balance per US Bank, to the balance in the TM$ balance summaries, and as shown on the bank reconciliation worksheet for each account. We selected the largest positive and negative reconciling items, amounting to 90.1% of the total, to do further testing on. See summary of coverage selection at: [OST_Test_1] and detail of testing on the Fund 076 reconciliation worksheet here: [OST_Test_1]. **We confirmed that the reported balances for Fund 076 Concentration, Fund 523 LGIP and Fund 845 SMA existed as of 6/30/2023 per TM$ and US Bank.** *No issues noted.*

Test 4: Reconcile balances for Fund 076, Fund 523, and Fund 845 in TM$ with the amount recorded in AFRS at year-end and Disclosure Form A- Investment Disclosures (Existence)

We reconciled the investment balances for each fund reported in TM$ with balances reported in AFRS, and Disclosure Form A (Investment Disclosures). See testing performed at: [OST_Test_4]. We ran AFRS queries to obtain the AFRS balances for Funds 523, 076, and 845. See tab "2023 AFRS Investment Balance(s)". We obtained the Investment Disclosures from Denise Nguyen, Accounting Services Manager. We included the Disclosure Form A for each fund within the OST_Test_4 spreadsheet, see tab(s) "FY23_Disclosure_Form_523/076/845". We linked amounts on the "2023 Reconciliation" tab directly to supporting numbers on the Disclosure Form (Book Value) and AFRS queries. We also included the Investment Statements for 6/30/2023 from TM$ for all Funds to ensure they also agreed to Disclosure Form A. See tab(s) "Fund 523/076/845 GL" in the above referenced work paper. **We were able to reconcile the balances for Funds 076, 523, and 845 (Existence) without exception.** *No issues noted.*

Test 5: Reconcile the aggregate amount of cash in GL's 4310 and 4320 to the Treasurer's cash balance in TM$ at year-end (Existence)

We obtained the aggregate amount of cash in GLs 4310 -Current Treasury Cash Activity, and 4320 -Beginning Treasury Cash Balance Admin Agency, from the FY23 ACFR database. We then reconciled the aggregate amount of cash in GLs 4310 and 4320 for all agencies and all funds with the amount of cash reported by OST. See detailed testing performed here: [OST_Test_5].

We reconciled the total Treasury and Treasury Trust cash reported on the Statement of Receipts and Disbursements [See: Test 5 Receipts and Disbursements June 2023] for the State Treasury with the amounts reported in AFRS for GLs 4310 and 4320. Fund(s) 076 and 523 are not included in the Treasury's Receipts and Disbursements Report, so we subtracted the amount of cash in Fund 076 (Treasury/Trust fund) and Fund 523 (LGIP) from the aggregate amount of cash in GLs 4310 and 4320. We linked AFRS amounts on the "Reconciliation" tab directly to supporting amounts from AFRS queries. Ending book balance for Treasury and Treasury Trust Funds was $20,088,584,909.56. Total reported in AFRS excluding Fund(s) 076 and 523 was $20,088,584,909.56. **We were able to determine that reported cash and investments existed as of the end of the period, without exception.** *No issues noted.*

We also reconciled the amount of cash reported in GLs 4310 and 4320 with the amount of cash held in the concentration account (Fund 076). We began with the aggregate amount of cash in GLs 4310 and 4320 and added the outstanding warrants reported on the Statement of Receipts and Disbursements [Test 5 Receipts and Disbursements June 2023]. We subtracted the LGIP cash balance in AFRS of $2,113,295.65 and cash on hand in the amount of $65,233.16 per the Daily Cash on Hand Activity Report at: [Test 5 Concentration TM$ Screenshots]. We added $675.28 due to an outstanding warrant in Fund 076 per TM$ [Test 5 Concentration TM$ Screenshots]. Additionally, we subtracted bank errors in the amount of $11,235.66 per TM$: [Test 5 Concentration TM$ Screenshots]. The remaining difference was explained by reviewing Ryan Pitroff's June 2023 reconciliation for the concentration account: [Tests 1, 5 Bank Reconciliation Documents]. We removed agency deposits recorded by OST as of July 1st and added in NSF adjustments, bank adjustments, and the physical deposit exception. See detailed testing performed here: [OST_Test_5]. We reconciled the aggregate amount of cash in GL's 4310 and 4320 to the Treasurer's cash balance in TM$ at year-end (Existence) without exception**.** **No issues noted.**

Substantive tests performed to meet the Completeness assertion:

Test 2: Confirm investments tie between Northern Trust and TM$ (Completeness):

We used the Northern Trust Asset Detail report [OST_Test_2 & Test 2 Investment Recon NT to TM$ June2023] for Funds 076, 523, and 845 to reconcile total investment balances at par and market value(s) per TM$ to the Custodian Bank at 6/30/2023. We obtained the Northern Trust Asset Detail and identified securities reported in TM$ that were not reported on the asset detail. We obtained bank statements to confirm that all reported investments in TM$ valid support from an entity apart from the Treasurer's office. **We determined that TM$ contains a complete list of investments between what is reported by Northern Trust and banks holding cash investments.** *No issues noted.*

Substantive tests performed to meet the Valuation assertion:

Test 3: Confirm investments tie between Northern Trust and TM$ (Valuation):

We used the substantive sampling spreadsheet to determine our sample size, linked here: [OST_Test_3]. We used the TM$ Accrued Revenue Statements for Fund(s) 076 [OST_Test_3], 523 [OST_Test_3], and 845 [OST_Test_3] to select a sample of 38 investments in order to recalculate their accrued interest revenue. See detailed calculation methodology within our referenced work paper for the different types of securities. We excluded bank account deposits because the interest cannot be computed in auditor recalculations due to daily fluctuations in account balance. We cross referenced selected investments to the TM$ Investment Statements for Fund(s) 076, 523, and 845 at [Test 3 - Investment Statements by Security Class]. We recalculated accrued interest revenue on selected investments at: [OST_Test_3] tab "Testing".

Some of the selected securities are "Floating Rate Notes," which have a variable rate of return. These securities have "FRN" as part of of the security description. Due to the complexity of the formula to determine accrued revenue, we obtained charts showing how OST calculated the accrued revenue daily. We cross referenced the Investment Number selected for testing against the Investment Statement (Sorted by Security Class Number) [OST_Test_3] to obtain the CUSIP and confirm the security class. We used the security class tab [OST_Test_3] to gain greater detail on how the security's accrued interest is calculated (Prime or SOFR Floater).

- Details about Treasury Note FRNs can be found here: [https://treasurydirect.gov/marketable-securities/floating-rate-notes/]. The interest rate is the sum of the highest accepted discount rate of the most recent 13-week Treasury bill with a "spread" rate, which is fixed for the life of the FRN. The interest rate changes weekly. **We recalculated the accrued interest by using the earnings per $100 interest payment period from the Treasury website and multiplying it by the note face value.**
- Details about the SOFR rate (Secured Overnight Financing Rate) can be found here: [https://www.newyorkfed.org/markets/reference-rates/sofr]. The SOFR can change daily. **Our samples did not contain investments using the SOFR this year.**
- Details about the US prime rate can be found here: [https://fred.stlouisfed.org/series/PRIME]. The interest rate changes as the Federal Reserve sets the federal funds target rate. **We noted that for notes using the prime rate that the book yield rates changed on days where the Federal Reserve changed the federal funds target rate.**
- **We determined that TM$ is performing the accrued interest rate correctly for SOFR and Prime calculations as evidenced by changes in the book yield rate.** *We will rely on the calculation tables as a recalculation for SOFR and Prime note securities.*

We performed our recalculation for the accrued revenue of 38 investments with no variances from the amounts that were calculated by TM$, ignoring rounding in the recalculations. No further work necessary. *No issues noted.*

Test 2: Confirm the par and market value amounts for Fund 076, Fund 523, and Fund 845 in TM$ with the amount recorded at Northern Trust and outside banks as of June 30, 2023 (Valuation)

See testing performed at: [OST_Test_2] We used Holdings Statements [Test 2 Investment Recon NT to TM$ June2023] [Test 2 Investment Recon NT to TM$ June2023] [Test 2 Investment Recon NT to TM$ June2023] to review excluded investments at par and market value. Security classes used in the reconciliation are excluded because amounts are held outside the custodian bank. We did not need to use the pending trades report to substantiate the amount for market value that had been backed out of the Northern Trust Asset Report as it tied without exception. We also used the LGIP account summary report to substantiate the LGIP deposit account amounts. We received all reports from Denise Nguyen, Accounting Services Manager, and compiled statements used here [Test 2 Bank Statements]. We agreed amounts to statements and noted the last 4 digits of the account number in the reference column on our reconciliation. Denise Nguyen also provided us with the time deposit excel spreadsheet, the Linked Deposit Program spreadsheet and the LGIP CD tracking spreadsheet to agree amounts for the CD, TCD and Linked Deposit accounts. **We confirmed that par and market value amounts for Fund 076, Fund 523 and Fund 845 agreed to the amounts recorded with Northern Trust as of June 30, 2023.**

Substantive tests performed to meet the Classification assertion:

Test 6: Review year-end journal entry to ensure investments were properly allocated between short-term and long-term (Classification)

We obtained and reviewed the AFRS JV #909IN044 dated 7/25/2023 [OST_Test_6] and traced allocation amounts to GL 1209 and 1210 to the corresponding investment statements for Fund(s) 076 ,523, and 845 (also included in H.1.14, see highlighted balance amounts on pages 19, 24 and 33). Allocation balances agreed to the totals reported for each GL on the Investment Statements. We also ran an AFRS query and compared the total(s) by GL and fund number. See testing performed at: [OST_Test_6]. **We confirmed that investments were appropriately classified between short term and long-term at June 30, 2023 (Classification).** *No issues noted*

Restricted Cash & Investments: Obtain year-end cash and investment disclosure forms and verify restricted amounts are properly reported in the proper GL (Classification)

See testing performed at: [OST_Restricted_Cash_Testing]. We obtained a list of worksheet adjustments from OFM (see annual large OFM workbook, tab "Balance Sheet Worksheet Entries") and placed them into the "2023 WorksheetAdjFund" tab for government-wide, business-type, and fund level worksheet entries. We sorted entries to filter out increases to sort codes AF and/ or DM for fund level entries, and 1H and 1S for government wide restricted cash and investments. We also obtained a disclosure report for restricted cash and investments from Enterprise Reporting: Financial Reports, Disclosure Reports, State, Cash/Investment, and then selected the report titled "Cash and Investments-Restricted Cash and Investments". We ran the report and added it to our work papers at tab "Disclosure 2023" [OST_Restricted_Cash_Testing].

We performed the following procedures to ensure worksheet adjustments were supported by corresponding disclosures:

1. We traced each fund level worksheet adjustment that increased restricted cash and investments (sort code AF) to supporting disclosures in sections 3, 4 and 5 of the Restricted Cash and Investments Disclosure Report, which is used to report cash with fiscal agents (GL 1150), unspent bond proceeds, and other externally restricted cash and investments. See tabs "2023 WorksheetAdjFund" [OST_Restricted_Cash_Testing] and

"Disclosure 2023" [OST_Restricted_Cash_Testing].

2. We reviewed line items from the Disclosure Report that were not reclassified per the OFM worksheet to ensure they meet the definition of restricted cash (per GASB 62) and ensure they were not incorrectly omitted. See GASB 62, paragraph 31, for definition. We determined that balances were properly reported. **No issues noted.**

3. We tied the worksheet adjustments at the government-wide and business-type level to the corresponding fund-level worksheet entries. Government -wide and business-type activities worksheet adjustments that increased sorts codes 1H were traced to the totals of the fund-level worksheet entries. See tab "2023 Worksheet Entries" [OST_Restricted_Cash_Testing] **No issues noted.**

Restricted Cash & Investments: Obtain and review worksheet adjustments prepared by OFM restricting cash or investments in the governmental or business-type activities, general fund, and aggregate non-major opinion units (Classification)
See testing performed at: [OST_Restricted_Cash_Testing]. To verify that restricted amounts are properly reported, we obtained the restricted cash and investment disclosure report from Enterprise Reporting and performed the following procedures:
1. We ran an ACFR query for sort code(s) AF and DM. See tab "2023 Query AF, DM" [OST_Restricted_Cash_Testing]. We summarized the balances at the rollup fund level. See tab "ACFR Restricted Rollup Fund 23" [OST_Restricted_Cash_Testing]. We compared the balance for each rollup fund to the corresponding disclosures on section 1 of the disclosure report to ensure amounts agree. **No issues noted.**

2. We added the fund-level worksheet adjustments for each rollup fund, to the amount disclosed in section 1 of the disclosure report (GLs 1140 and 1240), and tied amounts reported for each opinion unit on the financial statements [2023 ACFR_Version No. 2_11.09.2023] at: [OST_Restricted_Cash_Testing]. See tab "ACFR Restricted Rollup Fund 23."

Reconciliation to Material Account Matrix
We performed additional procedures to reconcile the balances audited at OST to the Final Material Account Matrix [Final Planning_Material Account Matrix] Cash and Investment balances. See [OST_Recon_Material_Account_Matrix] for testing. Our detailed understanding is documented below.

A. Sort Code AC
We ran a query in the FY23 ACFR database for sort code AC by GL account number including all funds and performed a reconciliation to determine the total cash balance covered by auditor procedures at the State Treasury and the total audited as part of other procedures. See the "Summary_AC" tab in our workpaper [OST_Recon_Material_Account_Matrix]. By running the AC query by detail agency, we separated the balances into the following categories:
B. Sort Code(s) AM and DJ

Audited at OST (36% of balance)- All balances for agency 090 including totals for GLs 4310 (Current Treasury Activity) and 4320 (Beginning Treasury Cash Balance Admin Agency) which were reconciled as part of our substantive testing at OST (Test 5). At year-end, OST makes an adjustment to allocate the fair value gain to receipt funds at the rollup level in GL 1280-Valuation Allowance-Investments. We reviewed the adjustment obtained from Denise Nguyen, Accounting Services Manager, and ran a query using the FY23 ACFR Database to confirm the total fair value gain. See tab "OST JV 1280" in our workpaper for details: [OST_Recon_Material_Account_Matrix].

OFM year-end adjustments at the rollup fund level (77% of balance) At year-end OFM does a number of adjustments to allocate balances at the rollup fund level. Adjustments over $5 million are reviewed as part of Financial Statement Preparation at: [Greater than $5M Adjustment Testing].

SIB Accounts audited by other CPA: A portion of the balance (-13% of the balance) was attributable to the State Investment Board. (The negative cash, due to owner funds, is cleared in OFM agency 700 year-end adjustments) These balances are audited by an outside CPA firm, and we will rely on their work at: [Work of Other Audits - SIB]

Worker's Compensation Funds- A portion of the balance (-0.005%) was audited as part of the Worker's Compensation Audit at S1WorkersCompensationFunds-FS23.

Not reconciled at OST- (0.06% of the balance) - Not in the custody of the State Treasurer. The remaining balance is comprised of amounts not included in the Treasurer's balance audited at OST. See column J on tab" Summary_AC" in our workpaper: [OST_Recon_Material_Account_Matrix]. GLs 1130 and 1150 are by definition not funds in the custody of the State Treasurer. Transactions in the "in-process" accounts are considered outstanding until they are cleared by OST and adjusted to GL 4310. Balances in these accounts are not recorded by the State Treasurer and represent outstanding transactions that agencies must include as reconciling adjustments in tying their cash balances to OST.

In total, we concluded that the amount of $26,369,163,864 on the final material account matrix for Sort Code AC is covered by audit procedures. This represents 100% of the balance. **No issues noted.**

B. Sort Code(s) AM and DJ

We ran additional queries for sort codes AM and DJ for all funds at agency 090 by GL account number. The balances in AM and DJ consist primarily of funds in the Treasury Income Account (Fund 076) and the Public Investment Account (Fund 523). A small portion of the total was attributable to allocations to GL 1280 and 1216. We were able to tie balances from our query to the Material Account Matrix for the corresponding GL sort codes. See tabs "AM_Detail" [OST_Recon_Material_Account_Matrix] and "DJ_Detail" [OST_Recon_Material_Account_Matrix] in our workpaper for details. **No issues noted.**

H.2.PRG - Non Depreciable Assets

Procedure Step: Summary & Conclusion
Prepared By: DRR, 11/7/2023
Reviewed By: SLB, 11/20/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
The results of substantive tests indicate no need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
The quality and quantity of evidence obtained was sufficient and appropriate.

H.2.PRG - Non Depreciable Assets

Procedure Step: Understanding of Line Item
Prepared By: CKF, 6/20/2023
Reviewed By: SLB, 11/20/2023

Record of Work Done:

(1) Prior Audit Exceptions:
None.

(2) Composition & Change Analysis:
Line Item Leadsheet: [Line Item Lead Sheet].

Balance Breakdown for 2022:
We reviewed the balances for fiscal years 2022 and 2021 and determined that the balance was composed of five account balances. Of these, 93% were covered within the GL account 2120, fund 997, which is Land and Other Non-Depreciable Assets (Transportation Infrastructure - Modified Approach). This GL is the transportation infrastructure made up of highways, bridges, tunnels, and safety rest areas. Assets are recorded using the modified approach which requires assets to be maintained at levels set by the Agency and verified by biennial inspections/assessments. The assets are grouped into three categories; Pavement, Bridges/Tunnels, and Safety Rest Areas.

Related to this account there are three balances related to maintenance expenses. As of FY2022, 97.4 percent are broken out between Pavements (61.5%) and Bridges (35.9%).

Significant Changes:
We determined that no significant changes were made to this account balance, or the controls over it.

(3) Updates to Material Account Matrix:

We removed CAPS as a significant system and replaced it with the Capital Project Management System (CPMS). This system deals directly with the capitalization process for capital assets and aligns with significant systems used for Capital Outlays.

We modified the risks to clarify that the greatest risk to misstatement is that infrastructure is not being maintained sufficiently in order for the State to report it under the modified approach. Added that the risk of the legislature underfunding preservation projects could potentially impact the threshold needed for infrastructure to be reported under the modified approach. Removed risks that assets are not stated correctly.

We removed 'Completeness' as a relevant assertion due to a low risk of misstatement.

We updated the classification "What Could Go Wrong?" to state, "There is risk the state is not adequately maintaining the state highway system and the assets are misclassified as non-depreciable rather than depreciable assets".

H.2.PRG - Non Depreciable Assets

Procedure Step: Controls - CPMS/TRAINS

Prepared By: CKF, 7/17/2023

Reviewed By: SLB, 11/20/2023

Record of Work Done:

<u>Material Balance(s) and Assertions [Interim Planning Material Account Matrix]</u>
Internal controls in the CPMS/TRAINS address the following balance(s):

Non-Depreciable Assets

For the following assertions:

Valuation: The Washington State Legislature is not sufficiently funding infrastructure for the DOT to perform preservation maintenance. The DOT are reporting infrastructure using the modified approach when it should be reported using the historical cost approach because average preservation thresholds are not met. Capital assets would be incorrectly valued and presented (depreciation would not be reported). Net position would be incorrectly valued. An error would cause an overstatement in the accounts.

Classification: There is risk the state is not adequately maintaining the state highway system and the assets are misclassified as non-depreciable rather than depreciable assets.

<u>Gain an Understanding of Internal Controls</u>
Control discussions were held with the following individuals for the individual areas:

Bridges: Meeting held on 5/3/2023
Evan Grimm, State Bridge Engineer
Hyung Shim, Bridge Management Engineer
Jesse Daniels, WSDOT Audit Liaison

Pavement: Meeting held on 5/1/2023
Karen Carlie, State Pavement Design Engineer
Jianhua Li, Pavement Engineer
Beth De Vaul, Transportation Financial Consultant

Bridges
WSDOT performs inspections (condition assessments) on all vehicular bridges and culverts in excess of 20 feet in length. Most of these bridges and culverts are inspected on a two-year cycle, with some lower-risk bridges inspected on a four-year interval and some higher-risk bridges inspected on an annual basis. Special inspections like those for underwater bridge components are inspected at least once every five years.

WSDOT's bridge inspection program follows the Federal Highway Administration (FHWA). The Federal Bridge Inspection standards are specified in the code of federal regulations 23 CFR 650 subpart C. WSDOT has documented its inspection process in the Washington State Bridge Inspection Manual M36-64.13 with the latest version published February 2023. The FHWA performs annual reviews of WSDOT's National Bridge Inspection

Program (NBIP). The FHWA has developed 23 metrics that are assessed as part of the compliance reviews. All inspections are completed by NBIP certified inspectors. Bridge Inspector names and certification numbers are in the Bridges Engineering Information System (BEISt), the system used to record the inspections. Most inspections have a lead inspector and co-inspector; however, the co-inspector is not required to be certified. Inspectors rate the primary bridge elements (Deck, Superstructure and Substructure) or Culvert using the National Bridge Inspection Standards (NBIS) codes. The codes have a range of 0 (failed/collapsed) to 8 (good) using standards established by FHWA. Inspectors use visual inspection to assess the bridge elements with guidance from the Bridge Inspection Manual, which was internally created by the agency. The Bridge Inspectors enter the inspection documentation (pictures, inspection, categories, bridge information, etc.) into BEISt. There is a monthly report sent to supervisors that lists all reports that have been locked but not scanned so inspectors and supervisors can track the release of reports. The condition assessment procedures (FHWA review) are performed on an annual basis to ensure the percentage of bridges assessed as "Fair or Better" is within the guidelines of the General Accounting Standards Board Statement No. 34 (to allow reporting using a modified approach).

Bridge Preservation Office engineers review the hard copy inspection reports and BEISt to ensure the data is accurate and there were no entry errors. The inspection reports are released in BEISt after the review is completed. Reports are required to be reviewed and released with 90 days of the inspection date. The Bridge Asset Management Engineer uses the bridge inspection data to determine network condition. A bridge's overall condition is determined by a national standard established by the FHWA and described in the 23 CFR 515. WSDOT has also developed a folio that summarizes the information as part of the MAP-21 rules.
https://wsdot.wa.gov/sites/default/files/2022-01/TPM-Bridges-Folio-Jan2022.pdf

The primary NBI code for each of the major bridge elements (deck, superstructure, and substructure) is determined based on the inspection results and in accordance with the table below:

Category National Bridge Inventory Code Description
(NBI code 8 or 7) A range from no problems noted to some minor deterioration of structural elements.
(NBI code 6 or 5) All primary structural elements are sound but may have deficiencies such as minor section loss, deterioration, cracking, spalling or scour.
(NBI code 4 or less) Advanced deficiencies such as section loss, deterioration, cracking, spalling, scour or seriously affected primary structural components

The overall bridge condition code is determined by the lowest code for each of the major bridge elements (deck, superstructure and substructure). If any major element is coded at "4" or less, the overall bridge condition rating is "POOR". If all the primary NBI codes are above a "4" but one or more is a "5" or "6", the overall bridge condition rating is "FAIR". If all the primary NBI codes are a "7" or greater, the overall bridge condition rating is "GOOD". The Culvert condition rating is similar.

The Bridge Asset Management Engineer compiles the assessments into a summary report with a good, fair, or poor rating for each bridge. The percentage of bridge deck area for each rating is used to determine the percentage of bridges at fair or better and compliance with the modified approach for infrastructure **(Key Control 1 - Valuation)**. The WSDOT's policy is to maintain 90 percent of bridges at a condition level of fair or better, based on an average condition level of the last three assessments. This summary report is sent to AFS to be included in the State's Financial Statements as Required Supplementary Information.

Pavements
DOT utilizes two different systems for maintaining highway inventory and conditions:

Inventory: The Transportation Information and Planning Support (TRIPS) system is the inventory system for the highways. TRIPS reports highway lane miles. The Geographic Information System and Roadway Data Office (GRDO) is responsible for maintaining the TRIPS systems and compiling reports from it annually. The Traffic Accident Roadway Information System (TARIS) is a staging area for data that has been input into TRIPS before it is transferred to the roadway data mart. For reporting purposes, GRDO uses data mart to pull data from TRIPS through TARIS. Per DOT, accuracy rate for the lane mileage is 99%.

For assessment purposes, data collection is done by WSDOT Materials Laboratory technicians utilizing a data distress collection van and a friction vehicle. Before drivers go out, an assessment plan is made to determine where the technicians are going to test. Their locations are tracked through the GIS system. The distress collection van collects data several ways while driving over at least one lane of all highway routes each year (collects data in both directions on divided highways). The vehicle continuously measures the depth of rutting and roughness using laser measurements. There are digital video cameras that provide a driver's view, view of the edge of the roadway, and a detailed close-up of the lane width of the road. This is recorded on a portable hard drive which is removed when the vehicle comes back to the office, either nightly or at least weekly. In the Materials Lab, the hard drive data is downloaded to servers in the office for analysis. All data is broken up into 2-hour sections ("Sets").

The friction vehicle tests approximately half the state each year, divided roughly into the east side and the west side. The friction is measured using a locked wheel trailer with a ribbed tire and water applied to the roadway. The friction measurements are taken every mile on all highway routes (both directions if divided, see above). This data is recorded in the vehicle and brought in daily, or at least weekly, to download onto servers. Each year, the data is summarized and any friction measurements below the minimum are reported to the region traffic, materials, and maintenance engineers.

The above data is collected in order to assess the condition of pavements in the state. Pavement condition assessments are completed to ensure highways are inventoried and assessed to allow reporting using the modified approach for infrastructure. **(Key Control #2 - Valuation).**

The data collection, assessment, and reporting processes begin when the roads are consistently dry enough to measure (usually sometime in April) and the assessment for the year will start almost immediately afterward because the data comes into the office every week. Field data collection involves three of the pavement team (2 for the distress collection van and 1 for the friction vehicle). The remaining person begins review of the distress videos. After the data collection is completed, they come back to the office to help with the review. The division works to complete the review process during the spring of the following year so the final report to the FHWA (HPMS, Highway Performance Monitoring System), DOT Gray Notebook and the financial statement can occur by FY end for the previous calendar year assessment. The Pavement Office is currently working on 2022 data and expect it to be available summer of 2023.

The distress data collection is performed for three different criteria:

1. Roughness based on the International Roughness Index (IRI),
2. Rutting of roadways, and
3. Cracks in the pavement surface.

Roughness and rutting are assessed through sensor data while cracks in pavement surface are assessed through visual confirmation. Friction is measured using the friction truck and trailer.

The total number of road miles assessed for roughness and rutting (i.e., driven) in calendar year 2021 was 8,528. Condition assessment data collection only takes place when there are dry road conditions from April through mid-October. The same lane on each roadway is reviewed each year to determine the deterioration over time to know when those roads are in need of maintenance. Though the same road/lanes are reviewed, the sampling method of the software provides assurance the conclusions are consistent with the actual roads.

After the data from the Data Collection Vehicle has been entered into the Pathway System (software program used by the Washington State Pavement Management System) it organizes the data by segment for visual review and in Excel worksheets to allow for compilation of scoring data. Using viewing stations in the Materials Laboratory, the video of the road segments are scored for distress data (i.e., cracking) by trained, experienced staff. All scoring obtained from the laser sensors are reviewed by pavement engineers for scoring accuracy. This helps to mitigate any possible error that might occur if equipment is not functioning correctly (ex: high variability in scores assigned to rutting and roughness for the same segment from year to year). After completion of scoring, a statistical sample is selected which is reviewed again by a different reviewer. Both scores populate another spreadsheet which allows supervisors to do a final review of any differences between the two of more than 10% and narrate a determination of which score is applicable. The rutting and roughness constitute readings from the laser measurements directly from the Pathway van. The percentage rating evaluation is totaled and reported after each year in the Gray Notebook, WSDOT's annual report and as Required Supplementary Information in the State's Financial Statement. The WSDOT's policy is to maintain 85 percent of pavements at a condition level of fair or better, based on an average condition level of the last three assessments. Specific reporting requirements are also reported to the FHWA for HPMS. The percentage is calculated both as total lane miles as well as on Vehicle Miles Traveled (VMT). VMT is calculated by multiplying the amount of daily traffic on a roadway segment by the length of the segment, then summing all the segments' VMT to give you a total for a particular roadway.

How Transactions are Recorded in AFRS:

All documentation above supports the inventory, assessment, and rating of non-depreciable assets related to infrastructure to support reporting under the modified approach. Recording infrastructure transactions in AFRS is a component of the 'Capital Outlay' line item, through the CPSM and TRAINS systems. See all documentation and record of work performed at [Capital Outlays].

Key Controls to be Tested in this Line Item are as Follows:

Key Control #1 (Valuation & Classification): Each year the Bridge Asset Management Engineer, compiles bridge assessments into a summary report with a good, fair, poor rating for each bridge to determine the percentage of bridges at fair or better and compliance with the modified approach for infrastructure.

Key Control #2 (Valuation & Classification): Pavement condition assessments are completed to ensure highways are inventoried and assessed to allow reporting using the modified approach for infrastructure.

Noted Weaknesses are as Follows:

None

H.2.PRG - Non Depreciable Assets

Procedure Step:	Key Control #1 (Manual)
Prepared By:	CKF, 6/12/2023
Reviewed By:	SLB, 11/20/2023

Record of Work Done:

Non-Depreciable Assets - Valuation

Key Control #1: Each year the Bridge Asset Management Engineer, compiles bridge assessments into a summary report with a good, fair, poor rating for each bridge to determine the percentage of bridges at fair or better and compliance with the modified approach for infrastructure.

The understanding for this system is documented above in the "Controls - CAPS/TRAINS" step.

1. Confirmation of Key Manual Control:

We met with Roman Peralta, Bridge Preservation Engineer on 6/5/2023 to confirm Key Control #1. Roman logged into the Bridgeworks database (WSBIS) and discussed how active inspection reviews are managed within the system. We reviewed data specifically for bridge number 90/25N - Homer Hadley. This particular bridge had a routine inspection performed on 4/15/2023 that was still active. No sign offs were complete and review performed because it was still an ongoing project. But the underwater inspection was performed on 2/6/2023 by Michael Smith, Team Leader and Lead Diver, with James Harding, Assistant Diver, as co-inspector. Roman walked us through the process of beginning and submitting an inspection report for a bridge. After Michael and James completed their initial inspection, Michael would draft the report. Once finished, he would sign off and submit it to James Harding as co-inspector. James would review the work and return it to Michael for any corrections/edits before supervisory review. The report showed Michael's sign off on 4/25/2023 and James Harding returning the report on 4/26/2023. The report would then go through two more layers of review before being released to BEISt. Colt Tatum, Special Structures Engineer, performs the supervisory review and signed off on the report on 5/3/2023. A final inventory review will then be performed to make sure that all the right reports are attached, inventory items are present, and a data check. Neil Foote, Bridge Data Steward, performed the final review and signed off on 5/4/2023. Once complete, the report will be printed and sent back to Michael Smith for a hand signature. Once signed, it will be designated as "Released" in Bridgeworks, then scanned and uploaded to BEISt. Hard copies are kept in a storage vault at their offices.

We were provided the WSBIS Field Inventory Report for bridge number 90/25N - "Homer M. Hadley". As discussed above, Michael Smith and James Harding were inspector and co-inspector, respectively. All sign off's were present and the report appeared complete. The underwater inspection revealed the bridge as "low risk" and having no defects. **No issues noted.**

We also received the WSDOT G-F-P Bridge Summary titled "SAOreport2023" from Hyung-seop Shim, Bridge Asset Management Engineer. This data was compiled as of 11/1/2022, as the next Summary Report will be completed after FY23. Hyung informed us that he uses a query tool through the Bridgeworks (WSBIS) database to extract and organize bridge information from the Main Bridge Inspection databases. He will query out the WSDOT bridges over 20 feet in length that carry Vehicular Traffic (including Ferry Terminals and Bridges Shared with Border States [Oregon and Idaho]) and classify each bridge condition based on their inspection codes. The resulting summary report is provided for use in the WSDOT Grey Notebook and to allow for staff to report using the modified approach according to GASB-34.

We noted the summary report contains a summary of percentage of bridge deck area in poor, fair, and good condition. For the year under review (2022), it showed that 91.9% of bridges were either in good or fair condition. This information will be updated in the RSI for FY24, as inspections are completed and reported on every two years. We determined bridges are assessed, their condition is rated and the ratings are compiled into a summary report that provides WSDOT the basis for compliance with the modified approach for infrastructure. **No issues noted.**

Noted Weaknesses are as follows:

None

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

H.2.PRG - Non Depreciable Assets

Procedure Step:	Key Control #2 (Manual)
Prepared By:	CKF, 6/12/2023
Reviewed By:	SLB, 11/20/2023

Record of Work Done:

Non-Depreciable Assets - Valuation
Key Control #2: Pavement condition assessments are completed to ensure highways are inventoried and assessed to allow reporting using the modified approach for infrastructure.

The understanding for this system is documented above in the "Controls - CAPS/TRAINS" step.

1. Confirmation of Key Manual Control:
We met with Marsha Mawdsley, Transportation Planning Technician, and Dirk Brier, Transportation Planning Specialist, on 6/8/2023 to review the assessments performed on pavements. Marsha does the visual review of segments while Dirk compiles and organizes the information in Pathways. Marsha used two screens to review video and images taken by the profiler vans. One screen showed all the segments captured by the van and stored on an external hard drive. Marsha explained that each segment would typically consist of one road but could last for many miles, resulting in hours of footage. The other screen showed the 2D and 3D images captured and Marsha would replay them at a rate of 3 feet per second. She reviewed the images for cracks in the road. If any were found, she would stop the images and highlight the area, labeling it based on the nature of the damage. She had laying next to her keyboard the cheat sheet of "hot keys" that all staff use which shows which key identifies the type of distress and the severity so that it will be consistently identified regardless of staff.

We watched as she assessed State Road 101, starting at Mile Post 367.4. It was recorded as Set 128 on 4/25/2022 by the profiler van. When damage was seen, it was highlighted and labeled as "alligator cracking." Once the review of the segment was complete, her results are transferred to Pathways and are locked for changes except by supervisory staff.

In addition to the initial rating above, we watched as she performed a secondary review on set 189 for State Road 005, mile post 262. These are selected randomly by Pathways. The same process was followed as she watched the pictures and scored the road. She explained that the system will compare her scoring against the initial review. This information is queried by Dirk and compiled into a spreadsheet. Any differences that are greater than 10 are highlighted and typically reviewed by Jianhua Li, Pavement Engineer, to determine what the scoring should be for that segment. All review is developed into a final report and published in the most recent Gray Notebook. We have determined that the process for identifying and assessing road pavement is in place and it is being performed by qualified staff. Reporting is included in the state financial statements every two years, the RSI will be updated in FY24. ***No issues noted.***

Noted Weaknesses are as follows:

None

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

H.2.PRG - Non Depreciable Assets

Procedure Step: Risk Assessment

Prepared By: CKF, 7/12/2023

Reviewed By: SLB, 11/20/2023

Record of Work Done:

(1) Inherent Risk (IR):

Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

Valuation – LOW

Classification – LOW

(2) Control Risk (CR):
We assessed control risk as follows for each system and relevant assertion:

CPMS/TRAINS – MAX – We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

Valuation – MOD

Classification – MOD

(4) Testing Strategy:
We designed our substantive testing strategy based on our assessment of the risk of material misstatement.

We plan to perform the following tests:

Test a sample of bridge assessments from the summary report with a good, fair, poor rating for each bridge to determine the percentage of bridges at fair or better and compliance with the modified approach for infrastructure (Valuation & Classification).

Test a sample of highway pavement assessments to determine whether the review is completed to support compliance with the modified approach (Valuation & Classification).

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

H.2.PRG - Non Depreciable Assets

Procedure Step: Substantive Test

Prepared By: DRR, 11/7/2023

State of Washington

Reviewed By: SLB, 11/20/2023

Record of Work Done:

Substantive tests performed to meet the Valuation and Classification assertion:

We tested a sample of bridge assessments from the summary report with a good, fair, poor rating for each bridge to determine the percentage of bridges at fair or better and compliance with the modified approach for infrastructure (Valuation and Classification).

Using the Bridge Summary from the "SAO Report 2023.xlsx" provided by Hyung Shim, Bridge Engineer, we obtained the percentages of bridges in fair or good condition for the current year under audit. Based upon that information, 91.9% of bridges evaluated, as of 11/1/2022, were either rated at fair or better. In addition, the average of the past three assessments (2021, 2019, and 2017) exceeds the 90 percent threshold established by DOT to support the valuation of this infrastructure. We selected a sample of 30 bridges from the FY22 SAO Report, using the Sampling Spreadsheet. This was used to determine whether the inspection was up to date and supports the reported condition of the bridge used in the calculation.

See testing at [Bridges Testing]. ***No issues noted.***

We tested a sample of highway pavement assessments to determine whether the review is completed to support compliance with the modified approach (Valuation and Classification).

Highways are assessed every two years. The last completed assessment was performed in 2021. We obtained the total number of pavement segments assessed in the period and the "2022 Sample Rating" spreadsheet from Jianhua Li, Pavement Engineer. The spreadsheet includes data from the sampled population of segments that underwent a secondary assessment.

We utilized the Financial Audit Substantive or Dual Purpose Statistical Sampling spreadsheet, with a 7.5% tolerable misstatement rate and assurance at moderate, in order to determine our sample size of 30. We randomly selected a sample on tab "Random Selection" here: [Pavement Testing]. WSDOT conducts a secondary quality control review of 6% or greater of all pavement segments assessed and rated in the period. To determine if our testing sample population was complete, and that WSDOT was completing this secondary review as a part of their stated assessment process, we recalculated the sample percentage on tab "Highway Pavement Summary" here: [Pavement Testing]. We determined WSDOT is conducting a secondary review of 6% or greater of all segments assessed and our testing population is complete. ***No issues noted.***

We reviewed the data collected for the segments, including SRMP beginning and end for each selection (State Route Mile Post), the production rating, the secondary rating, and the difference between the two. We recalculated the average absolute difference between the first and second raters with no exceptions noted. See testing at [Pavement Testing]. We determined the pavement condition assessments are performed by a qualified staff member, and assessments collected the necessary data to support the given rating and allow for reporting using the modified approach. ***No issues noted.***

H.3.PRG - Depreciable Assets (Net of Depreciation)

Procedure Step: Summary & Conclusion
Prepared By: CKF, 10/20/2023
Reviewed By: CJG, 10/31/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
The results of substantive tests indicate no need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
The quality and quantity of evidence obtained was sufficient and appropriate.

H.3.PRG - Depreciable Assets (Net of Depreciation)

Procedure Step: Understanding of Line Item
Prepared By: CKF, 6/2/2023
Reviewed By: SLB, 11/20/2023

Record of Work Done:

(1) Prior Audit Exceptions:
WSDOT has been depreciating three ferries that are no longer in service and are awaiting sale. These ferries and the related accumulated

depreciation should have been removed from depreciable assets and added to inventory. Per conversation with Eric Bozarth and Jesse Daniels, no action has been taken to this point to reclassify the ferries (and their accumulated depreciation) to inventory. It has been recommended that the adjustment take place before the end of the fiscal year. We will follow-up on this during substantive testing.

(2) Composition & Change Analysis:
Line Item Leadsheet: [Line Item Lead Sheet].

There are two funds that contain depreciable assets for DOT, 410 & 997.

Fund 410: A proprietary fund (Transportation Equipment Fund - TEF) is updated whenever equipment is purchased. The Transportation Equipment Fund (TEF) is the primary holder of equipment inventory and financial information related to it. Equipment is purchased and maintained through TEF and then leased to WSDOT for project work. Financial information for this inventory is in FEMS. Capital assets purchased by (or donated to) a Proprietary Fund type remain in the fund, assets purchased by a Governmental Fund type are recorded in the General Capital Asset Subsidiary account (Fund 997).

Fund 997: A Governmental fund which includes all other capital assets. The Minor Capital portion of this fund includes all those vehicles and equipment that are purchased directly and not a part of TEF.

We did a break out of the account balances over the prior 2 years for the Net Depreciable Assets at WSDOT as documented at [Line Item Lead Sheet]. Additionally, a breakdown of the current balances were calculated to determine the composition of the individual general ledger accounts as a percentage of coverage, as documented in the Balance Breakdown tab at [Line Item Lead Sheet]. We determined we can get adequate testing coverage by selection of the fund 997, GL 2410 and GL 2420 accounts (which ferries makes up a large portion of the balance for these two accounts) as well as fund 410, GL2410 and 2420 accounts. This accounts for 77.8% of the total balance of Net Depreciable Assets and was determined to be sufficient coverage for the audit.

(3) Updates to Material Account Matrix:
Based on the understanding obtained, no updates to the material account matrix were determined to be necessary.

H.3.PRG - Depreciable Assets (Net of Depreciation)

State of Washington

Procedure Step: Controls
Prepared By: CKF, 6/7/2023
Reviewed By: SLB, 11/22/2023

Record of Work Done:

Material Balance(s) and Assertions
Internal controls in FEMS/TRAINS address the following balance(s):

Depreciable Assets, Net of Depreciation

For the following assertions:

Existence: The furnishings, equipment, and capitalized costs have been disposed, replaced, or otherwise impaired.

Valuation: There is risk the amount reported for this line item does not represent actual capitalized costs of furnishings and equipment constructed, purchased, or donated as of the report date.

Valuation: There is risk newly added furnishings and equipment are not stated at historical or estimated historical cost.

Valuation: There is risk donated assets are not recorded at their estimated fair value at the date of donation.

Valuation: Depreciation may be incorrectly calculated because the wrong asset class code or useful life is entered into the system. Depreciation may be applied to non-depreciable assets.

Classification: Assets should have been expensed rather than capitalized.

Gain an Understanding of Internal Controls
Transportation Equipment Fund (TEF) Systems:
Fleet Equipment Management System (FEMS) - inventory system for fleet equipment only, also calculates depreciation.
Transportation Reporting and Accounting and Information System (TRAINS) - TRAINS is used to post expenditures by the use of Payment Vouchers or Journal Vouchers. TRAINS does not allow the creator to review and approve their own work.

Purchase and Capitalization of Transportation Equipment:
We met with the following staff to discuss the purchase and capitalization of transportation equipment for the Transportation Equipment Fund (TEF):
Charleen Emmons, Budget Finance Manager
Beth De Vaul, AFS Transportation Financial Consultant

Jesse Daniels, WSDOT Audit Liaison

Below is a discussion on the controls concerning fleet equipment inventory, capitalized asset additions, deletions, and depreciation reported:

Vehicles or equipment are purchased when required through the Transportation Equipment Fund, a non-appropriated, proprietary, internal service fund, budgeted through OFM. Equipment owned in the Fund is rented to only other WSDOT programs, and rent is collected from the programs using the vehicle or equipment. Much of the equipment maintained is heavy equipment with a total of 8,323 items in the depreciable equipment inventory (as of March 31, 2023 – Based on TARTS file).

Transportation equipment is managed by the agency's Fleet and Equipment Operations, through the Fleet Equipment Management System (FEMS). Equipment's total acquisition costs and depreciation are listed and tracked in FEMS. When regional TEF offices are in need of equipment, funding equipment orders are created and routed through supervisors for approval. All requests for purchases will be tracked through a spreadsheet. A purchase order is created and provided to the asset manager. Shawna Montoya, Asset Manager, enters asset information into the FEMS system based on purchase orders to ensure newly added assets are recorded at historical or estimated historical cost and donated assets are recorded at their estimated value at time of donation. The depreciation calculation is an automated process once the item is listed in FEMS and its initial value, expected salvage value at service life end, and service life entered **(Key Control 1 - Valuation)**. Book value at the end of any month is the capital value less life-to-date depreciation. Each month the Budget Finance Manager reconciles new FEMS entries (from the prior month) to supporting documentation (invoices, work orders, etc.) to ensure newly added assets are recorded at historical or estimated historical cost and donated assets are recorded at their estimated value at the time of donation **(Key Control 2 - Valuation).**

The information for service life is from SAAM (Addendum to Schedule A, Subsection 30.50.10) except where DOT experience has shown that a different service life is indicated. For those pieces of equipment DOT requests written approval from Office of Financial Management (OFM) Accounting Division to document the change in deprecation due to change in service life.

Equipment expenditures are capitalized based upon the procedures in Section 2-5 Capital Assets and Inventories in WSDOT Accounting Manual M 13-82 and the State Administrative and Accounting Manual (SAAM) 30.20.20. According to SAAM, equipment expenditures are a capital asset if there is a unit cost (including ancillary costs) of $5,000 or greater. WSDOT in general capitalizes extraordinary repairs, betterments, or improvements that increase the future benefits of an existing asset by extending its useful life, increasing the capacity or efficiency, or providing a substantial improvement in the quality of output or a reduction in operating costs. TEF and WSDOT maintain their own handbooks governing policy for purchases, service life, etc. (TEF Operating Manual and WSDOT Accounting Policies). After review, it was found that these policies align with SAAM.

A complete physical inventory is performed every other year to ensure recorded vehicles and equipment truly exist **(Key Control 3 - Existence)**. Vehicle use can also be monitored through review of fuel card usage, since the cards are specific to each vehicle. Each regional office is responsible for reviewing their entire inventory and providing a letter of completion to Charleen Emmons. When items are identified for disposal due to overuse (too many miles or hours), obsolescence, or past their scheduled life span they are disposed of through procedures defined in SAAM 30.40.45 and other related regulations, are sold as surplus through the Department of Enterprise Services.

Equipment/vehicles are not automatically sent to surplus just because they have reached the end of their book useful lives, but may continue to be in use due to a lack of available funding for replacement. TEF is restricted by internal management and to some extent the Federal Code of Regulations from collecting sufficient rent to fund replacements when needed.

Monthly Review and Transfer of Data to Headquarters:
Each month after the close of the month for TRAINS, FEMS provides a report of all units that are capitalized for depreciation. This process occurs after the end of the month, usually in the second week of the month to allow all areas to report. Each unit is identified by number and the monthly depreciation amount is included. These reports are divided by the region they are part of six total regions and HQ.

The Budget Finance Manager reviews the monthly Fixed Asset and depreciation calculations and reports for vehicles and equipment inventoried in the Fleet and Equipment Management System (FEMS). They first check to make sure that the report is different from the previous month. Their expectation is there will be differences due not only to the fact that it would be a different month but also that the automatic depreciation amount in FEMS will be calculated with a full month of depreciation for any new equipment purchased or donated during the month. The Budget Finance Manager also looks for units that show $0 depreciation for the month to research and address later in the monthly depreciation reconciliation process **(Key Control 2 - Valuation)**. They also review the disposal report from FEMS to make sure that all the disposed equipment is properly identified and valued**.**

After the report is reviewed and determined to be reasonable, it is released as a detailed flat file from FEMS through the Transportation Assets Reporting and Tracking System (TARTS), a system that generates values and life to date depreciation information as flat files that are communicated to TRAINS. It is sent to Beth De Vaul, the Transportation Financial Consultant, with a summary total amount to TRAINS where it sits in transit until released. While in transit, TRAINS compares the flat file to the depreciation that is calculated by FEMS and produces an error report that shows all items with differences which is also sent back to the Budget Finance Manager. The Budget Finance Manager looks in TRAINS to ensure the depreciation documents from the FEMS interface to TRAINS are accepted. Then they go through a depreciation reconciliation process that uses the previous month's TARTS file, current month's TARTS file, equipment number change file, equipment disposal file, FEMS depreciation by unit file, and TRAINS depreciation amounts from COGNOS. This identifies depreciation by equipment number between TRAINS and FEMS. This also identifies units disposed, unit number changes, and units where the FEMS and TRAINS depreciation amounts do not match. The Budget Finance Manager verifies the items were indeed put into service on the dates listed and recalculates the adjustment made by FEMS to verify that amount. Any further adjustments needed are determined by the Budget Finance Manager, who prepares the adjusting JV for TRAINS every month, which are reviewed and signed by the Transportation Financial Consultant or the Accounting and Reporting Manager, of AFS. The Transportation Financial Consultant (currently the Accounting & Reporting Manager) completes any JV necessary for AFRS adjustments, which are reviewed by the Accounting & Reporting Assistant Manager and then releases the amount in TRAINS (from the adjusted original summary total from FEMS) which is picked up in the nightly upload to AFRS.

<u>Washington State Ferries (WSF):</u>
Met with the following staff to discuss the purchase and capitalization controls related to Ferries:
Eric Bozarth, WSF Capital Accountant
Loretta Sexton, Expenditures Manager
Jesse Daniels, WSDOT Audit Liaison

WSF only tracks the vessels, equipment attached to the vessels, and the ferry terminals; the smaller equipment such as power equipment or vehicles are included in the Transportation Equipment Fund (TEF). They use an Excel spreadsheet to track the equipment and calculate depreciation. The spreadsheet includes cost, acquisition date, useful life, remaining life, and monthly and accumulated depreciation calculations. Assets are added to the spreadsheet using actual costs from invoices recorded in TRAINS. The Excel spreadsheet is saved each month with the naming VFAMonthYear (e.g. VFAJUN2021).

<u>Additions</u>
Ferry vessel expenditures are only capitalized when there is a unit cost (including ancillary costs) of $5,000 or greater and is for an extraordinary repair, betterment, or improvement in useful life or efficiency. Each vessel has a unique "Control Section Code" used to track vessel costs. All expenditures for the vessel are coded to the control section code which is then pull in by a query of TRAINS data. Each month WSF accounting runs a query through COGNOS on the DOT datamart to pull all of these expenses for ferries. The additions will be added with the amount from the query into the Capital Asset Reporting Excel spreadsheet maintained by Ferries. The applicable useful life and commodity code will be entered for the asset type. Eric Bozarth, WSF Capital Accountant, will work with the Engineering Department to determine which projects are complete and should be added to a vessel/terminal, and which costs should be added to construction in progress (**Key Control 4 – Existence/Classification**). It was noted that capitalized additions to ferries is not common. Most additions are in regards to ferry terminals.

<u>Deletions</u>
Deletions of the ferry Vessels is very rare as they have an expected useful life 60 years. In the 75+ year existence of Washington State Ferries there have been fewer than five ferry vessels that were removed from the system and disposed of. There are currently three vessels awaiting sale but still under ownership of WSF.

<u>Depreciation Calculation</u>
The Vessels Fixed Asset spreadsheet tracks the monthly depreciation and accumulated depreciation based on the cost and useful life (in months) recorded in the spreadsheet based on the applicable commodity code. The monthly depreciation is added to accumulated depreciation which is recorded via journal entry (**Key Control 5 – Valuation**).

How Transactions are Recorded in AFRS:
Monthly depreciation is entered into the TARTS system where Beth De Vaul (Transportation Financial Consultant) generates a quarterly report

(RAI060A) that is compared to the WSF report maintained by Eric Bozarth. Changes to CIP and depreciation that occurred in the quarter are recorded by Beth through a JV into TRAINS and AFRS **(Key Control 6 - Valuation)**.

Key Controls are as Follows:

Key Control 1 - Valuation: Depreciation is automatically calculated for new equipment in FEMS once initial cost, estimated salvage value, and service life are entered.

Key Control 2 - Valuation: At the end of each month, the Budget Finance Manager reviews new FEMS entries to supporting documentation (invoices, work orders, etc.) to ensure that newly added assets are recorded at their historical value and disposals were properly identified and valued. The Budget Finance Manager reconciles monthly depreciation between FEMS and TRAINS to ensure that both systems match.

Key Control 3 - Existence: A physical inventory is completed for all regional offices to confirm that equipment exists and its condition has not been impaired.

Key Control 4 - Existence/Classification: The WSF Capital Accountant runs a query for all capital project expenses to be reviewed and recorded as an addition to the vessel assets in the tracking spreadsheet or construction in progress. These additions are included in the quarterly WSF adjusting journal entry.

Key Control 5 - Valuation: WSF uses their Fixed Asset Reporting Excel spreadsheet to track depreciation and cost for each vessel.

Key Control 6 - Valuation: Each quarter, changes from the WSF Vessels Fixed Assets Excel spreadsheet and construction in progress updates are recorded in AFRS via journal entry.

Noted Weaknesses are as Follows:

None

H.3.PRG - Depreciable Assets (Net of Depreciation)

Procedure Step:	Key Control #1 (Automated)
Prepared By:	CKF, 6/2/2023
Reviewed By:	RKM, 7/20/2023

Record of Work Done:

Depreciable Assets (Net of Depreciation) - Valuation

Key Control #1: Depreciation is automatically calculated for new equipment in FEMS once initial cost, estimated salvage value, and service life are entered.

The understanding for this system is documented above in the "Controls" step.

2. Key Automated Control Confirmation and Testing:
We confirmed the key automated control as follows, to determine whether the software calculation correctly valued each transaction:

To confirm the automated control we re-performed the deprecation calculation for asset number 10A04303 (Tilt Trailer purchased on 1/17/2023). See re-calculation at Depreciation Recalculation. Asset was haphazardly selected from asset listing provided on tab labeled "FEMS Asset Listing - PBC". Recalculations were made to confirm monthly depreciation amount and LTD depreciation. The correct useful life was determined based off of "TEF Schedule of Useful Lives"TEF Schedule of Useful Lives Fiscal Year 2022. This is the document that was submitted to OFM and approved on 7/20/2021 (see DOT_Alternative_Useful_Life_Approval_07.20.21). Salvage value was supplied by spreadsheet FY23-23 RATES-2023 provided by Charleen Emmons. It is a percentage of inventory value that is based on equipment category. The inventory value is based off of its initial purchase price with betterments added on 2/20/2023. Since the first month in service did not include betterments, that calculation was separated from the 3 other months calculated. Those amounts were added together to give LTD Accumulated Depreciation. Recalculation matched FEMS amount with the only difference due to rounding. ***No issues noted.***

Noted Weaknesses are as follows:
None

2. Preliminary Control Risk Assessment
Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW – Test General Controls:
Not applicable - we are not planning to rely on automated controls and therefore do not need to test general controls; control risk will be assessed at maximum.

H.3.PRG - Depreciable Assets (Net of Depreciation)

Procedure Step: Key Control #2 (Manual)

State of Washington

Prepared By: CKF, 6/2/2023
Reviewed By: RKM, 7/20/2023

Record of Work Done:

Depreciable Assets (Net of Depreciation) - Valuation
Key Control #2: At the end of each month, the Budget Finance Manager reviews new FEMS entries to supporting documentation (invoices, work orders, etc.) to ensure that newly added assets are recorded at their historical value and disposals were properly identified and valued. The Budget Finance Manager reconciles monthly depreciation between FEMS and TRAINS to ensure that both systems match.

The understanding for this system is documented above in the "Controls" step.

1. Confirmation of Key Manual Control:
Charleen Emmons, TEFS Budget and Finance Manager, provided us with the FEMS/TRAINS Monthly Depreciation Comparison for May 2023. This report is taken from the TRAINS Data for Access workbook that provides depreciation amounts from both FEMS and TRAINS. That data is entered into a pivot table which compares any differences that arise for depreciation between TRAINS and FEMS. If amounts match between systems, the difference will show zero or 0.01 (due to rounding). Any amounts greater are reviewed by Charleen. We reviewed the data from TRAINS Data for Access workbook and found that it had tabs for previous month and current month TARTS data, units changed, sold/disposed units, and unit depreciation from TRAINS. This information flowed accurately to the FEMS & TRAINS Monthly Depreciation file where TRAINS and FEMS deprecation were compared. It is noted that there were 8 instances where differences were shown. Per the comment, each instance was due to TRAINS only being sent partial depreciation. The total difference for the month was 1,020.85. A JV will be used to increase depreciation expense in TRAINS for the partial amounts that were missed. We found that depreciation recorded in FEMS was reconciled to TRAINS data and differences were adjusted correctly. ***No issues noted***.

We reviewed invoice 50671 for unit 10A04303 that was selected in Key Control #1. We found that the initial purchase price for the unit was $9,637.96 from Trailer Boss, which matched to the January FEMS file. Work Order 904034 showed capital betterments added to the unit for hooks and chains, increasing the inventory value by $508.08 to $10,146.04. This matches the Unit Capitalization Journal that was pulled from the fleet system. We found that units were recorded in FEMS accurately based on historical value and additions. ***No issues noted***.

Noted Weaknesses are as follows:

None

2. Preliminary Control Risk Assessment
Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

H.3.PRG - Depreciable Assets (Net of Depreciation)

Procedure Step:	Key Control #3 (Manual)
Prepared By:	CKF, 6/5/2023
Reviewed By:	RKM, 7/20/2023

Record of Work Done*:*

Depreciable Assets (Net of Depreciation) - Existence
Key Control #3: A physical inventory is completed for all regional offices to confirm that equipment exists and its condition has not been impaired.

The understanding for this system is documented above in the "Controls" step.

1. Confirmation of Key Manual Control:
According to SAAM 30.45.10 and WSDOT policy, the physical inventory of assets is performed every two years (each biennium). The last physical inventory was completed in 2022 with all 9 regional offices submitting letters of completion and verified by SAO staff. TEF headquarters provides the inventory spreadsheets for all offices after which each region reviews separately. We reviewed the 'NWR 2022 Physical Inventory - Final' spreadsheet for the Northwest Region. It contained columns for region, unit number, make, model, and serial number for each individual item. Also included was the date the report was generated and the day each item was counted. The list appears complete and the process would convey the existence of inventory for the Northwest Region location. ***No issues noted***.

Noted Weaknesses are as follows:

None

2. Preliminary Control Risk Assessment
Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

H.3.PRG - Depreciable Assets (Net of Depreciation)

Procedure Step: Key Control #4 (Manual)

Prepared By: CKF, 6/5/2023

Reviewed By: RKM, 7/20/2023

Record of Work Done:

Depreciable Assets (Net of Depreciation) - Existence/Classification
Key Control #2: The WSF Capital Accountant runs a query for all capital project expenses to be reviewed and recorded as an addition to the vessel assets in the tracking spreadsheet or construction in progress. These additions are included in the quarterly WSF adjusting journal entry.

The understanding for this system is documented above in the "Controls" step.

1. Confirmation of Key Manual Control:
There have been no new additions for vessel to date in FY23. Instead, we reviewed the FY23 Q2 construction in progress worksheet. The Excel worksheet included the COGNOS query run to pull all data for "W" which are the capital work orders. The worksheet included a table of the previously reported balances for Q1 and the changes in CIP which tied to the report detail. Also included were screen shots of email communications with the Engineering Department regarding the project status and which vessels they belonged to. ***No issues noted.***

Noted Weaknesses are as follows:

None

2. Preliminary Control Risk Assessment
Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

H.3.PRG - Depreciable Assets (Net of Depreciation)

Procedure Step: Key Control #5 (Manual)

Prepared By: CKF, 6/5/2023

Reviewed By: RKM, 7/20/2023

Record of Work Done:

Depreciable Assets (Net of Depreciation) - Valuation
Key Control #5: WSF uses their Fixed Asset Reporting Excel spreadsheet to track depreciation and cost for each vessel.

The understanding for this system is documented above in the "Controls" step.

1. Confirmation of Key Manual Control:
To confirm the key control we selected the VFAJAN2023 spreadsheet. We noted the spreadsheet includes vessel details including name of vessel, addition and related work orders, acquisition date, and cost. We recalculated the monthly depreciation for WO 00-4173 for the Tillikum and found that it matched the depreciation expense recorded for that month. The spreadsheet also has columns for December 2022 accumulated depreciation, January monthly depreciation, January accumulated depreciation, and expected annual depreciation. We noted the December accumulated + January monthly matched the January accumulated depreciation as expected. We were able to confirm WSF is using their Fixed Asset Reporting Excel spreadsheet to track depreciation and cost for each vessel. ***No issues noted.***

Noted Weaknesses are as follows:

None

2. Preliminary Control Risk Assessment
Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

H.3.PRG - Depreciable Assets (Net of Depreciation)

Procedure Step: Key Control #6 (Manual)

Prepared By: CKF, 6/5/2023

Reviewed By: RKM, 7/20/2023

Record of Work Done:

Depreciable Assets (Net of Depreciation) - Valuation
Key Control #6: Each quarter, changes from the WSF Vessels Fixed Assets Excel spreadsheet and construction in progress updates are recorded in AFRS via journal entry.

The understanding for this system is documented above in the "Controls" step.

1. Confirmation of Key Manual Control:
We reviewed JV 31C00000040492 for Q2 changes in vessel CIP and depreciation. The total JV amount was $9,915,077.07 with CIP additions of $668,195.80 and depreciation expense of $9,246,881.27. These are detailed in the "Backup" tab provided with the JV. The CIP and depreciation totals tied to WSF's Construction in Progress Worksheet and the total of all Q3 Fixed Asset Worksheets (October, November, and December).

Accounts debited/credited were reasonable based on the line items of the transactions.

This JV was prepared by Beth De Vaul on 1/31/2023 and approved that same day by Suzi Freelund (Accounting & Reporting Manager). ***No issues noted***.

Noted Weaknesses are as follows:

None

2. Preliminary Control Risk Assessment

Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

H.3.PRG - Depreciable Assets (Net of Depreciation)

Procedure Step: Risk Assessment

Prepared By: CKF, 7/11/2023

Reviewed By: SHW, 8/23/2023

Record of Work Done:

(1) Inherent Risk (IR):

Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

Existence - LOW

Valuation - LOW

Classification - LOW

(2) Control Risk (CR):
We assessed control risk as follows for each system and relevant assertion:

FEMS/TRAINS – MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

Existence - MOD

Valuation - MOD

Classification - MOD

(4) Testing Strategy:
We designed our substantive testing strategy based on our assessment of the risk of material misstatement.

We plan to perform the following tests:

Ferries
Verify that all vessels exist through Vessel Watch (Existence)
Recalculate depreciation and net book value from selection (Valuation)
Verify asset selection to be properly capitalized according to item/work description (Classification)

TEF
We well make a selection of TEF equipment and verify existence by reviewing photos/recent work orders (Existence)
Recalculate selection of asset depreciation amounts to confirm FEMS is automatically populating an accurate amount based on inventory value, LTD amount, salvage value, and useful life remaining of assets (Valuation)
Verify asset selection to be properly capitalized according to item/work description of equipment (Classification)
Verify a selection of monthly TRAINS/AFRS Depreciation Reconciliations are completed to ensure balances are valued correctly (Valuation)

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

H.3.PRG - Depreciable Assets (Net of Depreciation)

Procedure Step: Substantive Test
Prepared By: CKF, 10/20/2023
Reviewed By: RKM, 11/3/2023

Record of Work Done:

Substantive tests performed to meet the Existence assertion:
Ferries:
We selected ferry vessels from the asset listing. We reviewed the asset dollar amount and asset type within the listing to determine whether the vessel was properly capitalized. We verified existence at https://www.wsdot.com/ferries/vesselwatch/ as of 6/30/2023. See testing at [Ferries Testing]. We noted all ferries existed as of fiscal year end. ***No issues noted.***

TEF:
We used the FS Sampling Spreadsheet to select a sample of TEF equipment for testing. Using a tolerable misstatement of 7.5% and setting assurance at moderate, we determined a sample size of 30 TEF items. Charleen Emmons, Fleet Operations Budget and Finance Manager, provided us with an export from the TARTS system, detailing all TEF Capital Assets, as of 6/30/2023. We then randomly selected 30 assets for testing. WSDOT employees provided us with pictures of each asset, which we reviewed to ensure all assets selected for testing truly exist. See testing at [TEFS Equipment Testing]. ***No issues noted.***

Substantive tests performed to meet the Valuation assertion:
Ferries:
We selected 10 vessel assets with $694,013,632 in Depreciable Asset less Depreciation amount, representing 100% of all WSF vessel assets. We recalculated the net of depreciation amounts noting differences below the floor. There were 31 instances where our recalculated "Asset Net of Depreciation" value did not match theirs. It was determined that these variances were caused by changes to the asset value that were not reported in the documentation we received. All of these additions/disposals took place before 2019 and there is no record to show evidence. See testing at [Ferries Testing]. The total variance was below the floor. ***No issues noted.***

TEF:
We used the FS Sampling Spreadsheet to select a sample of TEF equipment for testing. Using a tolerable misstatement of 7.5%, assurance at moderate, we determined a sample size of 30 TEF items. Charleen Emmons, Fleet Operations Budget and Finance Manager, provided us with an export from the TARTS system, detailing all TEF Capital Assets, as of 6/30/2023. We then randomly selected 30 assets for testing. We recalculated asset depreciation amounts to confirm FEMS is automatically populating an accurate amount based on inventory value, LTD amount, salvage value, and useful life remaining of assets. We noted differences below the floor. See testing at [TEFS Equipment Testing]. ***No issues noted.***

We used the FS Sampling Spreadsheet for Populations of 365 or less to test FEMS to TRAINS reconciliations for TEFS equipment. Using a tolerable misstatement of 7.5% and setting assurance at moderate, we determined a sample size of 4 reconciliations. Charleen Emmons, Fleet Operations Budget and Finance Manager, provided us with the reconciliations and the JVs to correct the variances between the two systems. We found the reconciliations to be accurate and performed timely. See testing at [TEFS Equipment Testing]. ***No issues noted.***

Substantive tests performed to meet the Classification assertion:
Ferries:
We selected all ferry vessels within the asset listing for classification testing. Based on asset information (description and asset amount) we determined whether it was properly classified as a depreciable asset (Attribute B - Existence & Classification Tab). See testing at: [Ferries Testing]. ***No issues noted.***

TEF:
We used the FS Sampling Spreadsheet to select a sample of TEF equipment for testing. Using a tolerable misstatement of 7.5% and setting assurance at moderate, we determined a sample size of 30 TEF items. Charleen Emmons, Fleet Operations Budget and Finance Manager, provided us with an export from the TARTS system, detailing all TEF Capital Assets, as of 6/30/2023. We then randomly selected 30 assets for testing. We reviewed asset descriptions and dollar values, and determined whether each asset was properly classified as a depreciable asset (Attribute C - Depreciation Recalculation Tab) See testing at [TEFS Equipment Testing]. ***No issues noted.***

H.4.PRG - Long Term Liabilities (Due in More Than 1 Year): Pensions

Procedure Step:	Summary & Conclusion
Prepared By:	CJL, 11/9/2023
Reviewed By:	SLB, 11/20/2023

State of Washington

Record of Work Done*:*

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
The results of substantive tests do not indicate a need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
The quality and quantity of evidence obtained was sufficient and appropriate.

H.4.PRG - Long Term Liabilities (Due in More Than 1 Year): Pensions

Procedure Step: Understanding of Line Item
Prepared By: JLS, 5/17/2023
Reviewed By: SLB, 11/14/2023

Record of Work Done*:*

(1) Prior Audit Exceptions:
None.

(2) Composition & Change Analysis:
Line Item Leadsheet: [Line Item Lead Sheet].

We obtained the various retirement systems and plans in which the State of Washington employees participate by reviewing the prior year 2022 ACFR Note 13: Retirement Plans and from the 2022 Participating Employers Financial Information (PEFI) report, see 2022 PEFI here [https://www.drs.wa.gov/wp-content/uploads/2021/06/PEFI-2022.pdf].

We inquired with Kennesy Cavanah, OFM Senior Financial Consultant Coordinator, on May 16, 2023, about the activities and transactions that make up the pension line items. Kennesy said that FY2023 is the first year the Office of the State Actuary (OSA) completed their biennial actuarial valuation for Higher Education's Supplemental Retirement Plans (SRP) on January 1st, rather than June 30th. Kennesy reviewed with us a new spreadsheet OFM maintains that tracks valuation, measurement, and reporting dates in relation to the Actuarial Valuation date. She state that this change in Actuarial Valuation date will not affect the State's ability to remain within GASB 68s reporting requirement of: "If a valuation is not performed as of the measurement date, the total pension liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation (performed as of a date no more than 30 months and 1 day prior to the employer's most recent year-end)." In our review of the spreadsheet, we confirmed that the State will remain within the 30 month and 1 day requirement of GASB 68 (See spreadsheet here [HigherEdSup_Proposed_Val_Measure_Report_Dates]).

Kennesy noted no significant changes to those activities or transactions from the prior year. We will remain aware for any significant changes throughout the completion of this audit.

Relevant Classes of transactions and descriptions
GASB 68 Description:
The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* which revises and establishes new financial reporting for most governments that provide their employees with pension benefits. GASB Statement No. 68 is effective for financial statements for fiscal years beginning after June 30, 2014. Prior to implementing GASB 68, employers participating in an agent plan recognized annual pension cost under a funding approach. Pension expenses were derived from a measure of an annual required contribution to the plan. Pension liabilities resulted from the difference between contributions required and contributions made.

With the implementation of GASB 68, employers are now required to recognize a liability as employees earn their pension benefits. Employers participating in agent plans will recognize their specific pension amounts which include net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense.

Washington State defined benefit plans are defined as either:
Single-employer - those in which pension benefits are provided to the employees of only one employer.
Cost-sharing, multiple-employer (cost-sharing) - those in which the pension obligations to the employees of more than one employer are pooled and pension plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

The significant retirement plans administered by DRS that are subject to audit include:

Cost sharing Multiple-Employer, Defined Benefit Plans:
Public Employees Retirement System (PERS), Plan 1 and Plan 2
School Employee's Retirement System (SERS), Plan 2
Public Safety Employees; Retirement System (PSERS), Plan 2
Teacher's Retirement System (TRS), Plan 1 and Plan 2
Law Enforcement and Fire Fighters' Retirement System (LEOFF), Plan 1 and Plan 2

State of Washington

Cost Sharing Multiple-Employer Hybrid Defined Benefit and Defined Contribution plans:

PERS Plan 3
SERS Plan 3
TRS Plan 3

Single Employer Defined Benefit Plans:

Washington State Patrol Retirement System (WSPRS), Plan 1 and Plan 2
Judicial Retirement Systems (JRS) - Closed
Judge's Retirement Fund (JRF) - Closed

***NOTE: Washington State pension plans are classified as either defined benefit type plans or defined contribution type plans. The deferred compensation program is a defined contribution plan. For the employer, there are no pension liabilities/assets or deferred outflows/deferred inflows associated with this type of plan. Therefore, the defined contribution plans are not associated with the pension liability line items. ***

<u>Higher Education SRP Changed Reporting Requirements to GASB 67/68, GASB 73 No Longer Applicable</u>

Starting in fiscal year 2021, State of WA – Higher Education Retirement Plans (a.k.a. TIAA/CREF) of the universities and community colleges are no longer reported under GASB statement No. 73. House Bill 1661, effective fiscal year 2021, created separate Supplemental Retirement Plan (SRP) funds by institution that met the definition of a trust or equivalent arrangements of the state retirement systems. The change results in the SRP reporting under GASB 67/68 instead of GASB 73.

<u>The significant privately administered Higher Education Supplemental Retirement Plans (SRP) that are subject to audit include:</u>

Single Employer Defined Benefit Plans:

University of Washington (UW)
Washington State University (WSU)
Eastern Washington University (EWU)
Central Washington University (CWU)
The Evergreen State College (TESC)
Western Washington University (WWU)
State Board for Community and Technical Colleges (SBCTC)

*** Note: <u>Net Pension Liability Measurement Date:</u> In accordance with GASB Statement No. 68, the state has elected to use the prior fiscal year end as the measurement date for reporting net pension liabilities. However, for the Higher Education Supplemental Retirement Plan, the state has elected to use the current fiscal year end as the measurement date for reporting net pension liabilities. ***

We spoke with Kennesy on how this difference in measurement date affects their reporting of the SPR net pension liabilities. Kennesy stated that ASO completes an annual assessment of Net Pension liability amounts for the SRP Higher Education plans. The workbook for the 2022 ACFR was completed at the end of August last year. OFM uses this report to prepare the SRP pension data. The 2023 report is expected to be completed approximately at the end of August 2023.

(3) Updates to Material Account Matrix:
We identified no updates to the Material Account Matrix based on our understanding of the line item.

H.4.PRG - Long Term Liabilities (Due in More Than 1 Year): Pensions

Procedure Step: Controls - GASB Allocation of Pension Amounts

Prepared By: JLS, 6/14/2023

Reviewed By: SLB, 11/14/2023

Record of Work Done:

Material Balance(s) and Assertions
Internal controls in the manual pension calculations address the following balance(s) included in various statements (Statement of Net Position - Government and Proprietary Funds, etc.):

Long Term Liabilities
Restricted Net Pension Asset
Net Pension Liability
Deferred Inflows on Pensions
Deferred Outflows on Pensions

For the following assertions:

Completeness

There is a risk census data reported by the employer to the plan is not accurate and complete.

Valuation

There is a risk that Deferred inflows of resources have not been properly determined in accordance with GASB Statement No. 68.
There is a risk the employer's proportionate share of the collective pension amounts is not consistent with the manner in which the employer's contributions are made to the plan.
The amounts included in the schedule of employer allocations and schedule of pension amounts prepared by the plan specific to the employer, including the employer amount used in the allocation percentage (that is, the numerator of the calculation), are not accurate.
The employer-specific deferred inflows of resources (including contributions made after the measurement date, changes in proportion, and differences between the employer's actual contributions and its proportionate share of total employer contributions) have not been properly determined in accordance with GASB Statement No. 68.

Classification -

See information below for the prior LGS comment related to the Higher Education SRP:
For the 2022 ACFR (S1Washington-FS22), LGS commented that "there should be a current portion of the Net Pension Liability for the Higher Ed plan since benefits cannot be paid out of the trust until 2035. That means the benefit payments for 2023 will be paid out of other resources, and should be reported as a current liability."

OFM disagrees with this as it considers the plan to be "administered as a trust-equivalent arrangement and the plan's fiduciary net position is sufficient to cover the amount of expected benefit payments for the next year," citing GAAFR Chapter 15 "For governments that provide defined benefit pension/OPEB benefits that are administered through a trust or equivalent arrangement, the entire amount of the net pension/OPEB liability would be considered long-term unless the plan's fiduciary net position is insufficient to cover the amount of expected."

This is a disagreement between OFM and SAO regarding the HE SRP payments of benefits. RCW 28B.10.423(4)(a)(ii) states that "Funds are anticipated to be accumulated in the higher education retirement supplemental benefit fund, and not expended on benefits until approximately the year 2035." The legislature restricts the payout of this fund and agencies that participate in this plan pay benefits using their own operating budgets. SAO considers this trust to be restricted until this point, and the entity's use of current resources to make these payments result in a current liability portion for the benefit payments.

This classification risk will be revisited during the LGS review procedures [ACFR Review].

General Risk (Reliance on Specialist)

There is a risk that the plan auditor's report and accompanying schedule of employer allocations and schedule of pension amounts are not adequate or appropriate for the employer auditor's purposes (for example, opinion modification, opinion on the schedule as a whole and not the individual elements, employer or employer auditor, or both, not named in the report as a specified user).

There is a risk that the plan auditor engaged to report on the schedule of employer allocations and schedule of pension amounts does not have the necessary competence and objectivity for the employer auditor's purposes.

Gain an Understanding of Internal Controls
DATA VALIDATION

The FY2023 ACFR utilizes the FY2022 Department of Retirement System (DRS) Participating Employer Financial Information (PEFI) report in determining pension amounts for DRS administered Cost sharing Multiple-Employer, Defined Benefit Plans (Plan 1&2 types)/ Hybrid Benefit Plans (Plan 3 types). The Office of the State Actuary certifies the DRS schedule of collective pension amounts that is included within the PEFI. Employer contribution transmittals DRS received and processed within the fiscal year ended June 30, 2022, are used as the basis for determining each employer's proportionate share of the collective pension amounts reported in the Schedule of Employer and Non-employer Allocations for all plans - except LEOFF Plan 1, which is fully funded and no further employer contributions have been required since June 2000. OFM conducts comparisons of DRS data to HRMS data to verify the PEFI report's contribution data for completeness and accuracy.

The Human Resource Management System does not contain detailed employer contribution data for Higher Education and Department of Transportation (DOT). Kennesy Cavanah, OFM Senior Financial Consultant Coordinator, informed us that Higher education entities and DOT report summary information. Therefore, it is necessary to have these agencies provide the breakdown by plan. Differences between DRS and AFRS data causes differences in JV workbook totals; therefore, OFM sends query results to the entities requiring allocation information by plan and a reconciliation of DRS and AFRS amounts with variances explained. Higher Ed and DOT perform their own testing to verify accuracy of DRS data and certify amounts to OFM. The calculations are not final until after the Higher Education disclosures are submitted and certified. After OFM approves the contribution data from Higher Education and DOT, their data then can be included in the employer contribution totals used in the DRS allocation percentage for each plan and provided the allocation for governmental funds as a whole and each proprietary roll-up fund **(Key Control 1 - Completeness and Valuation).**

OFM conducts a "high-level" comparison of total employer contributions by plan from DRS to HRMS. It is expected that variances will be identified in the high-level comparison due to the cash vs. accrual queries and plan management fees recorded in HRMS, but not included in DRS amounts. OFM staff perform analytical tests on employer contribution amounts in HRMS by reconciling detailed data to DRS system reports. Specifically, they reconcile agency employer contribution amounts in HRMS to DRS employer contributions, DRS employer contributions summary to the DRS employer contribution on the DRS e-services reports, and DRS employer contributions summary and e-services report to the DRS Schedule of Employer Allocations. In August of 2022 the FY2022 DRS data was available to OFM. The FY2022 data is used for the FY2023 ACFR. Kennesy Cavanah, OFM Senior Financial Consultant Coordinator, completed the FY2022 data comparison for the FY2023 ACFR on 5/22/2023. See [Control#2: DRS_vs_HRSM_Data_Comparison_2023] **(Key Control 2 - Completeness and Valuation).**

ALLOCATION OF AMOUNTS
The allocations process does not begin until OFM receives the Higher Education institutions completed disclosures that give their pensions

amounts. Kennesy said these disclosures are completed and available typically around September and there have been no issues with OFM being incapable of completing the allocation process within the ACFR JV submission timeline. OFM has created separate JV reconciliation workbooks for each plan. However, the methodology is essentially the same for all plan types. Kennesy informed us that the FY2023 allocation process will be the same allocation process that was done in the FY2022 ACFR. We will remain aware of any significant changes throughout the completion of this audit.

Due to the FY2023 workbooks not being available until September and an expectation the FY2022 process being the same as the FY2023, we reviewed the TRS 2/3 JV Reconciliation Workbooks [Control#3: TRS23_JVOFM066_DO_DI_PE_NPA] that was used for the FY2022 ACFR. Kennesy informed us that the TRS 1 JV Reconciliation workbook [Control#3: TRS1_JV_Worksheet_and_Reconciliation FY23] is utilized to determine the appropriate allocations for the TRS UAAL used in the TRS 2/3 JV Reconciliation Workbook. The TRS 2/3 JV Reconciliation Workbook is then utilized to calculate the amounts used in the JV creation process to allocate the proper amounts to Net Pension Liability, Deferred Outflows, Deferred Inflows, and Pension Expense in coordination with the percentage obtained from the 2021 PEFI (1.279269%) to the FY2021 TRS2/3 Schedule of Collective Pension Amounts – From DRS. The Office of the State Actuary (OSA) provides the Schedule of Collective Pension Amounts, expressed in thousands, for each plan, through the PEFI. OFM multiplies the amounts provided by 1,000 to arrive at the actual number.

Auditor Note: TRS 1, Unfunded Actuarially Accrued Liability (UAAL), is a closed pension plan that still has some active workers and many retirees. The average remaining service life for the plan is 0. Therefore, the entire obligation is expensed and TRS 2/3 funds the plan according to a percentage rate provided by DRS. The percentage is applied to the TRS 2/3 database to calculate the amounts subtracted from TRS 2 and 3.

How Transactions are Recorded in AFRS:

<u>Journal Entries:</u>

AFRS pension balances are calculated with OFM spreadsheets that are created for each plan type, See [Control#3: TRS23_JVOFM066_DO_DI_PE_NPA]. JV's to record pension expense, deferred outflows, deferred inflows, and net pension liabilities and assets, for each plan are created by Kennesy using the amounts from the "JV Summary" tab. The JV's are reviewed and approved by Sara Rupe, OFM Senior Financial Consultant, and then reviewed/released by another financial consultant separate from the pension reconciliation process. **(Key Control #3 - Completeness, Valuation, Classification).**

Kennesy also runs an Enterprise Report, summarizing the GL balances for all plans after the JVs are posted to ensure amounts are accurate. Since JVs are not posted until year end, we reviewed the prior year's enterprise report and confirmed JV amounts recorded in AFRS are accurate.

Key Controls are as Follows:

- **Key Control #1 (Manual) -** Higher Ed and DOT certify to OFM that they have verified, in all material aspects, the employer amounts (employer contributions) used in the DRS allocation percentage for each plan and provided the allocation for governmental funds as a whole and each proprietary roll-up fund **(Completeness, Valuation).**

Key Control #2 (Manual) - OFM performs a reconciliation of agency employer contribution amounts in HRMS to DRS employer contributions, DRS employer contributions summary to the DRS employer contribution on the DRS e services reports, and DRS employer contributions summary and e-services report to the DRS Schedule of Employer Allocations **(Completeness, Valuation).**
Key Control #3 (Manual) - JVs are entered into AFRS, reviewed for accuracy by a Senior Financial Consultant, and are released by a financial consultant separate from the creation process **(Completeness, Valuation, Classification).**

Noted Weaknesses are as Follows:
None.

H.4.PRG - Long Term Liabilities (Due in More Than 1 Year): Pensions

Procedure Step:	Key Control # 1 (Manual)
Prepared By:	JLS, 5/22/2023
Reviewed By:	SLB, 11/14/2023

Record of Work Done:

Internal controls in the manual pension calculations address the following balance(s):
Long Term Liabilities (Short and Long Terms Portions)
Restricted Net Pension Asset
Net Pension Liability (Current and Noncurrent)
Deferred Inflows on Pensions
Deferred outflows on pensions

For the following assertions:
Completeness
Valuation

Key Control #1 (Manual) - Higher Ed and DOT certify to OFM that they have verified, in all material aspects, the employer amounts (employer contributions) used in the DRS allocation percentage for each plan and provided the allocation for governmental funds as a whole and each proprietary roll-up fund **(Completeness, Valuation)**.

The understanding for this system is documented above in the "Controls - GASB Allocation of Pension Amounts" step.

1. Confirmation of Key Manual Control:
We obtained the Department of Transportation (DOT) certified spreadsheet from Kennesy Cavanah, OFM Senior Financial Consultant Coordinator, on May 16, 2023. See here: [Control#1: DOT FY22 Verification]. We reviewed the spreadsheet and noted the FY2022 data was on the "Summary" tab, which is the information used for the FY2023 ACFR. On the "Summary" tab we confirmed the department entered all required information into the yellow highlighted cells as directed. There was a 1.2% variance of $(767,455) and DOT explained the variance is due to a difference in cash vs accrual methods and Agency 410 & 411 not being in the HRMS total. Kennesy confirmed that these variances happen with DOT year to year and their explanation is valid given the variance size. We also noted that the HRMS vs AFRS and HRMS vs DRS amounts accounted for the total variance of DOT. On the bottom of the spreadsheet, OFM had the statement "By submitting this spreadsheet, the Department of Transportation certifies to OFM that they have verified, in all material aspects, the FY2022 employer amounts (employer contributions) used in the DRS allocation percentage for each plan and provided the allocation for governmental funds as a whole and each proprietary roll-up fund". ***No issues noted.***

Noted Weaknesses are as follows:

None.

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

H.4.PRG - Long Term Liabilities (Due in More Than 1 Year): Pensions

Procedure Step:	Key Control # 2 (Manual)
Prepared By:	JLS, 5/23/2023
Reviewed By:	SLB, 11/14/2023

Record of Work Done:

Internal controls in the manual pension calculations address the following balance(s):
- Long Term Liabilities (Short and Long Terms Portions)
- Restricted Net Pension Asset
- Net Pension Liability (Current and Noncurrent)
- Deferred Inflows on Pensions
- Deferred outflows on pensions

For the following assertions:
- Completeness
- Valuation

Key Control #2 (Manual) - OFM performs a reconciliation of agency employer contribution amounts in HRMS to DRS Employer contributions, DRS employer contributions summary to the DRS employer contribution on the DRS e services reports and DRS employer contributions summary and e services report to the DRS Schedule of Employer Allocations **(Completeness, Valuation).**

The understanding for this system is documented above in the "Controls - GASB Allocation of Pension Amounts" step.

1. Confirmation of Key Manual Control:

We obtained the DRS to HRMS comparison spreadsheet that will be used for the FY2023 ACFR, from Kennesy Cavanah, Senior Financial Consultant Coordinator, on 5/22/2023. Kennesy completed the comparison on the date we received the document, 5/22/2023. See here: [Control#2: DRS_vs_HRSM_Data_Comparison_2023]. We noted that OFM compared $ and % differences between FY2022 HRMS and DRS data for employer contributions. Above the $/% difference and explanation columns, the spreadsheet states *"Determined the $ and % difference between HRSM and DRS data. Then identified significant variances +/- $10,000 or +/- 10% (highlighted below). Some variances have valid reason, others we will consider when selecting our agencies for testing".* We followed up with Kennesy on the agencies included on the spreadsheet that had a variance larger than +/- $10,000 but had no explanation other than the percentage being low to pass further review. Kennesy said the criteria she uses for follow-up testing is actually +/- $10,000 and +/- 10%. She stated that the spreadsheet was inherited from the prior pension specialist and will be updated to the criteria currently being used. We found only one agency, Student Achievement Council, that had a difference of $(81,656.51) and -10.56%. The explanation section for the council stated, "majority of difference is due to TIAA-CREFF amount in HRMS, but not in DRS. Pass further review". The explanation is reasonable and we confirmed this agrees with prior year ACFR workpapers. We noted that no other agencies had any differences near the 10% threshold and all agencies (other than DOT or HigherEd) that had a +/- $10,000 differences had explanations to not follow up for being a low percentage. The overall total difference for the DRS to HRMS comparison was **($194,686.27)**, **-.03%** of the total DRS employer contributions. **No issues noted.**

Noted Weaknesses are as follows:

None.

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

H.4.PRG - Long Term Liabilities (Due in More Than 1 Year): Pensions

Procedure Step: Key Control # 3 (Manual)

Prepared By: JLS, 6/7/2023

Reviewed By: SLB, 11/14/2023

Record of Work Done:

Internal controls in the manual pension calculations address the following balance(s):

Long Term Liabilities (Short and Long Terms Portions)
Restricted Net Pension Asset
Net Pension Liability (Current and Noncurrent)
Deferred Inflows on Pensions
Deferred outflows on pensions

For the following assertions:

Completeness
Valuation
classification

Key Control #3 (Manual) - JVs are entered into AFRS, reviewed for accuracy by a Senior Financial Consultant, and are released by a financial consultant separate from the creation process **(Completeness, Valuation, Classification).**

The understanding for this system is documented above in the "Controls - GASB Allocation of Pension Amounts" step.

1. Confirmation of Key Manual Control:
We obtained supporting documentation related to the ACFR 2022 JV for TRS 2/3 from Kennesy Cavanah, Senior Financial Consultant Coordinator, on 5/16/2023.

In our review of the FY22 TRS 1 JV Reconciliation Workbook, see [Control#3: TRS1_JV_Worksheet_and_Reconciliation FY23], we noted the "FY21_Allocate Roll-up-Function" and "FY20_Allocate Rollup-Function" tabs, are used to determine the percent change in proportion used for allocating to each roll-up fund and agency function for the FY2022 TRS 1 amounts. This information is used to determine the UAAL allocation by roll-up fund and agency function. *Auditor Note: The 2023 ACFR would utilize the "22_Allocate Rollup-Function" and "21_Allocate Rollup-Function" tabs.* The FY2021 Sum of Employer Contributions less UAAL and admin fees, is used to determine the percent allocation for each agency function for the FY2022 amounts Net Pension Liability, Deferred Outflows, Deferred Inflows, and Pension Expense (NPL, DO, DI, and Pension Expense) for TRS 1. The Sum TRS 1 and TRS2/3 UAAL amounts on the "FY21_Allocate Rollup-Function" tab is utilized on the FY22 TRS 2/3 JV Reconciliation Workbook's "21_Allocate Rollup-Function" tab.

In our review of the FY22 TRS 2/3 JV Reconciliation Workbook, see [Control#3: TRS23_JV_Worksheet_and_Reconciliation], we noted that the "JV Summary" tab was able to be mapped out with check figures and amounts agreed with the associated tabs throughout the workbook. We noted that all the ending figures in the JV Summary T accounts are tied to the 2022 ACFR financial statements. The "21_Allocate Rollup-Function" and "FY20_Allocate Rollup-Function" tabs are used to determine the roll-up fund and agency function allocation percentages to calculate the change in proportion for FY2022. We noted the UAAL amounts within the calculation matched the 'Sum TRS 1 and TRS2/3 UAAL' amounts on the FY22 TRS 1 JV Reconciliation Workbook. *Auditor Note: The 2023 ACFR would utilize the "22_Allocate Rollup-Function" and "21_Allocate Rollup-Function" tabs.*

These allocations are carried over to the "21_Schedule of Pension Amounts" tab. On the "21_Schedule of Pension Amounts" tab, NPL, DO, DI, and Pension Expense are calculated by multiplying the percentage obtained from the 2021 PEFI (1.279269%) to the FY2021 TRS2/3 Schedule of Collective Pension Amounts – From DRS. We noted that all amounts calculated tied to FY2022 ACFR. We also noted these pension figures were further broken down by roll-up fund and agency function amounts by multiplying the Rollup-Agency allocation percentages to the FY2022 NPL, DO, DI, and Pension Expense. These amounts are used within the Rollup-Agency tabs to determine the entries to the "JV Summary" tab, which is utilized in the JV creation process.

In our review of the JVOFM066 workbook, see here [Control#3: TRS23_JVOFM066_DO_DI_PE_NPA], we noted on the "Batch Header JVOFM066" tab an entry stated, "NOTE 11 - CAFR FY22: To record the deferred outflows, pension expense and net pension asset for TRS 2/3". On the

"JVOFM066" tab, the JV entry amounts were broken out in subtotals that were color coded. We referenced the FY22 TRS 2/3 JV Reconciliation Workbook - "JV Summary" tab, see [Control#3: TRS23 JV Worksheet and Reconciliation], and were able to tie out each amount within the journal entries listing and each subtotal to the T accounts. We noted that the color coding between the documents matched up with each amount for quick reference. We verified in "Controls - GASB Allocation of Pension Amounts" step that the reconciliation amounts tied to the FY2022 ACFR pension totals. In addition, we were able to tie JV amounts to Enterprise Reports in the "EB ER Report 09.08.2022" tab in the reconciliation workbook. The JV was prepared by Kennesy Cavanah on 6/15/2022 and approved by Sara Rupe, Senior Financial Consultant, on 6/24/2022. In the JVOFM066 workbook tab "Approval", there were two emails showing Kennesy prepared the JV and Sara approved it. This confirmation was done due to the current teleworking conditions. The JV was released by Julie Jorgenson, Senior Financial Consultant, on 06/28/2022. **No issues noted.**

Noted Weaknesses are as follows:

None.

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

H.4.PRG - Long Term Liabilities (Due in More Than 1 Year): Pensions

Procedure Step:	Risk Assessment
Prepared By:	JLS, 6/15/2023
Reviewed By:	SLB, 11/14/2023

Record of Work Done:

(1) Inherent Risk (IR):

Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

Completeness – **Max**
Valuation – **Max**
Classification – **Max**

(2) Control Risk (CR):
We assessed control risk as follows for each system and relevant assertion:

GASB Allocation of Pension Amounts

MAX – We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:
Completeness – **MAX**
Valuation – **MAX**
Classification – **MAX**

(4) Testing Strategy:
We designed our substantive testing strategy based on our assessment of the risk of material misstatement.

Substantive Test: DRS Administered Pension Plans
Step 1: Determine the type of pension plans the employer participates in
Step 2: Reference central work and get figures from PEFI
Step 3: Use the applicable GASB 68 Testing Spreadsheet to re-recalculate the reported pension balances from the PEFI report
There's a risk that, after completing our recalculation, the reported pension balances from the PEFI report won't agree with the figures we recalculate. -- **Valuation**
Step 4: Special Funding Situation: Ensure employers are recognizing pension expense and an equal amount of revenue for their share of contributions to the LEOFF 2 plan, made on their behalf by the state
There's a risk that employers aren't recognizing pension expense and an equal amount of revenue for state contributions to the LEOFF 2 plan -- **Completeness**
Step 5: Test allocation of pension amounts to funds and activities (as applicable)
There's a risk that pension amounts aren't being allocated to the proper funds and activities -- **Classification**
Step 6: Review Required Supplementary Information (RSI)
Step 7: Review note disclosures for accuracy and completeness

We will follow the testing strategy for GASB 68 at [Substantive Test: DRS Administered Pension Plans].

Substantive Test: Supplemental Retirement Plans

Step 1: Tie Financial Statement Amounts to Actuary Report

There is a risk pension amounts have not been properly determined in accordance with GASB Statement No. 68-- **Valuation**

Step 2: Review note disclosures for accuracy and completeness

Step 3: Review Required Supplementary Information

We will follow the testing strategy for GASB 68 at [Substantive Test: Supplemental Retirement Plans].

Rely on the work of a Specialist

We will follow the testing strategy in order to rely on the work of a specialist for GASB 68 [Rely on the work of a Specialist (DRS Administered)]

There's a risk that figures from the audited financial statements won't agree with the figures from the PEFI report. -- **Completeness**

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

H.4.PRG - Long Term Liabilities (Due in More Than 1 Year): Pensions

Procedure Step:	Substantive Test: DRS Administered Pension Plans
Prepared By:	CJL, 11/14/2023
Reviewed By:	SHW, 11/20/2023

Record of Work Done:

STEP 1: Determine the type of pension plan(s) in which the employer participated in FY2023

The significant retirement plans administered by DRS that are subject to audit include:

Cost sharing Multiple-Employer, Defined Benefit Plans:

Public Employees Retirement System (PERS), Plan 1 and Plan 2

School Employee's Retirement System (SERS), Plan 2

Public Safety Employees; Retirement System (PSERS), Plan 2

Teacher's Retirement System (TRS), Plan 1 and Plan 2
Law Enforcement and Fire Fighters' Retirement System (LEOFF), Plan 1 and Plan 2

Cost Sharing Multiple-Employer Hybrid Defined Benefit and Defined Contribution plans:
PERS Plan 3
SERS Plan 3
TRS Plan 3

Single Employer Defined Benefit Plans:
Washington State Patrol Retirement System (WSPRS), Plan 1 and Plan 2
Judicial Retirement Systems (JRS) - Closed
Judge's Retirement Fund (JRF) - Closed

The significant privately administered Higher Education Supplemental Retirement Plans (SRP) that are subject to audit include:

Single Employer Defined Benefit Plans:
University of Washington (UW)
Washington State University (WSU)
Eastern Washington University (EWU)
Central Washington University (CWU)
The Evergreen State College (TESC)
Western Washington University (WWU)
State Board for Community and Technical Colleges (SBCTC)

STEP 2: Use GASB 68 Testing Spreadsheet to re-recalculate reported pension balances from the Participating Employer Financial Information (PEFI) report. (Completeness)

We used the auditor pension tool to test the mathematical accuracy of the calculation of the net pension liability (and/or asset), deferred outflows and deferred inflows amounts reported by the employer for each plan using the Schedules of Collective Pension Amounts in the PEFI. Please note modifications as State of Washington is not included in the reference tabs. **See [**Pension Confirmation (GASB 68) – DRS plans 12-31-2022**]**

STEP 3: Compare expected pensions amounts to reported (Valuation)

We used the GAAP-Summary tab from modified Team Store Workpaper to compare reported amounts per client to expected for the following financial statement amounts:
Net Pension Asset/Liability

No expected current portion/due within one year for net pension liabilities as those amounts are paid with plan assets. ***No issues noted***
Deferred Outflows/Inflows ***No issues noted***
Pension Expense (a component of payroll expense). **No issues noted.**

In addition to the collective deferred outflows and deferred inflows reported in the PEFI for each plan, employers must also recognize their own employer-specific DO/DI. We tested the mathematical accuracy of the following:

Employer contributions made subsequent to the measurement date of the net pension liability/(asset), but before the end of the employer's fiscal year – recognized as a deferred outflow. ***No issues noted***

Change in Proportionate Share – The net effect of changes in the allocation percentage between years - recognized as of the beginning of the period. A table to calculate the change in proportionate share is included on each plan tab in the attached spreadsheet. An additional table to calculate amortization of current and prior year changes in proportionate share is also included on each plan spreadsheet. ***No issues noted***

Step 4: Special Funding Situation: Ensure employers are recognizing pension expense and an equal amount of revenue for their share of contributions to the LEOFF 2 plan, made on their behalf by the state.

LEOFF 2 – The total amount contributed by the State appears at the end of the LEOFF 2 Employer Allocation Schedule in the PEFI. Note that allocation percentages have not been calculated for individual employers and each individual employer must calculate their own share of the State's total contributions.

Formula: See the "SpecFndg" tab in the attached spreadsheet. This spreadsheet explains the calculation of the special funding amount, the required journal entry, and note disclosures.

For the State ACFR, the special funding contribution to the LEOFF 2 plan made by the state for the benefit of other municipalities (outside of its own employer contributions for agencies that participate in the plan) is entirely an expense of the state. Adjustments to the special funding tab removes the calculation of other municipalities' proportionate share of the state's special funding contribution, i.e. the special funding is 100% state expense.

STEP 5 for single-employer (local) plans: trace pension amounts reported in the financial statements to supporting evidence
See: [Substantive Test: Supplemental Retirement Plans].

STEP 6: Test allocation of pension amounts to funds and activities (as applicable)

For GAAP statements that include multiple opinion units, pension liabilities/(assets), deferred outflows and deferred inflows should be allocated between governmental and business-type activities in the government-wide statement of net position, allocated to appropriate activities in the government-wide statement of activities, and reported in the specific proprietary or fiduciary funds they are directly related to and expected to be paid from.

Auditors should evaluate allocations for reasonableness by:

Understanding and evaluating the reasonableness of the allocation methodology. We expect the methodology to be consistent from year to year.
Testing the mathematical accuracy of formulas used and tracing amounts to the financial statements.
SAO recommends the effect of changes in allocation percentages from year to year be expensed in the current year. However, employers may amortize these changes over the remaining service life of the plan if they choose.

See our recalculation of the allocation among opinion units here [Line Item Lead Sheet**]. No issues noted (Classification)**

STEP 6: Review Required Supplementary Information (RSI)

Inquire with management about the methods of preparing the schedules, including:
Whether it is measured and presented in accordance with GAAP
Whether methods of measurement or presentation have been changed from those used in the prior period and the reasons for any such changes.
Whether there were any significant assumptions or interpretations underlying the measurement or presentation of the information.
Verify that RSI is included with all and only the required elements

See the BARS Manual for State sponsored pension plans (PERS, PSERS, LEOFF).

Read the schedule for consistency with inquiry and knowledge obtained during the audit.
Foot and cross-foot schedules and tie key figures reported in the schedule to the financial statements, notes and underlying accounting records.

Note that the Schedule of Proportionate Share of the Net Pension Liability is dated as of the measurement date of the plans (e.g. 6/30 for state sponsored plans) and the Schedule of Employer Contributions is dated as of the employer's reporting date (e.g. 12/31 for most local governments). When these two dates are different, we expect the amount reported for covered payroll to be different on the two schedules. "Covered payroll" is the payroll on which contributions to a pension plan are based. For PERS 1 (and TERS 1), covered payroll includes not only the payroll related to active plan 1 employees, but also the payroll from PERS 2/3 and PSERS (or TERS 2/3 and SERS) because these plans determine plan 1 UAAL contributions. "Contributions" are actual employer contributions into the plans. For plan 1's, *this includes plan 2 contributions that fund the plan 1 UAAL's.*

Consider additional work as necessary to address any risks noted.

See [RSI: Pension Plan Information**].**

STEP 7: Review note disclosures for accuracy and completeness

Compare disclosures to the BARS manual template notes for state sponsored plans.

Local governments may, but are not required to, use this sample note disclosure. The sample note meets the minimum disclosure requirements of GASB 68 and local governments may include additional information as considered necessary for a fair and accurate presentation. The attached spreadsheet includes sample DO/DI and amortization tables for the notes on each plan spreadsheet.

Foot and cross-foot schedules and tie key figures reported in the notes to the financial statements, PEFI report, underlying accounting records, and other sources, as necessary.

If net pension assets exist the notes should disclose the method used to calculate restricted net position. All significant accounting policies require disclosure (either under note 1 or along with the pension note).

See [Note 15: Retirement Plans**].**

H.4.PRG - Long Term Liabilities (Due in More Than 1 Year): Pensions

Procedure Step:	Substantive Test: Supplemental Retirement Plans
Prepared By:	CJL, 11/14/2023
Reviewed By:	SLB, 11/20/2023

Record of Work Done:

Step 1: Tie Financial Statement Amounts to Actuary Report (Valuation)

We obtained the 2023 Higher Education Supplemental Retirement Plan report [2023.Higher.Ed.SRP.Valuation] from OSA's website.

a) Tied the following financial statement figures to the actuary report [SRP Confirmations to Actuary Report]:
Net Pension Liability
Pension Expense
Deferred Inflows
Deferred Outflows

We traced the pension line balances from OFM's workbooks to OSA's 2023 Higher Education Supplemental Retirement Plan report:
For:
Net Pension Liability (GL 5281)
Deferred Outflows (GL 1974)
Deferred inflows (GL 5265)

Amounts were reconciled to the final Enterprise Reporting Trial Balance for each subsidiary GL (HE[AgencyNumber]), totaling allocations among the funds.

The allocation methodology among functions and funds for the SRP pension line amounts are similar to the DRS administered plans as described in [Controls - GASB Allocation of Pension Amounts] except specifically for employer contributions, based upon fund type, to the HE SRP and allocated proportionately to the roll-up funds. We recalculated the allocated amounts [Line Item Lead Sheet] and tied the post-allocated amounts of the SRP amounts to the financial statements at [Line Item Lead Sheet] with no exceptions.

For Pension Expense (GLs 6598 and 6525) - Entries to pension expense are the offsetting entries for related pension line items (NPL, DI, DO); we compared the total amount of the changes to pension expense to the reported SRP amount.

No issues noted, minimal rounding present.

Step 2: Review Note Disclosures for Accuracy and Completeness (Completeness)
See [Note 15: Retirement Plans].

Step 3: Review Required Supplementary Information
See [RSI: Pension Plan Information].

H.4.PRG - Long Term Liabilities (Due in More Than 1 Year): Pensions

State of Washington

Procedure Step: Rely on the work of a Specialist (DRS Administered)

Prepared By: CJL, 11/6/2023

Reviewed By: SLB, 11/14/2023

Record of Work Done:

Assessment of Competence, Capabilities and Objectivity of Specialist

We assessed the competence, capabilities and objectivity of the specialist, specifically considering factors described in the testing strategy.

1. Competence

Two individuals certified the 2022 Participating Employer Financial Information (PEFI) report [PEFI.Actuarial.Certification.Letter]: Matt Smith and Michael Harbour.

Matt Smith, EA, FCA, MAAA - State Actuary (Signatory on Actuarial Valuation, DRS ACFR and PEFI Actuarial Certification Letter)

Matthew M. Smith is a Fellow of the Conference of Consulting Actuaries (FCA), an Enrolled Actuary (EA), and a member of the American Academy of Actuaries (MAAA). He received his undergraduate degree in mathematics from the University of Puget Sound in Tacoma, Washington. Matt started his actuarial career as an actuarial assistant with the Office of the State Actuary (OSA).

Matt is Washington's third State Actuary and serves as executive head of OSA. Prior to his appointment as the State Actuary in November 2002, he worked for Willis Towers Watson, Milliman, and Howard Johnson/Merrill Lynch in various actuarial and consulting roles. As the State Actuary, Matt oversees the annual actuarial valuations of 14 public retirement plans. He directs the actuarial services for the state's prepaid tuition program, certain medical programs, and the Long-Term Services and Supports Trust Program. OSA also provides staff and assistance to the Select Committee on Pension Policy (SCPP), a 20-member statutory committee. The SCPP studies issues and policies affecting the Washington State Retirement Systems and makes recommendations to the Legislature. Matt directs research and policy staff in support of the SCPP.

Michael Harbour, ASA, MAAA- Senior Actuarial Analyst (Prepared Actuarial Estimate)

Michael has been with OSA since 2007. He is an associate of the Society of Actuaries (ASA) and a member of the American Academy of Actuaries (MAAA).

No issues noted.

2. Capability

Capability relates to the ability of the specialist to exercise their competence. The Office of the State Actuary works exclusively on the funding and benefit issues of Washington State's Retirement System. They have worked closely with State agencies in the past. Based on our Office's past experiences, we determined they are capable of performing their actuary duties. We have been able to rely on their work in the past without issues. We believe they continue to be capable and we can rely on their reports.

Based on review of the report criteria, completeness of the information through reconciliation of systems and census data testing noted in [Control#2: DRS_vs_HRSM_Data_Comparison_2023], as well as lack of pressure or incentive for specialists to misstate, we determined we can rely on the capabilities of the specialist to perform the work. ***No issues noted.***

3. Objectivity
The Office of the State Actuary is an independent and non-partisan agency of the Washington State Legislature and works primarily on the funding and benefit issues of the state's public retirement systems. The Office was created in 1977 and its duties are set forth in Chapters 44.44 and 41.24 RCW. The role of the Office as currently defined is to:

Prepare actuarial valuations of the plans.
Provide fiscal notes/all pension legislation.
Advise Legislature/Governor on pension issues.
Staff the Select Committee on Pension Policy.
Provide actuarial assistance to: Department of Retirement Systems & LEOFF 2 Retirement Board

We noted no evidence to indicate pressures or incentives on specialists to misstate. Threats to objectivity of the specialist or lack of safeguards were not noted. There was no indication that information was withheld from the specialist by the DRS or related entities. Based on their independence from DRS, we determined we can rely on the objectivity of the specialist. ***No issues noted.***

Understanding of Specialist's Work and Conclusions
We gained an understanding of the specialist's procedures and conclusions, including the methods and assumptions used, and noted the following:

1. Objectives and scope of the specialist's work
The primary purpose of the information provided by the OSA, is to satisfy the actuarial reporting requirements of GASB and Government Finance Officers Association (GFOA). Actuarial valuations of the plans are used by the Office of the State Actuary (OSA) in determining the funded status and funding progress of the plans. The State Actuary's Office performs all actuarial services for the State sponsored plans, including all studies required by law. This includes conducting valuations of the separate systems. The valuations are presented in the Actuarial Valuations Report available on the State Actuary's website. http://osa.leg.wa.gov. The report is located in Valuations under the Pension Funding menu on the site's home page.

For further detail of the specialist's work, see the 2022 ACFR Actuarial Certification Letter at [ACFR.Actuarial.Certification.Letter] and the 2022 PEFI Certification Letter here at [PEFI.Actuarial.Certification.Letter]. *No issues noted.*

2. Intended use of the specialist's work to support the audit objective
OSA calculates the total pension liability for each plan. OSA also calculates the amortization schedules of the deferred inflows and outflows, and the pension expense that are recorded in the Schedules of Collective Pension Amounts.

3. Specialist procedures and conclusions
OSA receives member and beneficiaries information from the Department of Retirement Systems (DRS). Assets and financial information are provided by the Washington State Investment Board (WSIB) and DRS. Employer contribution transmittals DRS received and processed within the fiscal year ended June 30, 2022, are used as the basis for determining each employer's proportionate share of the collective pension amounts reported in the Schedule of Employer and Non-employer Allocations for all plans except LEOFF Plan 1 which is fully funded and no further employer contributions have been required since June 2000. The latest Actuarial Valuation was performed as of October 4, 2022, which is within 30 months and 1 day prior to DRS' year-end/measurement date, June 30, 2022, as required by GASB 68. *No issues noted.*

4. Assumptions and methods used by the specialist
To calculate the contribution rates necessary to pre-fund the plan's benefits, an actuary uses an actuarial cost method, asset valuation method, funding policy economic assumptions, and demographic assumptions. The Entry Age Normal (EAN) cost method is used to report the plans' funded status. The annual cost of benefits under EAN is comprised of two components: normal cost, plus amortization of the unfunded liability. The normal cost is most commonly determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career. Comparing the EAN liabilities to the actuarial value of assets on the valuation date provides an appropriate measure of a plan's funded status and is acceptable according to current Governmental Accounting Standards Board (GASB) Statements 67 and 68.

The plan's assets were used to calculate contribution rates, unfunded liabilities, and the plan's funded status. Because the market value of assets can be volatile from one year to the next, an asset valuation method is generally used to adjust the market value of assets and smooth the effects of short-term volatility. The adjusted assets are called the actuarial value of assets, or valuation assets. In the valuation process, assumptions are required for four economic variables; expected investment rate of return, inflation, general salary growth and membership growth. Economic assumptions affect expectations regarding the accumulation of assets and the growth of projected pension benefits. The Pension Funding Council (PFC) adopts economic assumptions for all plans/systems except LEOFF 2. The LEOFF 2 Board adopts economic assumptions for LEOFF 2. All economic assumptions are then subject to revision by the Legislature. Demographic assumptions include, but are not limited to, rates of retirement, probability of termination, rates at which members become disabled, turnover rates, mortality rates.

In the State Actuary's opinion, all methods, assumptions, and calculations are reasonable and are in conformity with generally accepted actuarial principles and standards of practice as of the date of the June 30, 2022 Actuarial Report (dated August 2023). All methods and assumptions can be found on the State Actuary's Website, see OSA Assumptions. In addition, in the State Actuary's opinion, the PEFI disclosures were prepared in accordance with GASB Statement 68. **See Actuarial Certification Letter for the PEFI at [**PEFI.Actuarial.Certification.Letter**].** NOTE: The valuations were used to determine the criteria Actuaries used in their assumptions for the PEFI and ACFR. The amounts reviewed for State ACFR items came from the PEFI for multi-employer plans and from the ACFR for single employer plans. ***No issues noted.***

Changes for the 2022 valuation include:

Changes in plan provisions for laws passed during the 2023 Legislative Session that impacted the results through benefit enhancements,
Changes in funding policy, modifying the funding policy for PERS1 and TRS1, and
Changes in assumptions or methods related to adjustments to TRS1 assets, LEOFF2 assets, and LEOFF2 participant data to reflect changes subsequent to the measurement date of June 30, 2022.

Evaluation of Specialist's Work

1. Relevance and Reasonableness of the Specialist's Methods and Assumptions

We reviewed the methods and assumptions used in determining the total pension liability are in accordance with GASB Statement No. 68 and Actuarial Standards of Practice and are the same as those used by the plan. These seem appropriate based upon our review. In the State Actuary's opinion, all methods, assumptions, and calculations are reasonable and are in conformity with generally accepted actuarial principles and standards of practice as of the date of the June 30, 2022 Actuarial Report (dated August 2023). We reviewed the Washington State 2022 Actuarial Valuation Report and determined that the specialist's methods and assumptions are relevant and reasonable. ***No issues noted***.

2. Appropriate tests of source data provided by the entity to the specialist.

We obtained OFM's JV Workbooks by plan, amortization schedules, and corresponding JV's from Kennesy Cavanah, Statewide Accountant. All documentation seems appropriate based upon our review. **We will rely on the work documented and performed at [**Line Item Lead Sheet**].** ***No issues noted.***

The Department of Retirement Systems (DRS) provides OSA with audited member and beneficiary data. OSA checked the data for reasonableness based on the purpose of the valuation. The Washington State Investment Board (WSIB) and DRS provides audited financial and asset information. OSA relied on all the information provided as complete and accurate; however, we did make adjustments (noted in the report) to reflect certain material changes occurring after the June 30, 2022, measurement date.

3. Relevance and reasonableness of the specialist's conclusions

We reviewed the 2022 DRS ACFR and the 2022 PEFI Actuarial Valuation Certification letters for valuation dates of June 30, 2022**. See: [**ACFR.Actuarial.Certification.Letter**] & [**PEFI.Actuarial.Certification.Letter**].** ***No issues noted.***

2022 ACFR

OSA performed the most recent actuarial valuation in 2022 with a valuation date of June 30, 2021. The total pension liability was calculated as of the valuation date and projected to the measurement date of June 30, 2022. Plan liabilities were rolled forward from June 30, 2021, to June 30, 2022, reflecting each plan's normal cost (using the Entry Age cost method), assumed interest, and actual benefit payments. GASB 67 requires an "asset sufficiency test" to determine whether (or how long) OSA can use the long-term expected rate of return on assets to measure the present value of accrued plan liabilities for accounting purposes. See the entire documented actuarial valuation process for the 2022 ACFR at [ACFR.Actuarial.Certification.Letter]. ***No issues noted.***

2022 PEFI
OSA prepared the following information for inclusion in the 2022 Participating Employer Financial Information (PEFI):

Schedules of Collective Pension Amounts, Fiscal Year 2022
Amortization Schedules and Pension Expense under Note 2

See the documented procedure at [Line Item Lead Sheet]. We believe the data, methods, and assumptions used in the actuary's valuation process/procedure are reasonable and appropriate. Based on our review, we determined that the specialist's conclusions are relevant and reasonable. ***No issues noted.***

4. Verifying that the specialist’s conclusions are reflected in the financial statements.
See the substantive test section.

5. If the specialist used was employed or contracted by management, add an additional representation to the Management Representation Letter related to the work of the specialist.
We added a representation related to the use of an actuary, see [FS Letter of Representation].

H.4.PRG - Long Term Liabilities (Due in More Than 1 Year): Pensions

Procedure Step:	Rely on the work of a Specialist (SRP)
Prepared By:	CJL, 11/8/2023
Reviewed By:	SLB, 11/14/2023

Record of Work Done:

State of Washington

<u>Assessment of Competence, Capabilities and Objectivity of Specialist</u>
We assessed the competence, capabilities and objectivity of the specialist, specifically considering factors described in the testing strategy.

1. Competence
Two individuals certified the 2023 Supplemental Retirement Plan Valuation for Higher Education: Luke Masselink, Sr Actuary and Mitch DeCamp, Actuarial Analyst, certified the 2023 Actuarial Valuation report.

Luke Masselink, ASA, EA, MAAA – Senior Actuary (Signatory on PEFI Actuarial Certification Letter and Supplemental Retirement Plan Valuation)
- Luke has been with OSA since October 2013. He has been Associate of the Society of Actuaries (ASA) since 2009, a member of the American Academy of Actuaries (MAAA) since 2008, and an EA since 2008. Prior to starting at OSA, Luke was a director at Buck Consultants, a human resources consulting company which offers retirement planning and risk management consultations to companies.

Mitch DeCamp *(Signatory on Supplemental Retirement Plan Valuation)* - Senior Actuarial Analyst

Note: An Enrolled Actuary (EA) is any individual who has satisfied the standards and qualifications as set forth in the regulations of the Joint Board for the Enrollment of Actuaries and who has been approved by the Joint Board of the Department of the Treasury and the Department of Labor to perform actuarial services required under the Employee Retirement Income Security Act of 1974 (ERISA). We verified that Matt Smith and Luke Masselink's credentials were in good standing with the Joint Board by reviewing the roster of enrolled actuaries in active status as of September 28, 2018 at IRS.gov.

SAO has worked with Luke as an actuary in the past. Our office has always had a good experience using the specialist's work for the GASB 68 Census Data Examination that we performed for the Department of Retirement Systems in prior years. Based on the qualification, experience, and credentials of the individual noted above, we determined that we can rely on the competence of the specialist. ***No issues noted.***

2. Capability
Capability relates to the ability of the specialist to exercise their competence. The Office of the State Actuary works exclusively on the funding and benefit issues of Washington State's Retirement System. They have worked closely with State agencies in the past. Based on our Office's past experiences, we determined they are capable of performing their actuary duties. We have been able to rely on their work in the past without issues. We believe they continue to be capable and we can rely on their reports.

Based on review of the report criteria, completeness of the information, as well as lack of pressure or incentive for specialists to misstate, we determined we can rely on the capabilities of the specialist to perform the work. ***No issues noted.***

3. Objectivity
The Office of the State Actuary is an independent and non-partisan agency of the Washington State Legislature and works primarily on the

funding and benefit issues of the state's public retirement systems. The Office was created in 1977 and its duties are set forth in Chapters 44.44 and 41.24 RCW. The role of the Office as currently defined is to:

Prepare actuarial valuations of the plans.
Provide fiscal notes/all pension legislation.
Advise Legislature/Governor on pension issues.
Staff the Select Committee on Pension Policy.
Provide actuarial assistance to: Department of Retirement Systems & LEOFF 2 Retirement Board

For HE SRP, per RCW 28B.10.423:
Each institution of higher education that is responsible for payment of supplemental amounts shall contract with the state actuary for an actuarial valuation of their supplemental benefit plan. Each institutional shall also contract with the state actuary for actuarial experience study of the mortality, service, compensation, and other experience of the annuity or retirement income plans and into the financial condition of each system. Upon completion of the valuation or experience study, the state actuary shall provide copies of the study to the institution of higher education and to the select committee on pension policy and the pension funding council.

We noted no evidence to indicate pressures or incentives on specialists to misstate. Threats to objectivity of the specialist or lack of safeguards were not noted. There was no indication that information was withheld from the specialist by the DRS or related entities. Based on their independence from DRS, we determined we can rely on the objectivity of the specialist. ***No issues noted.***

Understanding of Specialist's Work and Conclusions

We gained an understanding of the specialist's procedures and conclusions, including the methods and assumptions used, and noted the following:

1. Objectives and scope of the specialist's work (2023 Higher Education SRP Actuarial Valuation [2023.Higher.Ed.SRP.Valuation])
The primary purpose of the valuation is to provide information to the higher education institutions in order to meet the financial reporting requirements under GASB Statement No. 67/68 for the Fiscal Year ending June 30, 2023.

2. Intended use of the specialist's work to support the audit objective
OSA calculates the total pension liability for participating entity. OSA also calculates the amortization schedules of the deferred inflows and outflows, and the pension expense that are recorded in the Schedules of Collective Pension Amounts. These are used by OFM to valuate the Higher Education SRP for the participating entities.

3. Specialist procedures and conclusions
OSA relies on participant data provided by entities and retirement plan vendors to perform the valuation. An update to the plan participant data file was provided as of January 1, 2023. OSA checked the data for reasonableness as appropriate based on the purpose of the valuation. An audit

of the participant data was not performed. They relied on all the information provided as complete and accurate. In their opinion, this information is adequate and substantially complete for the purposes of the valuation.

4. Assumptions and methods used by the specialist

The assumptions used in the valuation, including total salary growth and the demographic assumptions, were developed in the August 2021 Supplemental Retirement Plan Experience Study report. OSA considered input from TIAA, a Retirement Plan vendor, to help us set the economic assumptions related to the Assumed Income. OSA determined the discount rate based upon the 2021 Economic Experience Study for the Washington State retirement plans and based on the results of the GASB 67/68 crossover test. In their opinion, all methods, assumptions, and calculations are reasonable and are in conformity with generally accepted actuarial principles and standards of practice as of the date of the letter.

To calculate the contribution rates necessary to pre-fund the plan's benefits, an actuary uses an actuarial cost method, asset valuation method, economic assumptions, and demographic assumptions. The Entry Age Normal (EAN) cost method is used to report the plans' funded status. The annual cost of benefits under EAN is comprised of two components: normal cost, plus amortization of the unfunded liability. The normal cost is most commonly determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career. Comparing the EAN liabilities to the actuarial value of assets on the valuation date provides an appropriate measure of a plan's funded status and is acceptable according to current Governmental Accounting Standards Board (GASB) Statements 67 and 68.

Assumptions from the previous year are generally the same. However, we noted the following changes in methods and assumptions between the measurement of the June 30, 2022 and June 30, 2023 TPL:

- An update to the January 1, 2023, participant data file
- Updates to the annuity conversion assumptions for the TIAA investments based upon inputs from TIAA and OSA's professional judgment. TIAA contributions and investment earnings annuity conversion changed from contributions made pre-2002/post-2001 converted at 6.00 percent/2.25 percent to contributions pre-2006/post-2005 converted at 7.00 percent/4.00 percent

The plan's assets were used to calculate contribution rates, unfunded liabilities, and the plan's funded status. Because the market value of assets can be volatile from one year to the next, an asset valuation method is generally used to adjust the market value of assets and smooth the effects of short-term volatility. The adjusted assets are called the actuarial value of assets, or valuation assets.

In the valuation process, assumptions are required for four economic variables; expected investment rate of return, inflation, general salary growth and membership growth. Economic assumptions affect expectations regarding the accumulation of assets and the growth of projected pension benefits. The Pension Funding Council (PFC) adopts economic assumptions for the plan. All economic assumptions are then subject to revision by the Legislature.

Demographic assumptions include, but are not limited to, rates of retirement, probability of termination, rates at which members become disabled, turnover rates, mortality rates.

In the State Actuary's opinion, all methods, assumptions, and calculations are reasonable and are in conformity with generally accepted actuarial principles and standards of practice as of the date of the June 30, 2023 Actuarial Valuation Report (dated October 2023). All methods and assumptions can be found on the State Actuary's Website, see OSA Assumptions. ***No issues noted.***

Evaluation of Specialist's Work

1. Relevance and reasonableness of the specialist's methods and assumptions.
We reviewed the methods and assumptions used in determining the total pension liability are in accordance with GASB Statement No. 67/68 and Actuarial Standards of Practice and are the same as those used by the plan. These seem appropriate based upon our review. In the State Actuary's opinion, all methods, assumptions, and calculations are reasonable and are in conformity with generally accepted actuarial principles and standards of practice as of the date of the June 30, 2023 Actuarial Valuation Report (dated October 2023). We reviewed the Washington State 2023 Actuarial Valuation Report and determined that the specialist's methods and assumptions are relevant and reasonable. ***No issues noted.***

2. Appropriate tests of source data provided by the entity to the specialist.
We obtained OFM's JV Workbooks by entity for the SRP, amortization schedules, and corresponding JV's from Kennesy Cavanah, Statewide Accountant.

The Washington State Investment Board, the Office of Financial Management, and the Department of Retirement Systems provided financial and asset information as of June 30, 2023. OSA checked the participant data and assets for reasonableness as appropriate based on the purpose of the valuation. They relied on the information provided as complete and accurate. In their opinion, this information was adequate and substantially complete for the purposes of the valuation.

3. Relevance and reasonableness of the specialist's conclusions.
We reviewed the Actuarial Certification Letter along with the reports. We believe the data, methods, and assumptions used in the actuary's valuation process/procedure are reasonable and appropriate. Based on our review, we determined that the specialist's conclusions are relevant and reasonable.

4. Verifying that the specialist's conclusions are reflected in the financial statements.
We tied the NPL, pension expense, DO/DIs to the amounts recorded in AFRS (trial balance) for each of the subsidiary GLs (Higher Education agencies) [SRP Confirmations to Actuary Report]

5. If the specialist used was employed or contracted by management, add an additional representation to the Management Representation Letter related to the work of the specialist.

We added a representation related to the use of an actuary, see [FS Letter of Representation].

H.5.PRG - Long Term Liabilities (Due in More Than 1 Year): OPEB

Procedure Step: Summary & Conclusion
Prepared By: BM2, 10/25/2023
Reviewed By: SLB, 11/1/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
We determined the results of substantive tests do not indicate a need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
We determined the quality and quantity of evidence obtained was sufficient and appropriate.

H.5.PRG - Long Term Liabilities (Due in More Than 1 Year): OPEB

Procedure Step: Understanding of Line Item
Prepared By: BM2, 6/1/2023
Reviewed By: SLB, 11/1/2023

Record of Work Done:

(1) Prior Audit Exceptions:
No prior year exceptions.

(2) Composition & Change Analysis:
Line Item Leadsheet: [Line Item Lead Sheet].

See [SAO ACFR Planning Guide_Health_Insurance_Activities_Updated_2023] for understanding of PEBB including the state index rate, retiree benefits, and other plan information.

Balances reported on individual statements and opinion units were percentages of state-wide OPEB balances (deferred outflows, short-term liability, long-term liability, and deferred inflows). State-wide balances were audited in S1FinancialManagement-FS23. Agencies did not report OPEB balances in AFRS. OFM prepared manual AFRS journal vouchers to record balances by opinion unit and statement.

(3) Updates to Material Account Matrix:
We updated the Material Account Matrix in the following ways:

- Sort Code 3D changed to 3M. Amounts were reported in 3M, no 3D balances.
- Sort Code 7P updated to 7M. No 7P balances were reported.
- Sort Code PP updated to PM. No PP balances were reported.
- Rollup Fund FFB, sort code PM added. Amounts reported in the Statement of Net Position - Proprietary Funds include FFB amounts for the current year.

H.5.PRG - Long Term Liabilities (Due in More Than 1 Year): OPEB

Procedure Step: Controls - AFRS

Prepared By: BM2, 8/2/2023

Reviewed By: SLB, 11/1/2023

Record of Work Done:

Material Balance(s) and Assertions
Internal controls in AFRS address the following balance(s):

Statement of Net Position - Government Wide	Statement of Net Position - Government	Statement of Net Position - Proprietary	Statement of Net Position – Proprietary	Various financial statements

State of Washington

	Wide	Funds	Funds	
Deferred Outflows of Resources (OPEB)	Deferred Outflows of Resources (OPEB)	Deferred Outflows of Resources (OPEB)	Deferred Outflows of Resources (OPEB)	Deferred Outflows of Resources (OPEB)
Long Term Liabilities Due within One Year (Other Post Employment Benefits Obligations)	Long Term Liabilities Due within One Year (Other Post Employment Benefits Obligations)	Other Long Term Liabilities - Noncurrent (Other Post Employment Benefits)	Other Long Term Liabilities - Noncurrent (Other Post Employment Benefits)	Total OPEB Liability (Current)
Long Term Liabilities Due in More Than One Year (Other Post Employment Benefits Obligations)	Long Term Liabilities Due in More Than One Year (Other Post Employment Benefits Obligations)	Total OPEB Liability (Current)	Total OPEB Liability (Current)	Total OPEB Liability (Noncurrent)
Deferred Inflows of Resources (OPEB)	Deferred Inflows of Resources (OPEB)	Deferred Inflows of Resources (OPEB)	Deferred Inflows of Resources (OPEB)	Deferred Inflows of Resources (OPEB)

For the following assertions:

Completeness -

Members are inappropriately excluded from, or included in, the census data.

Census data reported by the employer to the plan is not accurate and complete.

The State may not truly owe the benefits included in the Other Post Employment Benefits.

Valuation -

Census data does not reconcile to (agree with) the employer's payroll and personnel records, causing errors in the computation of deferred inflows/outflows and total OPEB liability.

Census data is not properly accumulated (maintained) for active members as well as activity for inactive members, causing errors in the computation of total deferred inflows/outflows and total OPEB liability.

The actuary uses inappropriate assumptions or actuarial methods that are not in conformity with GASB Statement No. 75

The actuary uses incomplete (missing) or incorrect census data, causing errors in the computation of total deferred inflows/outflows and total OPEB liability.

Deferred inflows/outflows of resources and OPEB expense are not properly calculated and reported in accordance with GASB Statement No. 75.

Classification -

There is a risk that the allocation between funds is not representative of the agencies included in that roll-up fund.

<u>Gain an Understanding of Internal Controls</u>

We met with Kennesy Cavanah, OFM Senior Financial Consultant Coordinator, to gain an understanding over OPEB balances reported in the State of Washington financial statements on 07/12/2023. We used prior year work to gain our understanding of controls because OPEB data was not expected to be complete until August.

The OFM Senior Financial Consultant Coordinator prepared the following schedules to report allocation of OPEB liabilities and OPEB balances by selected state agencies and in total:

Schedule of Other Post-Employment Benefits State Agency Allocations
Schedule of OPEB Amounts by Agency
Notes to Other Post-Employment Benefits Schedule

The Office of the State Actuary, with assistance from the Health Care Authority's actuaries (Milliman), prepared all OPEB balances. Key plan details and assumptions were as follows:

Non-qualifying trust: The Washington State plan was pay-as-you-go with a substantive plan (terms understood by employers and plan members without a formalized contract or plan document).
Discount rate: The discount rate was equal to the 20-year Municipal Bond Index. The rate used for the current measurement date, June 30, 2022, was 3.54%.
Valuation: Estimates were based on Entry Age Normal actuarial cost method.
Amortization: Changes in actuary assumptions were based on the average expected remaining service lives of all active and inactive members (nine years)

See TeamMate file S1FinancialManagements-FS23 for audit procedures and results over testing census data, review of actuary assumptions, and recalculation of schedules. The OFM Senior Financial Consultant Coordinator reviewed the results of the OPEB Schedule audit and census data testing to ensure the completeness and accuracy of the census data used to prepare OPEB calculations **(Key Control #1: Manual - Completeness and Valuation).**

OFM Senior Financial Consultant Coordinator used the audited OPEB balances by state agency and further allocated each agency's liability by sub-object BD (Health, Life & Disability Insurance). This allowed OFM to allocate state agency balances across opinion units and financial statements (i.e. government-wide, business activities, aggregate remaining, etc.). Sub-object BD was used because of the following:

The Schedule of Other Post-Employment Benefits State Agency Allocations was based on an agency's number of active employees receiving health and life benefits administered by the Public Employees Benefit Board (PEBB),

Benefits were allocated on the same basis as payroll (active employees), and
The state index rate was expensed through sub-object BD. The state index rate was the monthly amount paid by state agencies based on the number of employees eligible to receive benefits (including employees that waived coverage). The monthly rate for fiscal year ended June 30, 2022 was $649. Each state agency transferred money to the Health Care Authority (HCA) after each payroll cycle (10th and 25th), the administrator of PEBB and state employee benefits.

The OFM Senior Financial Consultant Coordinator noted some state agencies have additional expenses run through sub-object BD for additional benefits. Additional benefits were typically for life insurance or other similar insurances that were significantly paid for by the employee. The OFM Senior Financial Consultant Coordinator noted no additional benefits that were expected to skew the allocation of benefits.

The OFM Senior Financial Consultant Coordinator modified the audited OPEB schedules in OFM's Excel workbook 'OPEB_JV_Worksheets_2022.' We used the 2022 workpapers for gaining our understanding of the 2023 controls and process due to timing. OPEB workbooks were prepared in August/September. See below for the following steps:

Step #1: Obtain final version of audited OPEB schedules (Schedule of Other Post-Employment Benefits State Agency Allocations).

Step #2: Export the prior year ACFR database balances for sub-object BD totaled by agency, fund, and table sort codes by index match. See tab "21_ACFR_Data" in OFM's Excel workbook. The prior year BD expenses were used to match the measurement date (one year lag).

Step #3: Split agency allocation percentages from the Schedule of Other Post-Employment Benefits State Agency Allocations by fund and opinion unit based on sub-object BD totals. See tabs "21_BD% Allocation by Agency" and "19 % charged by Rollup & Function" in OFM's Excel workbook. Agencies that reported under multiple funds were highlighted in a separate color to help preparers and reviewers ensure allocations were accurately split.

Step #4: Allocations were aggregated by opinion unit and summarized in a pivot table by rollup fund, posting agency, and total. The total for the opinion unit was multiplied by the total OPEB line item balance. See tab "22 Schedule of OPEB amounts" for allocation of all audited OPEB line items in OFM's Excel workbook.

The calculations from OPEB_JV_Worksheets_2022 Excel workbook was the support used for all OPEB JV's in AFRS **(Key Control #2 - Manual - Valuation, Classification, and Completeness)**.

How transactions are recorded in AFRS:
Kennesy Cavanah, OFM Senior Financial Consultant Coordinator, prepared a year-end journal voucher to record the long-term liabilities balance using the actuary report, allocation schedule, and the fund spreadsheet. Sara Rupe, OFM Senior Staff Consultant, reviewed the journal voucher for accuracy, fund classification, and presentation requirements under GASB 75 and 85 **(Key Control #3: Manual - Valuation, Classification, and Completeness)**.

Key Controls are as Follows:

Key Control #1 (Manual - Completeness and Valuation) - OFM relied on census testing results and actuary work performed by the Office of State Actuary and Milliman to ensure populations were complete and valuation estimates were accurate.

Key Control #2 (Manual - Valuation, Classification) - OFM Senior Financial Consultant Coordinator used sub-object code BD to uniformly allocate OPEB balances by state agency to the appropriate statement and opinion unit.

Key Control #3 (Manual - Valuation, Classification, and Completeness) - An OFM Senior Staff Consultant performed a detailed review over the OPEB excel workbook to ensure journal vouchers were supported by audited OPEB schedule amounts, accurately allocated to respective agencies and reporting funds, and accurately adjusted balances to ensure opinion units recorded state-wide balances and amounts in compliance with reporting requirements under GASB 75 and 85.

Noted Weaknesses are as Follows:
None.

H.5.PRG - Long Term Liabilities (Due in More Than 1 Year): OPEB

Procedure Step: Key Control 1 (Manual)
Prepared By: BM2, 10/24/2023
Reviewed By: SLB, 11/1/2023

Record of Work Done:

Long Term Liabilities (Due in more than one year): OPEB - Completeness/Valuation
Key Control 1 for AFRS - (Completeness/Valuation) OFM relied on census testing results and actuary work performed by the Office of State Actuary (OSA) and Milliman to ensure populations were complete and valuation estimates were accurate.

The understanding for this system is documented above in the "Controls - AFRS" step.

1. Confirmation of Key Manual Control:
We performed a review of the underlying census data and actuary work of OSA and Milliman as part of the SAO Statewide OPEB Schedules Audit (S1FinancialManagement-FS23). We reviewed the results of the SAO statewide OPEB Schedules audit, S1FinancialManagement-FS23 and noted the following:

Census Data - We reported 1 exit item in relation to census data testing as part of the audit. One agency had 9 employees that did not meet our expectations and were included in the census data when they shouldn't have or vice versa. The effect was isolated to the one agency and did not impact any OPEB balances.
Actuary Work - We reviewed the rely on work of specialist performed in S1FinancialManagement-FS23 over Milliman and OSA. We noted no exceptions and that we determined we could rely on the work of Milliman and OSA in relation to the OPEB schedules.

Based on substantive testing performed in S1FinancialManagement-FS23, we determined the population used for ACFR reporting were complete and estimates were valued accurately. We reviewed OFM's ACFR OPEB calculation workbook, "OPEB_Worksheets_2023" and noted the allocation amounts and supporting OSA/Milliman figures tied to our recalculation workbook from S1FinancialManagement-FS23. ***No issues noted.***

Noted Weaknesses are as follows:

none.

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

H.5.PRG - Long Term Liabilities (Due in More Than 1 Year): OPEB

Procedure Step:	Key Control 2 (Manual)
Prepared By:	BM2, 10/24/2023
Reviewed By:	SLB, 11/1/2023

Record of Work Done:

Long Term Liabilities (Due in more than one year): OPEB - Completeness/Valuation/Completeness
Key Control 2 for AFRS - (Valuation, Classification) OFM Senior Financial Consultant Coordinator used sub-object code BD to

uniformly allocate OPEB balances by state agency to the appropriate statement and opinion unit.

The understanding for this system is documented above in the "Controls - AFRS" step.

1. Confirmation of Key Manual Control:
We obtained Excel workbook OPEB_Worksheets_2023_.xlsx. We noted all FYE 2023 expenses for subobject BD were exported and agency percentages were allocated across funds and statements by the amounts reported in sub-object BD. We confirmed OFM used all FYE 2023 BD expenses by running an independent query from the ACFR database. See [OPEB Adjusted Allocation Recalculation], tabs 'SAO ACFR Query BD_FY23' for the documented SQL code and results. We noted SAO's total BD expenses tied to OFM's BD expenses without exception. FYE 2022 (measurement date) BD expenses totaled $1,409,011,074.21. No issues noted.

We recalculated the adjusted allocation percentages based on agency head counts and expenses coded to sub-object 'BD.' See [OPEB Adjusted Allocation Recalculation], tab 'Mod Allocation % Comparison.' We noted no exceptions in adjusted agency allocation percentages.
Noted Weaknesses are as follows:

none

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

H.5.PRG - Long Term Liabilities (Due in More Than 1 Year): OPEB

Procedure Step: Key Control 3 (Manual)

Prepared By: BM2, 10/24/2023

Reviewed By: SLB, 11/1/2023

State of Washington

Record of Work Done:

Long Term Liabilities (Due in more than one year): OPEB - Completeness/Valuation/Completeness
Key Control 3 for AFRS - (Valuation, Classification, Completeness) An OFM Senior Staff Consultant performed a detailed review over the OPEB excel workbook to ensure journal vouchers were supported by audited OPEB schedule amounts, accurately allocated to respective agencies and reporting funds, and accurately adjusted balances to ensure opinion units recorded state-wide balances and amounts in compliance with reporting requirements under GASB 75 and 85.

The understanding for this system is documented above in the "Controls - AFRS" step.

1. Confirmation of Key Manual Control:
We obtained OFM's JV to record OPEB balances as of June 30, 2023, JVOFM082. We reviewed OFM's calculation workbook (JVOFM082_OPEB_DO_DI_Exp_TOPEBL.xlsx) which included the JV, links to OFM's supporting calculation workbooks, and indication of review (emails from reviewer, notes and signature and date). We noted Kennesy Cavanah, OFM Senior Financial Consultant Coordinator, prepared the entry on 9/25/2023. Laura Lopez, Statewide Accountant, reviewed and approved the entry on 10/2/2023. Laura identified an error in the t accounts for rollup fund FMZ-599-700D which were corrected prior to entry. *No issues noted.*

Noted Weaknesses are as follows:

none.

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

H.5.PRG - Long Term Liabilities (Due in More Than 1 Year): OPEB

Procedure Step: Risk Assessment

Prepared By: BM2, 8/22/2023

State of Washington

Reviewed By: SLB, 11/1/2023

Record of Work Done:

(1) Inherent Risk (IR):
Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

Completeness - MAX

Valuation - MAX

Classification - MAX

(2) Control Risk (CR):
We assessed control risk as follows for each system and relevant assertion:

AFRS - Completeness, Valuation, Classification:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

Completeness - MAX

Valuation - MAX

Classification - MAX

(4) Testing Strategy:
We designed our substantive testing strategy based on our assessment of the risk of material misstatement.

Completeness -
We will rely on the SAO audit S1FinancialManagement-FS23 for the testing of the actuarial census data completeness.

Valuation -

We will rely on the SAO audit S1FinancialManagement-FS23 for the testing of the actuarial valuation and agency allocations.

We will recalculate the adjusted allocation percentage by agency (based on sub-object BD) and roll-up fund. We will tie amounts to AFRS and the financial statements.

We will review adjustments for cash-basis agencies to ensure amounts were appropriately recorded for GAAP statements.

Classification -

We will rely on our recalculations to ensure amounts reported by roll-up fund was accurate.

We will review adjustments for cash-basis agencies to ensure amounts were appropriately recorded for GAAP statements.

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

H.5.PRG - Long Term Liabilities (Due in More Than 1 Year): OPEB

Procedure Step: Substantive Test

Prepared By: BM2, 10/25/2023

Reviewed By: RKM, 2/1/2024

Record of Work Done:

Substantive tests performed to meet the Completeness assertion:

Risk(s) identified and Testing Procedures:

Members are inappropriately excluded from, or included in, the census data. (AICPA Audit and Accounting Guide SLV Chapter 14 Risk)

Completeness of census data was tested as part of the OPEB schedule audit, S1FinancialManagement-FS23. Census data testing procedures were developed to address specific risks related to OPEB under AICPA Audit and Accounting Guide (AAG) SLV Chapter 14.214. Based on our review of testing procedures and results of the OPEB schedule audit, we determined we could place reliance on the procedures performed as part of SAO audit S1FinancialManagement-FS23. We determined the quality and quantity of evidence obtained was sufficient and appropriate to address ACFR risks.

Census data reported by the employer to the plan is not accurate and complete. (AICPA Audit and Accounting Guide SLV Chapter 14 Risk)

Completeness of census data was tested as part of the OPEB schedule audit, S1FinancialManagement-FS23. Census data testing procedures were developed to address specific risks related to OPEB under AICPA Audit and Accounting Guide (AAG) SLV Chapter

14.214. Based on our review of testing procedures and results of the OPEB schedule audit, we determined we could place reliance on the procedures performed as part of SAO audit S1FinancialManagement-FS23. We determined the quality and quantity of evidence obtained was sufficient and appropriate to address ACFR risks.

The State may not truly owe the benefits included in the Other Post Employment Benefits.

The actuary uses census data to determine benefits and amounts owed for the OPEB plan. We performed a review of actuary work as part of the OPEB schedule audit, S1FinancialManagement-FS23 to determine if data used by the actuary is complete and therefore amounts owed are complete. Based on our review of testing procedures and results of the OPEB schedule audit, we determined we could place reliance on the procedures performed as part of SAO audit S1FinancialManagement-FS23. We determined the quality and quantity of evidence obtained was sufficient and appropriate to address ACFR risks.

Testing Results:

We relied on SAO's audit S1FinancialManagement-FS23 for testing the completeness of head count related census data (for allocation purposes and data used by actuaries). We reviewed the following to address completeness risks:

Completeness of Census Data

We reviewed the S1FinancialManagement-FS23 issues and noted none impacted the completeness of census data. We determined the census data was complete and members were appropriately included in the census data.

Completeness of Data Used in the Calculation of OPEB Balances

We reviewed procedures related to the work of specialists (OSA and Milliman). No exceptions were noted. We determined we could rely on the work performed by OSA and Milliman.

To ensure OFM used all expenses coded to sub-object BD, we obtained an independent export of FYE 2023 BD expenses. We noted FYE 2022 (measurement date) BD expenses totaled $1,409,011,074.21. Our export of BD expenses tied to OFM's data without exception. See [OPEB Adjusted Allocation Recalculation], tab 'SAO ACFR Query BD_FY23' for SQL code used and results. ***No issues noted.***

Substantive tests performed to meet the Valuation assertion:

Risk(s) identified and Testing Procedures:

Census data does not reconcile to (agree with) the employer's payroll and personnel records, causing errors in the computation of deferred inflows/outflows and total OPEB liability. (AICPA Audit and Accounting Guide SLV Chapter 14 Risk)

Accuracy of census data was tested as part of the OPEB schedule audit, S1FinancialManagement-FS23. Census data testing procedures were developed to address specific risks related to OPEB under AICPA Audit and Accounting Guide (AAG) SLV Chapter 14.214. Based on our review of testing procedures and results of the OPEB schedule audit, we determined we could place reliance on the procedures performed as part of SAO audit S1FinancialManagement-FS23. We determined the quality and quantity of evidence obtained was sufficient and appropriate to address ACFR risks.

Census data is not properly accumulated (maintained) for active members as well as activity for inactive members, causing errors in the computation of total deferred inflows/outflows and total OPEB liability. (AICPA Audit and Accounting Guide SLV Chapter 14 Risk)

- Accuracy of census data was tested as part of the OPEB schedule audit, S1FinancialManagement-FS23. Census data testing procedures were developed to address specific risks related to OPEB under AICPA Audit and Accounting Guide (AAG) SLV Chapter 14.214. Based on our review of testing procedures and results of the OPEB schedule audit, we determined we could place reliance on the procedures performed as part of SAO audit S1FinancialManagement-FS23. We determined the quality and quantity of evidence obtained was sufficient and appropriate to address ACFR risks.

The actuary uses inappropriate assumptions or actuarial methods that are not in conformity with GASB Statement No. 75. (AICPA Audit and Accounting Guide SLV Chapter 14 Risk)

- Actuarial methods and assumptions were reviewed as part of the OPEB schedule audit, S1FinancialManagement-FS23. We reviewed procedures performed as part of S1FinancialManagement-FS23 to place reliance on the work of specialist and identified no issues. We determined the quality and quantity of evidence obtained was sufficient and appropriate to address ACFR risks.

The actuary uses incomplete (missing) or incorrect census data, causing errors in the computation of total deferred inflows/outflows and total OPEB liability. (AICPA Audit and Accounting Guide SLV Chapter 14 Risk)

- The actuary uses census data to determine benefits and amounts owed for the OPEB plan. We performed a review of actuary work as part of the OPEB schedule audit, S1FinancialManagement-FS23 to determine if data used by the actuary is complete and therefore amounts owed are complete. Based on our review of testing procedures and results of the OPEB schedule audit, we determined we could place reliance on the procedures performed as part of SAO audit S1FinancialManagement-FS23. We determined the quality and quantity of evidence obtained was sufficient and appropriate to address ACFR risks.

Deferred inflows/outflows of resources and OPEB expense are not properly calculated and reported in accordance with GASB Statement No. 75. (AICPA Audit and Accounting Guide SLV Chapter 14 Risk)

- OPEB balances are calculated based on statewide balances determined by the actuary (audited in S1FinancialManagement-FS23) and allocated to agencies based on headcounts (census data). We will rely on SAO audit S1FinancialManagement-FS23 for review of the actuarial valuation and agency allocations.
- For ACFR, the allocated balances from the OPEB schedule audit, S1FinancialManagement-FS23 are further allocated based on BD expenses and summarized by roll-up fund for ACFR reporting. We will recalculate the adjusted allocation percentage by agency (based on sub-object BD) and roll-up fund. We will tie amounts to AFRS and the financial statements. We will also review adjustments for cash-basis agencies to ensure amounts were appropriately recorded for GAAP statements.

<u>Testing Results:</u>

We performed the following procedures to ensure OPEB balances were accurately calculated.

Step #1: Review OPEB audit to ensure we can rely on allocation percentages based on head counts.

OFM allocated OPEB balances by agency, roll-up fund, and posting agency. We relied on the results of Washington State OPEB audit (S1FinancialManagement-FS23) for allocations based on head counts. We reviewed the audit results and noted no issues related to head counts.

Step #2: Re-calculate adjusted allocation percentages based on sub-object BD [<u>OPEB Adjusted Allocation Recalculation</u>]

We obtained the FYE 06/30/2022 BD expenses from the ACFR database. See tab 'SAO ACFR Query BD_FY23.'

We added reporting fields to the BD data through power query. We used OFM's tables that summarized financial statement reporting fields. We tied the tables to SAAM Chapter 75 to ensure the accuracy of the financial statement mapping. See [OPEB Power Query Process] for the steps we took to assign the appropriate reporting fields. See tab 'BD with Reporting Fields FY23.' for the results.

We summarized the BD expense report by agency, roll-up fund, and posting agency. See tab '22_BDAlloc%sbyAgency&RollUp.' We used conditional formatting to identify agencies that reported in multiple funds. We manually calculated the percent of BD expenses reported by roll-up fund and posting agency for each agency. We ensured the accuracy of the BD reporting percentages tied to the number of listed agencies used for head-count allocations. We noted all agencies (state agencies and component units) were included.

We used a power query to match the agency number as reported on our BD expense data to the allocation percent reported in the audited WA state-wide OPEB report (S1FinancialManagement-FS23, Schedule 1). We multiplied the BD allocation by the agency allocation to determine the adjusted allocation percentage. See tab 'Modified Allocation %.'

We summarized the adjusted allocation percentage by roll-up fund and posting agency and compared our calculation of the adjusted allocation percentages with OFM's adjusted allocation percentages. We noted no difference between OFM's calculation and SAO's calculated adjusted percentages. See tab 'Mod Allocation % Comparison.' Amounts tied without exception.

Step #3: Calculate OPEB Balances by Roll-Up Fund and Posting Agency [OPEB Balances by Adjusted Allocation and Rollup Fund]

We used our recalculation of the modified allocation percentages from the Adjusted Allocation recalculation workbook to recalculate total OPEB balances. We carried forward the "Mod Allocation % Comparison" tab (calculated above) and the 2016-2022 head counts from the State of Washington's OPEB Schedules to use in our workbook. We aggregated adjusted percentage allocations for fiscal years 2016-2022 in tab 'Mod_Alloc_%s_by_Fund&Func' and inquired about any changes or new reporting in rollup fund/posting agencies with Kennesy Cavanah, OFM Senior Financial Consultant Coordinator.

Next, we calculated change in agency proportionate share deferred outflows and inflows for FY23. See tab 'FY 2023 DO-DI Determination.' For determining allocation of OPEB balances within a government, GASB 75 prescribed OPEB allocation methodologies must be consistent with pension allocations. We calculated the change in agency proportionate share based on the methodology used for pensions as prescribed by GASB 68, 74, and 85. We used audited OPEB amounts from S1FinancialManagement-FS23 and OSA report amounts to allocate based on the adjusted allocation % for rollup fund/posting agency.

Once change in agency proportionate share was determined, we calculated amortization schedules and balance of deferred outflows and inflows as of 06/30/2023. We noted OFM and our calculations used a nine year amortization period which was the actuarial determined average expected remaining service life of all active and inactive members (as prescribed by GASB 75). See tab 'DO-DI Amort Sched.'

We calculated all reported OPEB balances (including all elements of deferred outflows and inflows) by roll-up fund and posting agency. See tab 'OPEB Balances by Rollup Fund.' Note, we calculated the OPEB liability by short-term and long-term amounts. Short-term OPEB liabilities totaled the transactions subsequent to the measurement date. Long term OPEB liabilities were calculated as total OPEB liability less the short term liability.

Step #4: Tie Out OPEB Balances by Roll-Up Fund and Agency to AFRS Data [AFRS Tie Out to OPEB Recalculation]

We used our calculation of OPEB balances by roll-up fund and posting agency from the steps above, tab 'OPEB Balances by Rollup Fund.' We aggregated OPEB balances by roll-up fund using a pivot table in tab 'PTbl- Balances by Rollup Fund.' We identified the amounts allocated for cash basis component units that would need to be adjusted since they are not included in AFRS (worksheet adjustments). Those amounts are posted in rollup fund FMZ for the following agencies:

106 - Washington Economic Development Finance Authority
148 - Washington State Housing Finance Commission
599 - Washington Health Care Facilities Authority

We ran a query for all OPEB balances in the ACFR database. See tab 'AFRS GL Query 2023.' We compared OPEB amounts by roll-up fund in tab 'AFRS Balance to OPEB Sched.' We tied out balances by general ledger accounts to ensure our calculations by roll-up fund were correct. We also tied out material balances to ensure our re-calculation tied to the reported balances. We noted no significant differences. Differences were trivial (below the floor) and related to rounding. ***No issues noted.***

Substantive tests performed to meet the Classification assertion:

Risk(s) identified and Testing Procedures:

There is a risk that the allocation between funds is not representative of the agencies included in that roll-up fund.

For ACFR, the allocated balances from the OPEB schedule audit, S1FinancialManagement-FS23 are further allocated based on BD expenses and summarized by roll-up fund for ACFR reporting. We will recalculate the adjusted allocation percentage by agency (based on sub-object BD) and roll-up fund. We will rely on our recalculations to ensure amounts reported by roll-up fund was accurate. We will tie amounts to AFRS and the financial statements. We will also review adjustments for cash-basis agencies to ensure amounts were appropriately recorded for GAAP statements.

Testing Results:

To test classification, we performed procedures over the allocation base and allocation of OPEB balances.

For the allocation percentages based on active member PEBB members (head counts), we relied on the results of the Washington State OPEB audit (S1FinanicalManagement-FS23). We reviewed the audit for exceptions related to census data testing. We noted no exceptions to consider for classification testing.

We also tested the allocation adjustments based on sub-object 'BD'. See completeness and valuation procedures above for detailed testing procedures performed in our recalculation. Our recalculation of percentage allocations was based on roll-up funds and posting agency. This ensured OPEB balances could be reported in the appropriate roll-up fund. We compared OFM's calculation of adjusted allocation percentages and our re-calculation. No exceptions were noted (rounding differences only). See comparison at [OPEB Adjusted Allocation Recalculation] in tab 'Mod Allocation % Comparison.'

We tested classification through our recalculation of OPEB balances by roll-up fund and positing agency. This work ensured each OPEB element was accurately categorized by balance (financial statement line item) and fund. See valuation steps above for detailed documentation of procedures. We tied our recalculation of OPEB balances to AFRS data by general ledger balances and material balances selected for testing. We also ensured amounts reported to short/long term were accurate based on our recalculation. We noted our re-calculated OPEB balances by roll-up fund tied to our AFRS. We noted trivial (below the flow) differences related to rounding. See [AFRS Tie Out to OPEB Recalculation] tab 'AFRS Balance to OPEB Sched' for work performed. ***No issues noted.***

H.6.PRG - Long Term Liabilities (Due in More Than 1 Year): Bonds

Procedure Step: Summary & Conclusion

Prepared By: EWS, 9/5/2023

Reviewed By: SLB, 10/18/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
We determined the results of substantive tests do not indicate a need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
We determined the quality and quantity of evidence obtained was sufficient and appropriate.

H.6.PRG - Long Term Liabilities (Due in More Than 1 Year): Bonds

Procedure Step: Understanding of Line Item

Prepared By: EWS, 5/17/2023

State of Washington

Reviewed By: SLB, 10/18/2023

Record of Work Done:

(1) Prior Audit Exceptions:
We did not identify any prior audit exceptions.

(2) Composition & Change Analysis:
Line Item Lead Sheet: [Line Item Lead Sheet]

Governmental Activities - Long Term Liabilities Due Within One Year (Bonds)
Governmental Activities - Long Term Liabilities Due in More Than One Year (Bonds)

The Office of the State Treasurer (TRE) manages the state's debt as one of their core functions. The State issues debt via bond sales to finance some of the state's major capital and transportation projects and issues certificates of participation (COPs) to finance real estate and equipment for state agencies and local governments.

Composition of the Line Item and Planned Audit Coverage:
The following GL account balances roll up into the line item: *Note: GL Codes listed in SAAM 75.40.20

Long-term Liabilities Due Within One Year (Bonds):
- **GL 5161 - General Obligation (GO) Bonds Payable**
- **GL 5162 - Revenue Bonds Payable**
- **GL 5164 - Zero-Coupon (GO) Rate Bonds Payable**
- **GL 5169 - Other Bonds Payable**

The bolded GL accounts (GLs 5161, 5162, 5164, 5169) have been selected for audit, providing 87.29% coverage of the line item. See the composition of the line item and planned coverage summary here: [Line Item Lead Sheet]

Long-term Liabilities Due in More than One Year (Bonds):
- GL 5212 - Accreted Interest Payable
- **GL 5261 - General Obligation Bonds Payable**
- **GL 5262 - Revenue Bonds Payable**
- GL 5264 - Zero-Coupon GO Bonds Payable
- GL 5269 - Other Bonds Payable

GL 5273 - COP Notes Payable
GL 5297 - Fees Payable
GL 5299 - Other Obligations

The bolded GL accounts (GLs 5261, 5262) have been selected for audit, providing 85.06% coverage of the line item. TRE shows a balance in GLs 5212, 5264, and 5297, but their inclusion does not materially change the audit coverage, so it is omitted to prevent over-auditing. See the composition of the line item and planned coverage summary here: [Line Item Lead Sheet]

Debt Limitation

We obtained the Certification of the Debt Limitation for the State of Washington for FY23 here [FY 2023 Debt Limit Certification]. The State Treasurer calculated the Debt Service Limitation for FY23 as $1,990,582,864 (representing 8.25% of the arithmetic mean of general state revenues for Fiscal Years 2017-2022). The State Treasurer also projected the state's maximum annual debt service (MADS) as of December 1, 2022 as $1,385,895,621 which is $604,687,243 less than the Debt Service Limitation. The Treasurer estimated that the remaining constitutional debt capacity is not more than $9,125,427,048, assuming true interest costs of 4.33% (See page 4 / PDF page 7). The report noted that the projected amount of outstanding bonds as of December 1, 2022 (See page 3 / PDF page 6) is $21,606,573,957.

(3) Updates to Material Account Matrix:

We added Rights/Obligations as an assertion related to the risk that unallowable or illegal debt could be issued. A proposal by Governor Inslee was made in his 2023 budget to issue general obligation bonds totalling $4 billion to address the State's homelessness crisis. This amount could exceed the State's constitutional debt limit. We updated the Material Account Matrix to reflect the new risk and the need to gain further understanding of the debt limit certification process.

H.6.PRG - Long Term Liabilities (Due in More Than 1 Year): Bonds

Procedure Step: Controls - TM$

Prepared By: EWS, 6/22/2023

Reviewed By: SLB, 10/18/2023

Record of Work Done:

Internal controls in the Treasury Management System (TM$) address the following balance(s):

Governmental Activities - Long Term Liabilities Due Within One Year (Bonds)
Governmental Activities - Long Term Liabilities Due in More Than One Year (Bonds)

For the following assertions:

Completeness: Risk that all Bonds Payable amounts occurring during the period are not identified and recorded.
Valuation: Risk that Bonds Payable amounts are reported at incorrect amounts.
Classification: Risk that Bonds are not correctly classified between short and long term.
Rights/Obligations: Risk that unallowable or illegal debt is issued. A proposal by Governor Inslee was made in his 2023 budget to issue general obligation bonds totalling $4 billion to address the State's homelessness crisis. This amount could exceed the State's constitutional debt limit.

Auditor's Note: The ROWD references long-term liabilities due within one year and long-term liabilities due in more than one year. "Long-term liabilities due within one year" describes the balance on the State's financial statements representing the current portion of issued bonds and should not be labeled as a short-term liability. OFM does not use GL 5121 (Matured Bonds Payable) to record bond balances issued by TRE maturing in less than 1 year. SAAM lists all "GL 516X" accounts as "Short-term Bonds Payable," which includes GL accounts 5161, 5162, 5164, and 5169. When discussing the current portions of long-term liabilities with TRE staff, use the term "short-term bonds payable" to describe the current portion to avoid confusion.

Gain an Understanding of Internal Controls

To update our understanding of internal controls, we conducted a Teams meeting on 4/12/2023 with: Leslie Yonkers, Debt Financial Officer. We also met with Jason Richter, Deputy Treasurer, and Dan Mason, Budget and Fiscal Director, on 5/11/2023 to discuss the process used behind certifying the state's debt limit. TRE referred us to their "Debt and Credit Analysis" covering high level information regarding bonds here: [https://www.tre.wa.gov/wp-content/uploads/2023-Debt-and-Credit-Analysis_Final_.pdf]. The report includes additional details about the types of bonds issued, credit ratings, other obligations, and borrowing costs. Unless otherwise noted, TRE uses the Treasury Management System (TM$) as their accounting system over the line items.

Debt Limitation

Article VIII Explained:

The State Constitution in Article VIII, Section 1, and RCW 39.42.070, requires the state Treasurer to compute (as soon as is practicable) general state revenues for the six immediately preceding fiscal years as well as their arithmetic mean. The Constitution prohibits the state from entering into new debt obligations if it would cause the state's annual debt service to exceed 8.25% of the arithmetic mean of general state revenues for the immediately preceding 6 years. The Article directs that the treasurer start the revenue calculation with general fund deposits received (cash basis) and then exclude six categories of revenues. Generally, Article VIII excludes revenue held in trusts, funds earmarked for specific expenditures, Federal revenues, and proceeds from bond issuance. The exclusion process results in determining the amount of revenue that could reasonably service debt obligations for the state. Article VIII only limits the state in issuing new debt (subject to the debt limit) and does not influence the amount of debt serviced. Only a few factors influence the debt service limit calculation including which funds are or are not included in the revenue and arithmetic mean calculation, the percent of revenue set by legislature that debt service cannot exceed, and which bonds are subject or exempt to the debt limit.

Debt Service Limit Calculation Process:
We met with Jason Richter, Deputy Treasurer, and Dan Mason, Budget and Fiscal Director, on 5/11/2023 to discuss the process used behind certifying the state's debt limit. After OFM notifies TRE that the ACFR is complete, TRE moves to publish the Report on the State of Washington's Debt Limitation, which is typically published in December each year. For FY2023, the treasurer published the report on December 12, 2022. TRE calculates state revenue based on its understanding of which revenues are or are not excluded under Article VIII. Dan Mason works with Les Myhre, Budget Analyst, (retiring after this year) and Rachel Knutson, Senior Budget Advisor, at OFM to come to an agreement of which funds should or should not be excluded from the calculation and works to revolve disagreements in the OFM and TRE totals to within $50,000. When disagreements between OFM and TRE cannot be resolved, the agencies include the AGO into the decision process to best determine if funds should be included or excluded.

Dan starts the revenue calculation process by pulling values from the "Washington State Treasurer's Office 20XX Annual Report" for the six most recent fiscal years. **Auditor's Note:** We noted on page 7 of the 2022 report that the "Total Cash Receipts" line ties to the Debt Limit Certification's Appendix A, "Total Revenue Deposited in State Treasury" less the Article VIII "Total Funds & Accounts Eliminated." The funds identified contain activity that by RCW definition meet Article VIII requirements for exclusion. From the Treasurer's "Total Cash Receipts," Dan makes adjustments to remove treasury received deposits for reasons other than cash revenue, accruals collected, and adjustments to DOL and DOR cash revenue. He then removes deposits the treasury received that should be eliminated because of Article VIII criteria such as Federal aid, grants, and indirect cost reimbursements. Next, he removes revenues identified by the AGO as meeting criteria for elimination from the revenue calculation. Last, Dan makes adjustments agreed upon between OFM and TRE. The remaining funds become the state's revenue used in calculating the debt limit.

TRE and OFM perform a reconciliation to agree upon which revenues should be excluded from the state's revenue arithmetic mean calculation used to perform the debt service limit calculation, as prescribed in Article VIII of the state constitution **(Key Control 1 - Rights and Obligations).** The agencies record the revenue types and amounts in an excel spreadsheet and agree to a total within $50,000 of each agency's calculation. Once TRE and OFM agree to the revenue totals, Jason Richter performs the debt service limitation calculation based on the legislatively approved debt to revenue percent. TRE then compares the amount of debt service for the upcoming fiscal year (the maximum annual debt service or MADS) against the debt service limitation. If the MADS is below the debt service limitation amount, the state has the right to issue new bonds. Jason Richter signs a certificate for each bond sale noting that the bond will keep the new debt under the debt limit.

Debt Issuance Processes:

Phase 1A - Estimating New Bond Amount Limits

If the state is below the debt service limitation amount, the state has the right to issue new bonds. TRE calculates the difference between the Debt Service Limitation and the MADS to determine the remaining debt service capacity. The remaining debt service capacity is the present value of the remaining debt service capacity, paid over 25 years, at a true interest cost as calculated by the Economic and Revenue Forecast Council, plus 30 basis points. See Table 4 (page 7) of the Report on the State of Washington's Debt Limitation [FY 2023 Debt Limit Certification] for the current calculation values. The Report notes that the state should not issue more than $9,125,427,048 in new bonds subject to the debt limit.

Phase 1B - Bond Sale Process

Non-COP (Certificate of Participation) Bonds:

TRE's debt management staff track the Legislative Session to determine which programs will require new debt issuance. Once the Session is over, Svein Braseth, Director of Bond Program, prepares all the details to be input into TM$ and Leslie Yonkers, Debt Financial Officer, along with Austin Goble, Senior Debt Program Analyst, reviews bond details for accuracy. Svein then looks at the cash flow estimate for fund 057 (State Building Construction Account). The cash flow estimate reconciles new appropriations with agency funds appropriated and spent from fund 057 for maintenance and construction projects. For the four agencies that have individual authority to spend from a specific bond authorization (Department of Transportation, Department of Ecology, Department of Commerce, and the Office of the Superintendent of Public Instruction), Leslie asks the agencies to estimate their cash flow needs for the next six months. In addition, the Secretary of the Department of Transportation sends a letter requesting bond proceeds for its financial needs before a bond sale.

COP Bonds:

State agencies and municipalities enter into COPs and because they do not benefit the state as a whole, they do not count towards the state's debt limit. COP bonds do not require legislative approval unless it is for constructing a building or a large service based project. COP bonds typically have a shorter maturity date. The financed project or leases determine the COP bond amount, which the bond staff enter into TM$. COP bond sales follow the same process as other bond sales (described below) with exception to the approval process (described above).

All Bonds:

The State sold the following bonds in 2023:

- July 19 General Obligation Bond (Taxable), 2023T
- July 19 Various Purpose General Obligation Bond, 2023A
- October 27 COP - Series 2022C
- January 18 Various Purpose General Obligation Bond, 2023B
- January 18 MVFT & VRF General Obligation Bond, 2023C
- February 7 COP - Series 2023A
- April 26 MVFT & VRF General Obligation Refunding Bonds, R-2023B
- April 26 Various Purpose Obligation Refunding Bonds, R-2023A
- June 7 COP - Series 2023B

Svein works with the state's municipal advisors to determine a good time for bonds to enter the market. The State typically issues new money bonds on a semiannual basis. For 'advance' refundings, policy sets the savings threshold to a present value savings of at least five percent of the principal amount of the refunding debt issued. A 'current' refunding transaction requires a graduated present value savings depending on the years between call and final redemption, which varies between 1% and 5%. The State Finance Committee may, and regularly, grants the

Treasurer the authority to enter the market without pre-approval for new money and refunding bond issuance, through a resolution, as provided by a 2010 amendment to RCW 39.42. Public Law 115-97 eliminated the federal tax exemption for interest income earned on advance refunding bonds for any municipal bond issued after tax year 2017.

When a bond is ready to be issued, Leslie Yonkers inputs the agency request for bond proceeds into TM$. Svein Braseth reviews and adjusts as necessary prior to sending it to state's the bond counsel. Svein will compile the chapters, laws and TM$ authorization numbers and forwards to the bond counsel to double check that the requests are within the bond authority. The bond counsel drafts a resolution for the State Finance Committee, who reviews applicable laws and regulations, IRS rules, and other legal aspects of the bond issuance for the state. At the same time, the municipal advisors or TRE, in cooperation with the municipal advisors, prepare all the preliminary numbers, such as level of debt service. Typically, TRE prepares preliminary work and the municipal advisors review. For refundings, the municipal advisors prepare preliminary work and TRE reviews.

Phase 1C - Preparation for Bond Issuance

When the bond counsel finishes writing the resolution and the municipal advisors and TRE finalize the preliminary numbers, Svein reviews the resolution to ensure they followed all applicable rules and regulations. Svein uses DBC Finance, an external municipal finance sizing and structuring software, to recalculate the numbers and see if they agree with the municipal advisors' amounts.

The state's Disclosure Council prepares the "Preliminary Official Statement" (POS) in conjunction with the Deputy Treasurer, Jason Richter, Debt Management division. TRE requests input regarding the correctness and completeness of the document from various state agencies, who then certify their review in writing. Austin prepares and Svein confirms the debt summary tables for Appendix A. TRE's Assistant Attorney General, the Municipal Advisors, Bond Counsel, Disclosure Counsel, Deputy Treasurer, Debt Management division, Svein, and Leslie each receive a copy of this POS to review for format and substance. When approved, Whitney Trumbly, Compliance Officer, ensures the POS is posted on TRE's website and was sent electronically to ImageMaster's MuniOS distribution platform. The POS serves as the prospectus for underwriters and investors.

Negotiated Bond Sales (infrequent, specialized sale)

Negotiated bond issues occur when a bond is specialized or has a unique feature that appeals to a very limited market (e.g. when triple pledge bonds are issued with which the general investing public is not familiar). For a bond sale using the negotiated method, instead of receiving bids from underwriters, TRE posts a request for qualifications and request for proposals to hire underwriters who will underwrite the bonds, creating a pool of candidates. TRE conducts most bond sales on a competitive basis unless there are unique circumstances that would require the sale to be executed via the negotiated sale method.

Competitive Bond Sales (more frequent) – Winner is Lowest True Interest Cost (TIC)

All bidders for a competitive sale are pre-registered with i-Deal Prospectus (and its sale platform, "Ipreo"). On the day of the competitive bond sale, Ipreo invites underwriters to submit bids. TRE announces the winner based on who has the lowest TIC. All of the bids and the TIC % are posted on TRE's website at:[https://tre.wa.gov/home/debt-management/bond-and-cop-sale-results/].

TRE holds bond sales semi-annually. The State Finance Committee approval of the sales are open to the public. If there are multiple series or bid groups, each bid series is scheduled 15 to 30 minutes apart from each other. Austin or Svein shares the incoming bids via Teams or Zoom for everyone to observe. Debt Management members, Bond Counsel, and Municipal Advisors attend the sale virtually. Ipreo displays the Bidder Name and the TIC computed by the system from lowest to highest. TRE staff and municipal advisors verify the TIC to ensure it is correct prior to

awarding the apparent winning bidder (the one with the lowest TIC). Once staff and advisors confirm the calculations and compliance with bid parameters, TRE selects and notifies the bidder with the lowest cost. A 90 minute deadline for wiring the good faith deposit starts following notification sent to the underwriter via Ipreo. Leslie receives the winning bidder's contact information from the municipal advisor and emails them information for wiring the good faith deposit. Leslie periodically logs into the bank account to see if winners wired the deposit. Svein and the other municipal advisors can resize or adjust bonds to meet proceeds requirements and desired debt structure (e.g. level debt service).
Leslie prepares the A8 form to record the good faith deposit and Stephanie Richardson, COP Financial Analyst, reviews it. Once reviewed, the Deputy Treasurer of Debt Management, the Bond Director (Svein), and the Disclosure Counsel prepare the bond sale "Final Official Statement." Whitney ensures it is printed and posted on TRE's website while the bond disclosure counsel sends an electronic copy to ImageMaster. The municipal advisors send the closing letter to the underwriter. TRE also posts final bond sale information to the EMMA website, which is an additional measure of transparency above TRE's required level of public disclosure.
Leslie then prepares a spreadsheet to determine the allocation of the bond proceeds, the underwriter's discount, and the issuance costs to the different agencies/funds. Svein reviews the spreadsheet for accuracy and that it matches the municipal advisors' numbers and the closing memo. Leslie also uses the spreadsheet to track and reconcile prepared A8 forms and allocates the bond proceeds to the correct funds.

Phase 2 - Receipt of Bond Sale Proceeds

The bond purchasers (underwriters) transfer bond proceeds, less the underwriter's discount, to TRE about two weeks after the sale. The wire must match the closing memo. Leslie prepares the A8 form in TM$ to record the receipt of bond proceeds and allocate the net proceeds to the appropriate funds. TM$ uploads these transactions to AFRS automatically. Leslie runs the Enterprise report afterward to ensure that cash was properly posted to the recipient funds on a monthly basis in TM$. Austin prepares tables for TM$ based on final numbers provided by the municipal advisors. Svein reviews the tables for accuracy, uploads the data to the TM$ database, and creates new bond payment amortization schedules. Austin then verifies the data imported into TM$ by Svein for accuracy and completeness against all originally prepared forms **(Key Control 2 - Valuation, Completeness, and Classification).**

Phase 3 - Bond Debt Service Payment

US Bank, the Fiscal Agent, posts monthly payments due for the following month on its website. This amount includes interest and principal for all bonds issued. Leslie downloads this invoice (a CSV file) to prepare for payment. The invoice details the scheduled payment for State of Washington Bonds, including refunded bonds being paid by an escrow bank. US Bank publishes the invoice approximately 15 days prior to the due date of the payments.

Leslie imports the CSV file from US Bank into TM$ and runs a "TRE to US Bank" reconciliation report. She pays the amount stated on US Bank's invoice unless the reconciliation identifies significant variances between the two sources. Typically the reconciliation shows a difference of only a few cents **(Key Control 3 - Completeness and Valuation).** To fix significant variances, Leslie emails her contact at US Bank to reconcile with the bank. Svein or Austin would work with Leslie to ensure the fix correctly remedies the issue.

Leslie forces TM$ to automatically prepare four main types of JVs:

- JV for an ACH wire that pays US Bank from various debt service funds on the payment date.
- JV to transfer same day debt service through the general fund (done for: DES, OSPI, UW, WSU, and DOT).

JV to reimburse the general fund from agencies required to do so (see above bullet).
JV for payments made on principle in addition to interest payments, which reduces the principle outstanding in fund 999 - general long term debt account.

Stephanie Richardson, COP Financial Analyst, reviews and approves the JVs and reviews the payment, and the Assistant or Deputy Treasurer approves the debt service payment. The Cash Management division receives approved forms and sets up a 2 day ACH file to send out the money. TRE maintains all of these transfer documents in PDF. TRE saves these PDFs for their full retention length (33 years).

How transactions are recorded in AFRS:

Leslie prepares all of the monthly transactions in TM$ (refunding, debt service payments, etc.) that are related to the calculation of the current bond payments which effects the long-term liabilities (due within one year) and long-term liabilities (due in more than one year). She prepares the batches in TM$ for the reconciliation to AFRS and Stephanie reviews and approves them. This reconciliation to AFRS ensures that the amount in AFRS the long-term liabilities (due within one year) and long-term liabilities (due in more than one year) matches the amortization schedules in TM$ for all bond issues. Once approved, TM$ releases the batch and operations uploads them into AFRS as a part of end-of-day processing. Leslie receives the "In Process Report" (exception report) on the following day which she uses to ensure that all transactions posted properly in AFRS **(Key Control 4 - Completeness and Classification).** The exception report runs every morning and only provides exceptions if an error occurs. The exception report most commonly identifies miscoded items. Leslie and Stephanie, as needed, updates information in AFRS to resolve any exceptions.

Key controls are as follows:

Key Control 1 - TRE and OFM perform a reconciliation to agree upon which revenues should be excluded from the state's revenue arithmetic mean calculation used to perform the debt service limit calculation, as prescribed in Article VIII of the state constitution. Once the agencies agree with the revenue amount (within $50,000 of each other), TRE calculates the debt limit, which is recorded in the State Treasurer's Annual Report **(Rights/Obligations).**

Key Control 2 - The Debt Financial Officer prepares the A8 form in TM$ to record the receipt of bond proceeds and allocate the net proceeds to the appropriate funds. TM$ uploads these transactions to AFRS automatically at the end of the day. The Officer runs the Enterprise report afterward to ensure that cash was properly posted to the recipient funds on a monthly basis in TM$. The Senior Debt Program Analyst prepares tables for TM$ based on the Officer's monthly balances. The Director of Bond Program reviews the tables for accuracy, updates TM$, and creates new bond payment amortization schedules. The Analyst then verifies the data imported into TM$ by the Director for accuracy and completeness against all originally prepared forms **(Valuation, Completeness, and Classification).**

Key Control 3 - To process monthly bond service payments, the Debt Financial Officer imports the CSV file from US Bank into TM$ and runs a “TRE to US Bank” reconciliation report. The Officer pays the amount stated on US Bank's invoice unless the reconciliation identifies significant variances between the two sources. Typically the reconciliation shows a difference of only a few cents **(Completeness and Valuation).**

Key Control 4 - The Debt Financial Officer prepares all of the monthly transactions in TM$ (refunding, debt service payments, etc.) that are related to the calculation of the current bond payments which effects the the long-term liabilities (due within one year) and long-term liabilities (due in more than one year). The Officer prepares the batches in TM$ for the reconciliation to AFRS and the COP Financial Analyst reviews and approves them. This reconciliation to AFRS ensures that the amount in AFRS the long-term liabilities (due within one year) and long-term liabilities (due in more than one year) matches the amortization schedules in TM$ for all bond issues. Once approved, TM$ releases the batch and operations uploads them into AFRS as a part of end-of-day processing. The Officer receives the "In Process Report" (exception report) on the following day which she uses to ensure that all transactions posted properly in AFRS **(Completeness and Classification).**

Noted Weaknesses are as Follows:
None.

H.6.PRG - Long Term Liabilities (Due in More Than 1 Year): Bonds

Procedure Step: Key Control #1 - TM$ (Manual)
Prepared By: EWS, 7/13/2023
Reviewed By: SLB, 10/18/2023

Record of Work Done:

Key Control 1 - (Rights and Obligations)
TRE and OFM perform a reconciliation to agree upon which revenues should be excluded from the state's revenue arithmetic mean calculation used to perform the debt service limit calculation, as prescribed in Article VIII of the state constitution. Once the agencies agree with the revenue amount (within $50,000 of each other), TRE calculates the debt limit, which is recorded in the State Treasurer's Annual Report.

The understanding for this system is documented above in the "Controls - TM$" step.

1. Confirmation of Key Manual Control:
We reviewed the email between Dan Mason (TRE) and Les Myhre (OFM) to confirm the FY22 General State Revenues reconciliation between the agencies [Email: Final - Debt Limit Computation for FY 23]. At the bottom of the email, Dan includes the reconciliation between TRE and OFM regarding specific agency revenues. Values listed by each agency indicate the difference between TRE and OFM by the over or (under) amount. TRE's agreed upon revenues are $30,192,970,632 while OFM's revenues are $30,193,015,286, for a difference of $(44,654) - see the bottom of [Email: Final - Debt Limit Computation for FY 23] for the agreed upon chart.

TRE and OFM prepare the revenue calculation using an additive method (amounts added to reach the state revenue) [Revenue Reconciliation between OST & OFM (11-7-22)] and subtractive method (revenue amounts that do not count towards state revenues) [General State Revenues and

Debt Limitation Computation (11-17-22)]. We reviewed the supporting draft spreadsheet for how TRE computed the differences between OFMs values and their own [Revenue Reconciliation between OST & OFM (11-7-22)]. The spreadsheet lists in greater detail the different revenue funds used in calculating the debt limit certification. We identified differences between the draft document and agreed upon values between TRE and OFM. TRE's revenue calculation [Email: Final - Debt Limit Computation for FY 23] ties to the spreadsheet used in calculating the arithmetic mean of revenue for the past 6 fiscal years [General State Revenues and Debt Limitation Computation (11-17-22)]. **No issues noted.**

We reviewed the debt limit calculation [General State Revenues and Debt Limitation Computation (11-17-22)] and agreed the sums of fiscal years 2017-2022 to the 6-year total of $144,769,662,852.90, the 6-year mean of $24,128,277,142.15, and the debt service limitation calculation of 8.25% of the 6 year mean, totaling $1,990,582,864.23. The debt service limitation value ties to the FY23 Debt Limit Certification [FY 2023 Debt Limit Certification], on page 5. The Debt Limit Certification also lists revenues not included as part of the debt service limitation. **No issues noted.**

Noted Weaknesses are as follows:

None

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

H.6.PRG - Long Term Liabilities (Due in More Than 1 Year): Bonds

Procedure Step:	Key Control #2 - TM$ (Manual)
Prepared By:	EWS, 6/22/2023
Reviewed By:	SLB, 10/18/2023

Record of Work Done:

Key Control 2 - (Valuation, Completeness, and Classification)

State of Washington

The Debt Financial Officer prepares the A8 form in TM$ to record the receipt of bond proceeds and allocate the net proceeds to the appropriate funds. TM$ uploads these transactions to AFRS automatically at the end of the day. The Officer runs the Enterprise report afterward to ensure that cash was properly posted to the recipient funds on a monthly basis in TM$. The Senior Debt Program Analyst prepares tables for TM$ based on the Officer's monthly balances. The Director of Bond Program reviews the tables for accuracy, updates TM$, and creates new bond payment amortization schedules. The Analyst then verifies the data imported into TM$ by the Director for accuracy and completeness against all originally prepared forms.

The understanding for this system is documented above in the "Controls - TM$" step.

1. Confirmation of Key Manual Control:

Good faith deposit

We reviewed a Cash Receipt (A8) for $1,500,000 for GO Bonds (Taxable) Series 2023T, sold July 19, 2022. Leslie Yonkers, Debt Financial Officer, prepared and signed the A8 on 7/12/2022, Stephanie Richardson, COP Financial Analyst, approved/signed it on 7/19/2022, and validated in a batch process on 7/19/2022.

We reviewed the email communication to the TRE MI Debt TM$ Mailbox, stating "Deposits have been received by Cash Management on 07/19/2022 10:15:18 AM for the following amount(s): 1,500,000.00".

We reviewed the US Bank "Current Day Summary and Detail" report for reported activity as of 07/19/2022. We verified the account received $1,500,000 from JP Morgan on 07/19/2022. **No issues noted.**

Net proceeds less good faith deposit

We reviewed a Cash Receipt (A8) for $138,123,856.73 for GO Bonds (Taxable) Series 2023T, sold July 19, 2022, to JP Morgan. Leslie Yonkers prepared and signed the A8 on 7/25/2022, Stephanie Richardson approved/signed it on 7/25/2022, and validated in a batch process on 8/3/2022.

We reviewed the email communication to the TRE MI Debt TM$ Mailbox, stating "Deposits have been received by Cash Management on 08/03/2022 07:15:07 AM for the following amount(s): 138,123,856.73". We noted date and amount match.

We reviewed the US Bank "Current Day Summary and Detail" report for reported activity as of 08/03/2022. We verified the account received $138,123,856.73 from JP Morgan on 08/3/2022.

We reviewed the bond closing memorandum dated August 3, 2022, from the State of Washington, Series 2023T Working Group. The memorandum's subject reads as "Closing Memorandum and Wiring Instructions, $140,025,000 State of Washington General Obligation Bonds, Series 2023T (Taxable)." The memo outlines the flow of funds to close the Series 2023T Bond issue. The memo stated the closing date is August 3, 2022, at 9:00 AM with a par amount of $140,025,000. We noted date and amount match.

We reviewed the Amortization schedule that was prepared by Austin Goble, Senior Debt Program Analyst, and reviewed by Svein Braseth, Director of Bond Program. **No issues noted.**

Auditor Recalculation of net proceeds plus good faith deposit

The two above Cash Receipts (A8) total to $139,623,856.73, for a difference of $401,143.27 from the bond sales price.

The Bond Closing Memorandum recorded an Original Issue Discount of (245,990.25).

The A8 receipt recorded the proceeds less the good faith effort includes an entry for GL6510, Subobject ER, for $155,153.02.

This represents the bondholder's contribution to the cost of generating the bond sale for the Underwriters Discount.

The Original Issue Discount plus the Underwriters Discount totals the difference in the actual cash received for the bond sale and the bond par amount. **No issues noted**.

All supporting documentation matched in amounts, dates, and signatory approvals. **No issues noted**.

Noted Weaknesses are as follows:

None

2. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

H.6.PRG - Long Term Liabilities (Due in More Than 1 Year): Bonds

Procedure Step: Key Control #3 - TM$ (Manual)

Prepared By: EWS, 5/19/2023

Reviewed By: SLB, 10/18/2023

Record of Work Done:

Key Control 3 - (Completeness and Valuation)

To process monthly bond service payments, the Debt Financial Officer imports the CSV file from US Bank into TM$ and runs a “TRE to US Bank” reconciliation report. The Officer pays the amount stated on US Bank's invoice unless the reconciliation identifies significant variances between the two sources. Typically the reconciliation shows a difference of only a few cents.

The understanding for this system is documented above in the "Controls - TM$" step.

1. Confirmation of Key Manual Control:
We reviewed the US Bank invoice dated 2/3/2023 for funds due 3/1/2023 and noted the following amounts:
Total principal due = $0.00
Total interest due = $4,619,500.00
Net amount due = $4,619,500.00 (which totals the above figures)

We reviewed the following TM$ supporting documentation for the debt payment: "Debt Service Payments for a Month" report from TM$ (for March 2023) and noted the following amounts:
Total Debt Service: Principal = $0.00
Total Debt Service: Interest = $4,619,500.00
Total Debt Service = $4,619,500.00
The net amount due (from US Bank) agrees to the Total Debt Service from TM$. **No issues noted.**

We reviewed the March 2023 "Reconciliation Between Fiscal Agent and TRE Payments - All Records" report from TM$, and the "Debt Management EFT-JV (ACH)" from TM$. The reconciliation established that there was not a difference in principal or interest. All of the supporting TM$ report amounts were in agreement of the reconciliation. **Auditor's Note:** The way US Bank records zero coupon bond payments as principal and how TRE calculates the portion of payment as attributable to interest has resulted in differences with the principal or interest in prior audit periods.

We also reviewed an email from US Bank to Leslie Yonkers, Debt Financial Officer, on 2/14/2023. In the email, US Bank agreed that the bond debt service payment is $4,619,500.00 due on 3/1/2023. **No issues noted.**

Noted Weaknesses are as follows:
None

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

State of Washington

H.6.PRG - Long Term Liabilities (Due in More Than 1 Year): Bonds

Procedure Step: Key Control #4 - TM$ (Manual)

Prepared By: EWS, 6/14/2023

Reviewed By: SLB, 10/18/2023

Record of Work Done:

Key Control 4 - (Completeness and Classification)

The Debt Financial Officer prepares all of the monthly transactions in TM$ (refunding, debt service payments, etc.) that are related to the calculation of the current bond payments which effects the the long-term liabilities (due within one year) and long-term liabilities (due in more than one year). The Officer prepares the batches in TM$ for the reconciliation to AFRS and the COP Financial Analyst reviews and approves them. This reconciliation to AFRS ensures that the amount in AFRS the long-term liabilities (due within one year) and long-term liabilities (due in more than one year) matches the amortization schedules in TM$ for all bond issues. Once approved, TM$ releases the batch and operations uploads them into AFRS as a part of end-of-day processing. The Officer receives the "In Process Report" (exception report) on the following day which she uses to ensure that all transactions posted properly in AFRS

The understanding for this system is documented above in the "Controls - TM$" step.

1. Confirmation of Key Manual Control:

We reviewed the reconciliation for the month of June 2023. The reconciliation includes the following balances from TM$ and AFRS:

GO Bonds, GLs 5161 and 5261:	$20,773,790,000.00
Revenue Bonds, GLs 5162 and 5262	$ 465,065,157.42
Proprietary, Remaining proprietary debt matured in FY2016	$ 0
Zero Coupon, GLs 5164 & 5264	$ 164,227,719.55
Other Bonds Payable, GLs 5169 & 5269	$ 0
Total	$21,403,082,876.97

The reconciliation includes a note that GL 5269 includes bonds for the Dairy and Fruit Commissions in Fund 999. The two funds are not in AFRS and the totals will not roll up properly unless they are reported in Fund 999. All amounts recorded in TM$ matched AFRS. **No issues noted.**

We tied amounts from the reconciliation (above) to the "ACFR-Outstanding by Disclosure Code and Fiscal Year" report for each bond type. We also tied the "Bond Retirement and Interest" report (CAF002) from AFRS to the above excel reconciliation by GL without exception. **No issues noted.**

We reviewed he "Bond Retirement and Interest" report (GL01) from AFRS to identify any early bond retirements and JVs related to the adjustments. There were no adjustments required for this year, and there are no associated JVs. We noted all of the ending balances on this report also tied to the excel reconciliation values. **No issues noted.**

Noted Weaknesses are as follows:
None

2. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test Key Manual Control:
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

H.6.PRG - Long Term Liabilities (Due in More Than 1 Year): Bonds

Procedure Step: Risk Assessment
Prepared By: EWS, 7/11/2023
Reviewed By: SLB, 10/18/2023

Record of Work Done:

(1) Inherent Risk (IR):
Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:
Completeness - LOW
Valuation - LOW
Classification - LOW

Rights & Obligations - LOW

(2) Control Risk (CR):
We assessed control risk as follows for each system and relevant assertion:

Completeness - MAX

Valuation - MAX

Classification - MAX

Rights & Obligations - MAX

TM$ (Completeness, Valuation, Classification, and Rights & Obligations) – **MAX** - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

(3) Risk of Material Misstatement (RMM):
We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

Completeness - MAX
Valuation - MAX
Classification - MAX
Rights & Obligations - MAX

(4) Testing Strategy:
Based on our assessment of the risk of material misstatement, we plan to perform the following tests:

Valuation:
In order to determine if this line item is valued correctly, we will:

Reconcile the amounts recorded with the bond fiscal agent (U.S. Bank) to TM$.
Review the year-end reconciliation completed by Leslie Yonkers, OST Debt Financial Officer.
Test the outstanding debt to ensure it is correctly recorded at year-end.

Completeness:
In order to determine if this line item is complete, we will:

Confirm the balance at fiscal year-end to ensure bond sales were correctly recorded.

Identify debt issued in FY23 and reconcile to AFRS to ensure all debt issued in FY23 was recorded. To do this, we will use the Electronic Municipal Market Access (EMMA) website which records all debt issued by state and local governments. It is funded and operated by the Municipal Securities Rulemaking Board and is designated by the U.S. Securities and Exchange Commission as the official source for municipal securities data and disclosures. Therefore, the risk that bonds are not recorded in EMMA is low as it is used by finance professionals and the lack of information would be noticed.

Classification:

Reconcile the maturity dates with the bond fiscal agent (U.S. Bank) to TM$.
Review the year-end reconciliation completed by Leslie Yonkers, OST Debt Financial Officer.
Test the outstanding debt to ensure amounts were properly classified between "Due Within One Year" and "Due in More Than One Year."

Rights & Obligations:

Test revenue categories used to calculate the debt limit calculation and determine if the state correctly or incorrectly included revenue categories used to compute the state's right to issue new debt.

We designed our substantive testing strategy based on our assessment of the risk of material misstatement.

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

H.6.PRG - Long Term Liabilities (Due in More Than 1 Year): Bonds

Procedure Step:	Substantive Testing
Prepared By:	EWS, 9/5/2023
Reviewed By:	SLB, 10/18/2023

Record of Work Done:

Overview:

We recorded our document request here [Bond Testing Request] which we used to obtain all documents required for testing.

Substantive tests performed to meet the Completeness assertion:

State of Washington

1. Identify debt issued in FY23 and reconcile to AFRS to ensure all debt issued in FY23 was recorded.
We reviewed the Office of the State Treasurer website at https://tre.wa.gov/home/debt-management/bond-and-cop-sale-results/ to determine what bonds were issued during FY 2023. The state exclusively uses EMMA's issuer page platform for all financial disclosures and official statements. We reviewed the official statements posted on the EMMA website and identified the bonds issued in FY 2023, see [2023 Bond Testing], tab "FY23 Bonds Issued. We obtained the bond closing memorandums and A8 cash receipt and good faith deposit journal summaries for each bond sale from Leslie Yonkers, Debt Financial Officer. We tied the closing memorandums to the bond sales posted on the EMMA website and recalculated the net bond proceeds. We compared the recalculated net bond proceeds for each bond series to the total deposit on the A8 cash journal summaries. ***No issues noted.***

We ran a query in the AFRS database for bond proceeds at [2023 Bond Testing], see tab "FY23 Bonds Issued," beginning on row 38. The query includes Income Statement Sort Codes ND (Bonds Issued) and NH (Issuance Premiums). We used the par values and the associated discount/premium amounts from the closing letters to recalculate bond proceeds as noted above. We then compared the calculated totals to the bond proceeds recorded in AFRS without exception. **No issues noted.**

2. Confirm the balance at fiscal year-end to ensure bond sales were correctly recorded.
We ran a query in the AFRS database at [2023 Bond Testing], see tab "ACFR Query", for the outstanding bond debt reported in the General Long-Term Obligations fund. We noted a total of $20,160,992,558.97 after excluding accreted interest payable ($242,254,329.34) and excluding fees payable ($188,978.67). We added the portion moved to short term, excluding COP, in the amount of $1,242,090,318 for a total of $21,403,082,877 recorded in AFRS. We tied the total recorded in AFRS to the total bonds on the TM$ report. We determined that the long term liabilities: due within one year and due in more than one year are properly recorded. **No issues noted.**

Substantive tests performed to meet the Valuation assertion:
1. Review the year-end reconciliation completed by Leslie Yonkers, TRE Debt Financial Officer.
We obtained the 6/30/2023 TRE Bond reconciliation spreadsheet from Leslie and noted that a reconciliation was performed between the Treasury Management System and the bond fiscal agent, US Bank. Additionally, we re-performed the reconciliation [2023 Bond Testing] as noted below and found no variances between our reconciliation and the reconciliation performed by Leslie Yonkers. ***No issues noted.***

2. Test outstanding debt and reconcile the amounts recorded with the bond fiscal agent (U.S. Bank) to TM$ to ensure it is correctly recorded at year end.
We obtained and reviewed the outstanding bond debt report created by the Treasury Management System ("Loan Accounts List- for Outstanding Bonds - Series"). We also obtained the US Bank confirmation report that showed outstanding bonds and included defeased bonds, see [2023 Bond Testing], tab "USBank Confirmation." Defeased bonds are in escrow and are appropriately excluded from the TM$ balance as they are no longer a liability of the State. Additionally, Leslie Yonkers provided us with a Zero Coupon bonds outstanding spreadsheet, see [2023 Bond Testing], tab "Zero Coupon Bonds." The spreadsheet provides a breakdown of the interest and principal for the zero coupon bonds. We tied the principal for the zero coupon bonds to the TM$ outstanding column and the total debt service column amounts to the US Bank outstanding balances.

We re-performed the reconciliation between the outstanding bond debt report created by the Treasury Management System and the US Bank confirmation report at [2023 Bond Testing], see tab "Bond Confirmation." We tied the outstanding principal from the TM$ report to the outstanding principal from the US Bank confirmation (less refunded bonds and the zero coupon bond difference). We tied the zero coupon bond differences between the TM$ report and the US bank confirmation to the zero coupon bond interest. We noted a difference between the TM$ report and the US Bank confirmation in the amount of ($15,291,477). We determined this difference was related to the WASTIF13C- Toll Revenue Bond. We discussed this with Leslie Yonkers, TRE Debt Financial Officer, who stated that there is a variance for the TIFIA bonds because they are only authorized to issue $300,000,000 and interest accrued before any debt service payments are made. US Bank and TRE record these differently. US Bank adds the accrued amounts to the principal and TRE adds it to the interest. We reviewed the TIFIA Estimated P&I spreadsheet, has the calculated ending balance of loan amortization schedule and annual projected payments, and the "TIFIA TRE and US Bank Variance" spreadsheet, used to verify US Bank's ending principal balance and TRE's ending principal balance since they differ. Both TIFIA spreadsheets were obtained from Leslie Yonkers and noted that the accrued interest on the debt service schedule tied to the difference between the TM$ report and the US Bank confirmation. *No issues noted.*

Substantive tests performed to meet the Classification assertion:

1. Reconcile the maturity dates with the bond fiscal agent (U.S. Bank) to TM$.

We obtained the 6/30/2023 TRE Bond reconciliation spreadsheet of the reclassification of long-term to short-term FY ending 6/30/23 from Leslie Yonkers, TRE Debt Financial Officer and noted that the reconciliation was performed between the Treasury Management System and the bond fiscal agent, US Bank. We noted that each bond within the reconciliation had matching maturity dates between TM$ and US Bank. **No issues noted.**

2. Review the year-end reconciliation completed by Leslie Yonkers, TRE Debt Financial Officer.

We obtained the 6/30/2023 TRE Bond reconciliation spreadsheet of the reclassification of long-term to short-term FY ending 6/30/23 from Leslie Yonkers, TRE Debt Financial Officer and noted that the reconciliation was performed between the Treasury Management System and the bond fiscal agent, US Bank. Additionally, we re-performed the reconciliation as noted below and found no variances between our reconciliation and the reconciliation performed by Leslie Yonkers. **No issues noted.**

3. Test the outstanding debt to ensure amounts were properly classified between "Due Within One Year" and "Due in More Than One Year."

We obtained TM$ reports "Debt Service Payments - for a Month Detail" for all fiscal months in which TRE plans to pay bonds in FY24 (due within the next fiscal year) from Leslie Yonkers, TRE Debt Financial Officer. Using the TM$ reports, we identified and summed the debt service principal payments due by 06/30/2024 between general obligation bonds, revenue bonds, and zero coupon bonds for each month at [2023 Bond Testing], see tab "Classification." Using the US Bank confirmations report, see tab "USBank Confirmation, [2023 Bond Testing]" we calculated the total amounts outstanding for the three bond types. We reduced the US Bank confirmation total outstanding with the TM$'s principal payments due by 6/30/2024 to come to a recalculation of the long-term debt portion - "Due in More Than One Year." We had to make additional adjustments for the recalculation of the revenue and zero coupon bonds. The revenue bonds required an adjustment of $15,291,477, see at [2023 Bond Testing], for the accrued interest of the WASTIF13C- Toll Revenue Bond. The zero coupon bonds required an adjustment of $386,292,280, see at [2023 Bond Testing], for the zero coupon bond interest contained within the US Bank confirmation report. We then compared both the principal payments due by 6/30/2024 ("Due Within One Year") and the recalculated long-term debt ("Due in More Than One Year") to the amounts reported on the AFRS database, see tab "ACFR Query," and noted no variances at [2023 Bond Testing], see tab "Classification." We determined FY23 bonds are correctly classified between "Due Within One Year" and "Due in More Than One Year." **No issues noted.**

Substantive tests performed to meet the Rights and Obligations assertion:

1. Determine if the state properly determined the Debt Service Limitation [Debt Limit Testing].

To determine if the state properly determined the debt service limitation, we first recalculated the constitution debt service limit.

- We obtained revenue data from the Treasurer's report titled "Report on the State of Washington's Debt Limit" for FY2023.
- We re-performed the debt limit calculation by establishing the 6-year arithmetic mean, then multiplied the mean by 8.25%.
- We concluded that TRE performed the calculation correctly and that the debt service limitation for FY23 is $1,990,582,864.23. ***No issues noted.***

2. Determine if debt service payments exceed the constitutional debt limitation [Debt Limit Testing].

We recalculated debt service payments for fiscal year 2023 that are subject to the debt limitation to determine if the state had the right to issue new debt during FY 2023 and maintained the right to issue new debt as of June 30, 2023.

- We retroactively reviewed debt service payments planned during fiscal year 2023 to determine if the state had the right to issue new debt during the fiscal year.
- We reviewed bonds issued during FY 2023 to determine if new bonds subject to the debt limitation exceeded the constitutional limit.
- We recalculated planned debt service payments for FY 2024 to determine if the state, as of June 30, 2023, maintained the right to issue new debt moving into FY 2024.
- We determined that the state did not exceed the constitutional debt limit at no point during FY 2023. ***No issues noted.***

3. Determine if the state has the right to include revenues used in the debt service limitation calculation [Debt Limit Testing].

We reviewed the different revenues the Treasurer includes in its calculation to determine the authority for revenue collection, any special revenue earmarks, and how the revenue is reported as part of the state's financial statements.

- We determined that the minimum annual revenue arithmetic mean required to support the current debt is $16,781,375,367.15 [Debt Limit Testing].
- We reviewed the laws governing the 3 selected revenues (tax), totalling $24,128,728,693 (80% of total FY23 revenue) included in the debt limit calculation.
- We traced the 3 different revenues (above) to the governmental statement of activities and determined that the state reports the revenues under sort codes 5a, 5b, and 5d as general revenues.

We concluded that the state has the right to claim at least $24,128,728,693 of revenue from FY 2023 to calculate the debt service limitation and that the revenue amount grants the state the right to issue new debt. ***No issues noted.***

We determined that the state had the right to issue bonds between July 1, 2022 and June 30, 2023. ***No issues noted.***

I.1.PRG - State Board for Community and Technical Colleges

Procedure Step: Summary & Conclusion

Prepared By: MEC, 11/14/2023

Reviewed By: RKM, 11/14/2023

Record of Work Done:

Based on test results, we re-evaluated risk assessments, procedures, evidence obtained and conclusions as follows:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
Our results of substantive test did not indicate we needed to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
The quality and quantity of evidence obtained was sufficient and appropriate.

I.1.PRG - State Board for Community and Technical Colleges

Procedure Step: Understanding of Line Item

Prepared By: MEC, 5/31/2023

Reviewed By: SHW, 9/22/2023

Record of Work Done:

(1) Prior Audit Exceptions: See FY2022 Finding here: [ACFR 2022_Finding_Internal Controls Over Financial Reporting]
During the previous five audits, we identified and communicated deficiencies in internal controls over the reporting of community and technical college financial data.

- SBCTC did not complete a timely and accurate reconciliation of college financial data with the amounts recorded in the State's accounting system before the State closed its books. This issue was reported as a finding in the prior five audits.
- SBCTC did not dedicate sufficient time or resources to reconciling college financial data to the State's accounting system and making appropriate adjustments.

SBCTC
We found numerous unexplained variances between consolidated college financial data and amounts recorded in the State's accounting system. Some of these variances include:

- In governmental activities funds, the State's accounting system had lower balances than the consolidated college financial data. These variances included depreciable assets ($130 million), expenses ($65 million), charges for services ($284 million), and grants and contributions ($3 million).
- In the higher education special revenue funds, the State's accounting system had larger balances than the consolidated college financial data for charges for services ($36 million), federal grants-in-aid ($16 million) and education expenditures ($176 million).
- Cash in the State's accounting system was $3 million lower than the consolidated college financial data.
- In the higher education student services funds, cash in the State's accounting system was $7 million higher than the consolidated college financial data.

These errors were not corrected in the financial statements.

We recommended that SBCTC perform a complete and timely reconciliation of college financial data to the State's accounting system throughout the fiscal year.

See Finding follow up at: [State Board for Community and Technical Colleges]

(2) Composition & Change Analysis:
Line Item Leadsheet: [Line Item Lead Sheet].

There are **nine** material balances selected for audit that contain activity related to the State Board for Community and Technical Colleges (SBCTC). Each of the 33 community colleges rolls up into agency 699 for reporting in AFRS. The State Board is responsible for reconciling the community college accounting systems (subledgers) for reporting in AFRS under one fund (agency 699). This section is to review the reconciliation of the subledger data to AFRS. We test selected individual colleges for accuracy of information and review the reconciliation of the community and technical college system as a whole for completeness and accuracy.

We selected the following specific account balances for review at SBCTC for FY 2023:

Cash and Cash Equivalents
Depreciable Assets (Net of Accumulated Depreciation)
Charges for Services
Federal Grants-In-Aid
Education Expenditures

For the purpose of the state ACFR, all of the reconciliations for FY2023 were performed by Sue Willis, System ctcLink Accounting Coordinator, and reviewed by Terri Sexton, Agency Accounting Manager. There were no major changes to SBCTC's CEMLI process, but they did make minor changes to update some original coding for efficiency. They have also added a balancing tool to assist with manual balancing issues during the reconciliation process. CEMLI stands for Configuration, Extension, Modification, Localization, and Integration; CEMLI is the in-house developed software program used to upload Peoplesoft data directly into AFRS.

Teri Sexton, Director of Accounting and Business Services, indicated that when changes or updates to the CEMLI process are deemed necessary, they identify the needs and reach out to the SBCTC data services team to update the processes. They are then tested in a test environment before put into production. They monitor these changes to be sure that they are working as intended.

As of June 30, 2022, all 33 community and technical colleges have converted to ctcLink, so FY2023 is the first full year with all colleges using the same system since conversion began.

We identified that the State Board is in the process of completing a ctcLink Accounting manual (CLAM) to replace the legacy accounting manual or FAM. It is posted on their website for College & SBCTC Staff under accounting and business services. The web page states that:

"The purpose of this manual is, in part, to fulfill the Washington State Board for Community and Technical Colleges' (SBCTC) responsibility under RCW 28B.50.090 (7)(b) to "Establish minimum standards to govern the operation of the community and technical colleges with respect to internal budgeting, accounting, auditing, and financial procedures as necessary to supplement the general requirements prescribed pursuant to Chapter 43.88 RCW."

We obtained an updated Chart of accounts ctcLink crosswalk to AFRS from the SBCTC website which is documented on the "COA Crosswalk" tab here: [KC1 CTCLINK to AFRS reconciliation March 2023]

(3) Updates to Material Account Matrix:

We reviewed **AFRS database reports and the agency website**. We did not identify any significant events or changes from last year that affect the line item or risks of misstatement.

I.1.PRG - State Board for Community and Technical Colleges

Procedure Step: Controls - ctcLink System Reconciliation

Prepared By: MEC, 10/25/2023

Reviewed By: RKM, 11/9/2023

Record of Work Done:

Material Balance(s) and Assertions

Internal controls in the Consolidation/Reconciliation process address the following balance(s):

1. Higher Education - Special Revenue:

AC - Cash and Cash Equivalents (Local Portion)
CG - Federal Grants-In-Aid
CH - Charges for Services
FS - Education

2. Governmental Activities:

2C - Depreciable Assets (Net of Accumulated Depreciation)
2C - Education - Higher Education - Charges for Services
3C - Education - Higher Education - Operating Grants & Contributions
G3 - Education - Higher Education - Expenses

3. Higher Education Student Services Fund:

AC - Cash and Cash Equivalents (Local Portion)

For the following assertions:

Balance	Assertion

Depreciable Assets (Net of Accumulated Depreciation)	Completeness (SBCTC Only) Existence Valuation
Education - Higher Education - Charges for Services	Occurrence Valuation Completeness (SBCTC Only)
Education - Higher Education - Operating Grants & contributions	Occurrence Completeness (SBCTC Only)
Education - Higher Education - Expenses	Occurrence Completeness (SBCTC Only) Classification
Cash and Cash Equivalents (Local Portion)	Existence
Charges for Services	Occurrence Valuation Completeness (SBCTC Only)
Federal Grants In Aid	Occurrence Completeness (SBCTC Only)
Education	Occurrence Completeness (SBCTC Only) Classification
Cash and Cash Equivalents (Local Portion)	Existence

Gain an Understanding of Internal Controls

For documentation purposes, the controls to ensure that all financial data submitted to the State Board of Community and Technical Colleges (SBCTC) from each college is uploaded from the ctcLink (PeopleSoft) to the Agency Financial Reporting System (AFRS) will be called the "Reconciliation Process". We will perform testing at three colleges to ensure that the data received by the State Board is accurate. The selected colleges are:

Seattle Colleges [Community & Technical Colleges Testing - Seattle]
Community Colleges of Spokane [Community & Technical Colleges Testing - Spokane]
Bellevue College [Community & Technical Colleges Testing - Bellevue]

We will gain an understanding of the controls over the reconciliation process to ensure that financial data uploaded from ctcLink is complete, properly valued and recorded into AFRS correctly. We will focus our discussion on the following system:

State of Washington

ctcLink (PeopleSoft) - The single, centralized system of online functions to give students, faculty and staff a way to do college business. ctcLink is an Oracle PeopleSoft application and is referred to by either ctcLink or just Peoplesoft. As of July 30, 2022, all 30 colleges and the SBCTC were using ctcLink, the centralized online system that replaced the outdated FMS Legacy system. The conversion to ctcLink was rolled out to the colleges and the SBCTC over the last few years.

How transactions are recorded in AFRS:
SBCTC is responsible for tracking and recording the financial data that is submitted by all of the CTCs, through the ctcLink. The Colleges' data is uploaded to AFRS under the Board's agency number (699); because in AFRS the data is not broken down by College. AFRS shows SBCTC as a single entity, which includes all of the Community Colleges.

The Colleges are listed below:

Community Colleges of Spokane:
Spokane Falls Community College
Spokane Community College
Pierce College District:
Pierce College - Fort Steilacoom
Pierce College - Puyallup
Seattle Colleges:
North Seattle College
Seattle Central College
South Seattle College
Tacoma Community College
Clark College
Lower Columbia College
Olympic College
Cascadia College
Peninsula College
Centralia College
Edmonds College
Highline College
Wenatchee Valley College
Green River College
Skagit Valley College
Bellingham Technical College
Big Bend Comunity College

Whatcom Community College
Bellevue College
Everett Community College
Grays Harbor College
Lake Washington Institute of Technology
Renton Technical College
Shoreline Community College
Clover Park Technical College
Columbia Basin College
Walla Walla Community College
Bates Technical College
South Puget Sound Community College
Yakima Valley College

General Ledger information & AFRS crosswalks:

Sue Willis, System ctcLink Accounting Coordinator, provided us with a Chart of Accounts crosswalk detailing the conversion of legacy FMS system accounts to CTCLink system general ledger accounts that provides the breakdown of how each system's GL data is transferred to AFRS. We documented the crosswalk and Converted the material balance accounts in AFRS to CTCLink ledgers accounts on the Line Item Lead Sheet here: [Line Item Lead Sheet] - See "CTCLink Mat Bal Accts" tab and "COA Crosswalk" tab.

Each sub object and source of revenue has its own general ledger account in the ctcLink system, and these are converted back to AFRS GL accounts 6510 and 3210 monthly and at year end during the college data consolidation and upload to AFRS process performed by Sue Willis. ctcLink general ledger accounts are 7 digit numerical accounts grouped by the leading digit as assets, liabilities, expense, revenue, or equity. The system also has budgetary only accounts that correspond to these groupings.

Sub Object or Expense accounts in CTCLink generally begin with "5".
Source of Revenue or revenue accounts generally begin with "4"

The exception is that object "S" (interagency or inter college reimbursements) which are reported/uploaded to AFRS as GL 6510 expenses were grouped in the revenue category of CTCLink.

Each College's monthly General Ledger data is updated by the manual closing of "submodules" by College finance staff about 5 days before each month end and a few days after year end, June 30, of each fiscal year. Transactions within the submodules post to various general ledger accounts such student financial tuition and fee revenue, accounts payable expense transactions, payroll expenses, accounts receivable and billing updates, grant revenue and expenditures, and Treasury transactions for cash and cash equivalents. The journals created by the submodules are reviewed at each college by staff responsible, and then posted to the GL.

The submodules are listed below:

Sub Module Code	Sub Module Title
AM	Asset Management
AP	Accounts Payable
AR	Accounts Receivable
BI	Billing
CA	Contracts/Grants
EX	Expenses
GL	General Ledger
HR/HCM	HR Payroll
SF	Student Financials
TR	Treasury

The College General Ledger accounts are also updated with journal entries throughout the month and during the adjusting period 13- typically July 1 through the first week of August each year. No adjusting entries are processed through the sub modules, so any accruals or asset adjustments are done through journal entries to the general ledger during period 13. It is also important to note that not all colleges are using all of the submodules within ctcLink. Some Colleges are not using the Asset Management (AM) Module and instead update Capital Asset general ledgers using journal entries and track college assets using the DirectLine system as they did during use of the Legacy FMS system. Other Colleges might not utilize the Travel and Expenses (EX) or the PCard system within the Accounts Payable sub module, and instead continue to use travel voucher paper forms and manual entries into to the Accounts payable system. The reason for this is the challenges of coordinating required college wide staff trainings and fluctuating staffing levels during the conversion to ctcLink, and many colleges are still facing these issues.

Teri Sexton, Director of Accounting and Business Services, let us know that it is a priority to roll out requirements to the colleges to utilize the system functionality, but they are still focusing on assisting the colleges with data "clean up" and procedures to correct beginning balances incurred during conversion activities.

Month & Year End:

The procedure for closing out the month in ctcLink involves many steps to close the submodules listed above to ensure that submodule journals post to the General Ledger Accounts in the proper order. This involves making any necessary adjustments to the sub modules before they close, viewing general ledger and submodule queries from the system to identify any issues, and ensuring all journals are posted to the proper period. SBCTC maintains a "ctcLink Reference Center" web site, that contains a monthly Closing Check list, which lists all the required steps in order. The checklist also outlines whether the steps are done by the College, the ERP support team, or by SBCTC accounting staff.

Posting College General Ledger Activity to AFRS

After all of the required month end steps have been completed by the Colleges or the ERP support team at SBCTC, Sue Willis, System ctcLink Accounting Coordinator, performs processes using **CEMLI** to process the AFRS customization to crosswalk peoplesoft distributions to AFRS. The CEMLI process maps GL attributes and agency codes using AFRS transaction codes and rules to produce an **AFRS GL report** to upload to AFRS using the AFRS toolbox utility.

This report is a summarized report of all data from PeopleSoft that has passed through edits for a specific month. The report is the combined table from all TBL tables from each module (as posted to the GL). The AFRS report comes directly from the General Ledger after all submodules have been closed.

The AFRS report is submitted to the Office of Financial Management (OFM) through the Axeway process. The data incorporated in this file contains only valid entries; all others remain in **error files.**

This report can be run as many times as necessary; but once submitted to OFM it should not be run again unless the file is protected by an archive copy.

Reconciliation Between the CTCLink system and AFRS

Prior to April 2019, summary financial data from PeopleSoft was uploaded manually to AFRS from the three colleges that implemented ctcLink and only a year-end reconciliation was completed by SBCTC.

In April 2019, SBCTC began using an in-house developed software program **(CEMLI)** to upload monthly data from PeopleSoft into AFRS. The CEMLI has been continuously updated and improved since 2019 to make this process more efficient. The CEMLI program automatically and properly converts College ctclink GL data to AFRS account coding for uploading into the AFRS system. **(Key Control #1 - Automated)**

The System Accounting Coordinator reviews **error reports,** which identify discrepancies between the entries in CTClink and AFRS, and follows up on any coding errors and variances identified, to ensure the data reconciles between the two systems **(Key Control #2 - Manual, Valuation, Existence, Classification).**

Part of the review of the reports, on a monthly basis, is to verify that previous exceptions were corrected and all new exceptions were reported to the College involved. The colleges generally will fix the incorrect entries as soon as they receive the Monthly Error Report from Sue. If it is not cleared in the following month when the next monthly error reports are run, SBCTC works with the college to correct the error. Sue will mark "critical" errors she identifies during her reconciliation and follow up with the Colleges directly for some errors, but the Colleges are expected to monitor and review their monthly "**SMARTER**" reports to correct issues throughout the year. We documented the SMARTER Query procedures which are posted on the SBCTC web site here: [SMARTER Queries]

The smarter query reports are the ctcLink version of the legacy Standard Monthly Analysis and Review of Transactions reports that were designed to test and analyze accounting data on the college level according to specific criteria. The results indicate errors that need to be corrected such as specific funds not allowed in specific ledgers, overspent capital and operating allocations, depreciation not booked, etc. The colleges are instructed to resolve smarter errors monthly, and required to resolve any errors remaining at year end.

CEMLI Processes
The transactions run sequentially from ACT/RVW/RPT/TBL.

Sue Willis, System ctcLink Accounting Coordinator, performs the following procedures each month:

- The System ctcLink Accounting Coordinator uses pivot tables and error reports to reconcile and confirm the data input from PeopleSoft made it to AFRS for each college, for each month, without errors or variances between the amounts. **(Key Control #2 (PeopleSoft/ctcLink) - Manual, Valuation, Existence, Classification,)**

The System CTCLink Accounting Coordinator, runs the "SAO Query" (also referred to as PS-SAO or SAO Zero Report) and compares it to the ACT table to ensure all of the transactions are processed by CEMLI. The SAO Query grabs all of the transactions that were keyed in People Soft, without looking at the particular sub-module. The ACT table (ctc_AFRS_ACT_Union) contains all of the transactions in debit/credit form, prior to the CEMLI turning them into transaction codes for AFRS. This comparison confirms that all of the transactions are processed by CEMLI.

Next, Sue reviews "**Error Report 1**", looking for matching errors. Between ACT & RVW the CEMLI matches debits and credits and if it cannot find the match, it kicks them out to the error report if it is not a one-to-one match. For example, it cannot match two $500 credits that add up to a $1,000 debit. Corrections are usually simple and are corrected on the AFRS FT (Financial ToolBox). From RVW to RPT the CEMLI translates the ctcLink funding source to AFRS funds. Between RPT & TBL the CEMLI verifies a transaction code is present, checks for subsidiary codes, Appropriation Indexes, etc. Anything that does not pass the tests kicks out to "**Error Report 2**". Sue follows up on each error and makes the necessary updates. TBL is the final table in the CEMLI process. The final data on the TBL file is placed on a server for AFRS to pick up.

One of the updates to the CEMLI process during fiscal year 2023 involved the addition of a **"reconciliation balancing tool"** to make this process more efficient and helps with matching debits and credits in CTCLink. Sue indicated that she rarely has much on the error reports to review now and is able to complete reconciliations for all the colleges before AFRS closes for the month.

Year-End Adjustments
In an attempt to properly close out the year in a timely manner, the State Board sent a memo out to the finance staff at all of the colleges on February 13, 2023 to detail the finalized fiscal year end closing schedule for 2023.

The memo indicates that for FY2023

- SBCTC will limit the college's entry of accrued payables, receivables and miscellaneous required adjustments from SMARTER reports to **period 13, which runs until 8/7/2023**.
- **Period 131** is being reserved by SBCTC to track OFM required adjustments and colleges will be limited to entry of only those adjustments during the period of 131.

Period 132 and 133 will be limited to the entries outlined by SBCTC to ensure closure of the system's accounting records.

SBCTC reviews all potential year-end adjustments and supporting documentation to ensure they are reasonable and accurate prior to entry into AFRS during periods 132 and 133. Once all the documentation is received and reviewed, Sue Willis, System ctcLink Accounting Coordinator, will update AFRS. After all year-end adjustments have been made, Sue will perform the reconciliation between ctcLink and AFRS, to ensure that the amounts entered in ctcLink by the individual colleges are accurately recorded in AFRS and that the balances are complete. **(Key Control #3 - Manual, Valuation, Completeness, Occurrence, Classification).** If variances are identified, SBCTC will follow up with the College to ensure that the explanation for the variance is reasonable and that the adjustment in AFRS is appropriate. Any adjustments requested after close of AFRS need to be approved and made through OFM.

Although large improvements were made and the PeopleSoft data is being reconciled to AFRS on a regular basis; as of June 30, 2023, the Board has not been able to correct all of the GL beginning balances from prior year errors, so some the information reported is still inaccurate. Teri Sexton, Director of Accounting and Business Services, provided us with an update to the beginning balances correction process:

- OFM must approve all corrections to the beginning balances; and supporting documentation is required- Not all proposed corrections are approved by OFM
- Sue is meeting with OFM every other week to identify and propose corrections on the college level
- All legacy data is maintained in a database to identify balances from prior years

Key Controls are as Follows:

- **Key Control #1 (Automated) - Valuation, Occurrence/Existence, Classification, Completeness -** SBCTC uses an in-house developed software program (CEMLI) to upload monthly data from PeopleSoft into AFRS. CEMLI automatically and properly converts ctclink data to AFRS account coding from the college general ledgers.
- **Key Control #2 (PeopleSoft/CTCLink) - Manual, Valuation, Existence, Classification: (Monthly)** The System ctcLink Accounting Coordinator uses pivot tables and error reports to reconcile and confirm the data input from PeopleSoft made it to AFRS for each college, for each month, without errors or variances between the amounts.
- **Key Control #3 (PeopleSoft/CTCLink) - Manual, Valuation, Completeness, Occurrence, Classification: (Year end)** After all year-end adjustments have been made, the System ctcLink Accounting Coordinator will perform the reconciliation between ctcLink and AFRS, to ensure that the amounts entered in ctcLink by the individual colleges are accurately recorded in AFRS and that the balances are complete.

Noted Weaknesses are as Follows:

None.

<u>I.1.PRG - State Board for Community and Technical Colleges</u>

State of Washington

Procedure Step: Key Control #1 (Automated) - CEMLI conversion of CtcLink data to AFRS account coding

Prepared By: MEC, 11/8/2023

Reviewed By: RKM, 11/9/2023

Record of Work Done:

This record may contain information considered exempt from public disclosure under RCW 42.56.420 of the Public Records Act. As such, distribution of this record is limited.

ctcLink System Reconciliation - Valuation, Occurrence/Existence, Classification, Completeness

The understanding for this system is documented above in the "Controls - SYSTEM" step. [Controls - ctcLink System Reconciliation]

Key Control #1 - CEMLI automatically and properly converts ctcLink data to AFRS account coding from the college general ledgers.

SBCTC uses an in-house developed software program **(CEMLI)** to convert and upload monthly data from PeopleSoft/ctcLink into AFRS.

2. Key Automated Control Confirmation and Testing:

We received the data that SBCTC used for their year end 2023 Reconciliation of peoplesoft/ctcLink data to AFRS accounts and utilized this data for testing the automated control. The data contained "SAO_Journals" produced by the CEMLI process by fiscal month and ctcLink business unit Id numbers (unique to each College) The data contained amounts by "AFRS Fund", "MJR GRP", "MJR Source", "GL ADJ", and "AFRS_SUB_OBJECT".

We ran pivot tables by the Individual Colleges business units we randomly selected for testing from the SBCTC Reconciliation data to see if it matched the College General Ledger Data that we ran from ctcLink using SAO ctcLink access granted by Teri Sexton, SBCTC Director of Accounting and Business Services.

For the 9 randomly selected colleges, we ran the QFS_GL_ACCT_ANALYSIS query for FY23, which contains college general ledger account data by period, business unit, GL, GL description, Fund, Department, Appropriation, project, Activity, posted dates, Journal ID, and journal source. We ran pivot tables from this query by ctcLink GL account, Account description, and amount. We filtered this pivot table by the appropriate fund and period to arrive at amounts by GL as reported to AFRS.

We copied the pivot table into a new sheet and used a VLookup formula to identify the corresponding GL accounts with subobject and/or source of revenue for each ctcLink account from the Chart of Accounts or "COA Crosswalk" provided by SBCTC that we copied into the workbook on another sheet. We then created a new pivot table using the added AFRS information and filtered it by AFRS GL and ctcLink amount. We compared this pivot table to the pivot table we ran from the SBCTC reconciliation to confirm the automated control. See COA crosswalk, confirmation, and testing here: [FS Sampling: College GL Data Testing]

We compared the SAO converted data for 9 College General Ledgers for AFRS revenue accounts 32xx and AFRS Expense Accounts 65xx to the SBCTC converted reconciliation amounts (which were converted using the CEMLI Process) and noted one minor difference in expense for one of the 9 colleges. We traced the amount of $208.20 to subobject AK. The amount was moved out of ctclink account 5010170 "payroll suspense" or AFRS GL5199 in fund 790 split between funds 001 and 522. We found the journal in the College GL Query, but it was not present in the conversion we did with Vlookups since it was not in an expenses account. The journal description indicated it was a "FY22 SBCTC Correction made to 50". The amount of $208.20 was identified in the SBCTC expense reconciliation and the CC AFRS database. Since it was an SBCTC adjustment, we do not consider it an issue with the CEMLI conversion. Furthermore, we did not identify any other issues with subobject AK or ctclink account 5010170 "payroll suspense" during our testing.

There were no variances noted in the revenue comparison. ***We determined that the automated control was in place and is properly converting college GL information to AFRS account coding for reporting purposes.***

Noted Weaknesses are as follows:

None.

2. Preliminary Control Risk Assessment

Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test of Key Manual Control:

Not applicable - we are not planning to rely on controls and therefore do not need to test controls; control risk will be assessed at maximum.

I.1.PRG - State Board for Community and Technical Colleges

Procedure Step:	Key Control #2 (Manual) - Monthly Consolidation & Reconciliation
Prepared By:	MEC, 6/12/2023
Reviewed By:	RKM, 11/6/2023

Record of Work Done:

Key Control #2 (PeopleSoft/ctcLink) - Manual, Valuation, Existence, Classification: (Monthly)

The System ctcLink Accounting Coordinator uses pivot tables and error reports to consolidate, reconcile, and confirm that the data input from PeopleSoft made it to AFRS for each college, for each month, without errors or variances between the amounts.

The understanding for this system is documented above in the "**Controls - ctcLink**" step.

1. Confirmation of Key Manual Control:

Sue Willis, ctcLink System Accounting Coordinator at SBCTC, uses pivot tables and error reports to reconcile and confirm that the data input from PeopleSoft for each college and the SBCTC made it to AFRS, using the CLEMI process, from ACT to TBL. Transactions run sequentially through CLEMI from ACT/RVW/RPT/TBL. The final data on the TBL file is placed on a server for AFRS to pick up. We requested to see the completed ctcLink reconciliation for March 2023.

We were provided with a zip file with multiple spreadsheets containing college period 9/AFRS period 21 (March) general ledger data on separate tabs from the ctcLink query "QFS_GL_ACCT_ANALYSIS", "SMARTER 210" reports that identified overspent operating allocations by fund, A Chart of Accounts (CoA) crosswalk that identified AFRS GLS and Sub objects and the associated peoplesoft accounts, a table College agency numbers and ctclink business units, a query detailing overspent capital appropriations for each college, "Confirm Files" that contained the information transferred to AFRS, error reports, and "recon" excel files for AFRS GLs 32xx revenue, and 65xx expenses, other GLs and funds.

We met with Sue Willis via Webex on 5/30/2023, and she walked us through the March 2023 consolidation and reconciliation process.

Sue explained that the process used to balance AFRS submissions to ctcLink entries is a multi-step process that involves the use of pivot tables and multiple Excel spreadsheets in order to consolidate the data from all 30 colleges and upload it to AFRS. She utilizes Microsoft Access to run a report that will pull all of the college's data into one file. She combines this with the AFRS file that was uploaded to identify any differences or errors. Eventually, the error data is combined into one spreadsheet for research purposes with only the "core" data that needs to be used for balancing purposes. Sue provided a copy of the PS-SAO revenue and expense pivot tables for March 2023 [KC1 CTCLINK to AFRS reconciliation March 2023], which is the ctcLink/Peoplesoft data input and submitted by the Colleges at month end. She showed us that she added additional columns marked at ADJ AI, Fund, SO, GL, PI, MJR GRP, MJR SRC. These columns are used to keep original GL data and update data that is cross walked to AFRS as a different GL.

GL changes include the following:

GL6516 in fund 148 is moved to GL6510 in AFRS

Sub object FA is moved to sub object EA in AFRS

Object S must be crosswalked from ctcLink revenue accounts to AFRS GL6510

GL 3210; Revenue source 0782 "intra fund transfers" must be equal within the same fund and is cross walked to AFRS as source 0499.

Cash in state funds for CEMLI combinations that are not a combination of 3210 or 6510, are cross walked using 1120. A lump sum will be moved from 1120 to 71xx to place the balance in the correct GL at a later date.

1354 & 5154 are cross walked to 1312 & 5111 due to the lack of subsidiary numbers. (During fiscal year end, a manual entry will be processed to adjust the 1312 & 5111 GL's to 1354 & 5154 to balance to state agencies offsets.)

In fund 840 & 790, the following GL's are cross walked to AFRS as 5199: GL5190, GL65xx, GL32xx.

Next, Sue explained that a pivot table is processed to capture essential data for comparison with an AFRS data extract that is run to capture the month end batches. The AFRS data is pivoted to compress and capture essential data for comparison and is copied to another workbook. See: [KC1 CTCLINK to AFRS reconciliation March 2023]. Pivot tables and various error reports are used to identify variances that need to be addressed, researched and resolved. The Colleges use ctcLink queries to identify and correct many of the items that could not be processed in AFRS directly, such as COGS in non-propriety funds. Sue provided the final reconciliations for March 2023 for our review.

Confirmation of Key Manual Control:
We recalculated the variances for GL3210 and 6510 using webi revenue and expenditure summary reports we ran for the month of March 2023. See Revenue tab and Sub Object tab at [KC1 CTCLINK to AFRS reconciliation March 2023].

We downloaded the March 2023 Webi revenue report for AFRS GL 3210 in excel and ran a pivot table to get the total SBCTC- agency 699 amounts for each source of revenue. We compared the results to pivot tables we ran using the reconciliation's adjusted general ledger amounts for 3210. Each source of revenue total tied to the March reconciliation without exception. ***No weaknesses noted.***

We downloaded the March 2023 Webi Expenditure report for GL 6510 in excel and ran a pivot table to get the total SBCTC- agency 699 amounts for each sub object. We compared the results to pivot tables we ran using the reconciliation's adjusted general ledger amounts for 6510. Each sub object total tied to the March reconciliation without exception. ***No weaknesses noted.***

"**College Verification Tab**" - We verified that all of the community and technical colleges were represented on the SBCTC March 2023 AFRS/CTCLink 6510 reconciliation by copying the business unit column from the reconciliation and using a pivot table to remove duplicates and show total expenditures and revenue for each College. We cross walked the ctcLink Business Unit number to the College name and verified that all colleges were included in the reconciliation using a list of colleges from the SBCTC website. All Colleges and SBCTC were included in the reconciliation. ***No weaknesses noted.***

State of Washington

Additionally, using ctcLink Access provided by SBCTC, we ran QFS_GL_ACCT_ANALYSIS Queries for SBCTC and each College to be audited for the FY23 ACFR to tie to the 6510/3210 amounts on the March 2023 expenditures & revenue AFRS reconciliations provided by Sue Willis. We ran pivot tables and filtered the ctcLink queries for March (period 9) and omitted fund 790, 840 & 841. We cross walked the GL accounts to AFRS GL accounts using vlookups from the "**COA Crosswalk"** tab and ran pivot tables of that data. We compared the amounts to our WebI Report for 6510/3210 (which we tied to Sue's reconciliations above). See "College verification" tab and "College AFRS tie out" tab here for more detail: [KC1 CTCLINK to AFRS reconciliation March 2023]. Results are outlined below:

REVENUE				
Business Unit	**College Name**	**QFS_GL_ACCT_ANALYSIS**	**SBCTC Recon/AFRS 3210**	**Difference**
WA000	SBCTC	(653,830.26)	(653,830.26)	-
WA060	SEATTLE	(14,723,304.10)	(14,723,304.10)	-
WA080	BELLEVUE	(13,084,716.55)	(13,084,716.55)	-
WA170	SPOKANE	(7,581,696.38)	(7,581,696.38)	-
EXPENSES				
Business Unit	**College Name**	**QFS_GL_ACCT_ANALYSIS**	**SBCTC Recon/AFRS 6510**	**Difference**
WA000	SBCTC	3,394,087.62	3,394,087.62	-
WA060	SEATTLE	21,170,554.45	21,177,459.41	(6,904.96)
WA080	BELLEVUE	14,925,753.14	14,925,757.74	(4.60)
WA170	SPOKANE	25,635,137.18	25,635,137.18	-

No differences were identified during confirmation of revenue amounts cross walked to AFRS GL3210 from CTCLink.

Minor differences were identified at the sub object level in GL amounts at Seattle and Bellevue Colleges during confirmation of expenditure amounts cross walked to AFRS GL6510 from ctcLink.

The difference amounts to .011% of the $61.7 million of expenditures confirmed. **We have determined no further control work is necessary for key control 1.**

Noted Weaknesses are as follows:

None.

2. Preliminary Control Risk Assessment
Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test of Key Manual Control:
Not applicable - we are not planning to rely on controls and therefore do not need to test controls; control risk will be assessed at maximum.

I.1.PRG - State Board for Community and Technical Colleges

Procedure Step:	Key Control #3 (Manual) - Year End Consolidation & Reconciliation
Prepared By:	MEC, 9/27/2023
Reviewed By:	RKM, 9/27/2023

Record of Work Done:

Key Control #3 (PeopleSoft/ctcLink) - Manual - Valuation, Completeness, Occurrence, Classification:

After all year-end adjustments have been made, the System ctcLink Accounting Coordinator will perform the reconciliation between ctcLink and AFRS, to ensure that the amounts entered in ctcLink by the individual colleges are accurately recorded in AFRS and that the balances are complete.

The understanding for this system is documented above in the "Controls - ctcLink system reconciliation" step.[Controls - ctcLink System Reconciliation]

2. Key Manual Control Confirmation:

We met with Sue Willis, SBCTC System ctcLink Accounting Coordinator, on September 26, 2023 to walk through her year-end ctcLink to AFRS reconciliation of the consolidated Agency 699 general ledger data for all 30 Colleges and the SBCTC. Sue provided us with several large excel files and a word document that contained notes about the consolidated data and the reconciliation she performed during the month of September 2023. Sue reconciled Consolidated College & SBCTC General ledger data by GL, By Fund, and by source of revenue and subobjects as outlined below.

To document the information below, we condensed the final year end reconciliations provided by Sue into one excel document due to file size and omitted the linked data sets. See the condensed reconciliation here: [SAO Condensed - SBCTC FY23 Year End Reconciliations]

Year End Data Consolidation & Reconciliation Process and results:

Data used in balancing CtcLink (PeopleSoft) to AFRS entries comes from the following:

CtcLink Query: QFS_FS_SAO_JRNL_ZERO_SUM_GL

We were provided the original excel report file used to compile the College and SBCTC data for agency 699 by business unit. The parameters were listed at the top of the report - It was run for all business units for fiscal year 2023 from period 1 to period 132 for all funds. This report uses the CEMLI process to convert CtcLink data to AFRS equivalents by GL, Fund, AFRS source of Revenue, and AFRS Subobject as described in our control understanding.

AFRS Data Extract:

This report from AFRS contained data from fiscal months 13-25 and had columns for appropriation index, fund, program index, subobject, major group, major source, subsidiary account, debit/credit indicator, batch type, batch number, current doc number, GL account, transaction code, amount and process dates.

Sue created a tab with a pivot table with rows for each GL account and columns for batches AO, BE, RC, SW and Y1. Sue explained that data in AFRS that is equal to ctcLink batches are contained in these batch numbers. Each batch's amounts were totaled by GL.

There was another tab that contained a pivot table for batch type "I9" and listed GL's 1319, 2220, and 9920. The grand totals for all GL's by batch type I9 was zero.

There was another tab that contained a pivot table with columns for batch types "02", "TA", "TB", TC", "TD", and "TE" which were totaled by GLs 1319, 4310, 7110, 7120, and 7140. The grand totals were all zero by batch and GL. Sue explained that GL 4310 in PeopleSoft is cross-walked to 71XX in AFRS for state funds and 1110 for fund 840/790.

There was another tab that contained a pivot table with columns for batch types "AP" & "BP" for GLs 1319 and 7120. The amounts and totals were all zero.

The last tab was another data extract from AFRS that contained all batch types by variable GL used to generate the pivot tables on the preceding tabs.

Sue let us know that the AFRS data had one adjustment in that GL71xx was converted to 1110 for comparison to the PeopleSoft as PeopleSoft does not use 71xx in the query output.

Next, Sue combined the pivot tables from the CtcLink Query: QFS_FS_SAO_JRNL_ZERO_SUM_GL and the AFRS Data Extract tab with each GL account grand totals for batches AO, BE, RC, SW and Y1. She provided us with this spreadsheet, titled AFRS REC-FINAL-PS & AFRS DATA COMBINED.

The first tab was "P1-GL Rec-excludes 790 &840", which contained a pivot table that combined both the AFRS and CtcLink query reports and compared amounts by fund and GL on columns "A" through "D".

Sue added a 5th column "E" to calculate the variance between the ctcLink data and the AFRS data.

Sue also added Columns "F" through "P" which identified what the variances were and the actions taken to correct them.

Column "Q" was titled "Final PS-AFRS Variance" which totaled columns "E" through "P" by fund and GL - 1141 rows.

Preadjustment variances were noted on the reconciliation and explanations were provided by Sue:

An entry was made due to OFM's opening entry for moving revenue from fund 790/840 to other funds. The adjusting entry was placed in GL's 1319, 3210, and 5111.

OFM entry to correct a prior year adjustment. The PeopleSoft entry should have been processed as an adjusting entry, but because of the timing, OFM backed out the prior year entry and created a variance. The amount in AFRS is correct and the variance is adjusted to reflect that difference.

At the end of FY23, the remaining balances that were in AFRS GL 1350 and 5150 were zeroed out with transfers to 1312 and 5111. PeopleSoft still has a few business units with entries in these GL's that are not in perfectly balanced due to business units using the account in appropriately. As the business units zero out the amounts in PeopleSoft, they will be cross-walked to 1312 and 5111 for AFRS reporting for the FY24 fiscal year.

FY22, balances for 1355 and 5155 were transferred in AFRS to 1312 and 5111 with the anticipation that they would be cleared in FY2023. The variances in this column document those variances.

GL 4310 in PeopleSoft is cross-walked to 71XX in AFRS for state funds and 1110 for fund 840/790.

Crosswalk for equity GL's does not match equity GL in AFRS. These need to be changed to match for items such as inventory entries and long term interfund loan entries.

GL 1510 is not permissible in fund 001. Business unit did not correct this error by year end and the entry was entered into AFRS as 1383.
AFRS only correction for balancing COP entries and clearing AFRS error report. Transferred 3221-0807 to 3210-0499. Since the both accounts are revenue accounts and close to equity and the correction could not be made by the business unit, an AFRS adjustment was processed and no other corrections will need to be made.
FY22 – an AFRS adjustment was made to balance 5153 by moving a transaction to 5111.
AFRS adjustment to balance 1312-1354 and 5111-5154 entries to the PeopleSoft balances. These appear to have a variance, but that is in part to having reported 1354 and 5154 as 1312 and 5111 due-to PeopleSoft not "requiring" a subsid until recently. PeopleSoft corrected this issue during FY23 to ensure that the account will require a subsid going forward.
A rounding error between 5175 and 5275 in fund 443 leaves a variance of .01 between the two GL's. OFM requested that we leave the entry as is and it will be addressed during further reconciliation efforts.

The next tab on the reconciliation sheet was the data used to drive the pivot table on the first tab (from the CtcLink Query: QFS_FS_SAO_JRNL_ZERO_SUM_GL)

The GL reconciliation grand totals for AFRS and ctcLink were zero (including the adjustment columns that moved amounts to the correct ledger as identified by Sue and OFM)

<u>Expenditures Reconciliation:</u>

The next tab on the reconciliation sheet was "P2- SO Recon" which was a <u>Sub-Object Reconciliation</u> between the AFRS report and CtcLink query expense accounts that convert to GL65xx in AFRS. Sue let us know that it excluded 790 & 840 as they do not have 65xx expenditures. This recon was set us much in the same way as the GL report, but by fund for GL 6510 through 6591 by sub object. It compared any variances in column "F" with two additional columns added by Sue for explanations. The Final PS- AFRS Variance was calculated in column "I".

Sue provided us with explanations for the pre adjustment variances:

Identified in subobject EY and NZ in fund 145, 443, and 570: AFRS adjustments to transfer amounts balance T transfers and correct propriety T transfers that should have been processed using sub-objects, and as AFRS adjustment to correct support of ctc-Link system.

The next tab on the reconciliation sheet was the data used to drive the pivot table on the sub object 65xx reconciliation.

The subobject reconciliation grand totals for AFRS and ctcLink were zero (including the adjustment columns that moved amounts to the correct subobjects or funds).

<u>Revenue Reconciliation:</u>

The next tab on the reconciliation sheet was titled "P3-Revenue Recon" also excluded 790 & 840 as they do not have 32xx revenues. This tab compares the revenue amounts in ctcLink accounts compared to AFRS entries for Fiscal Year 2023 in revenue accounts 32xx. Columns A through F is the product of a pivot table sourced from the next tab.

Column G calculates the variance between PeopleSoft and AFRS prior to any adjustments, Column H through J explain any variances and actions taken to correct them, and column K calculates the final PS AFRS Variance.

Sue provided us with explanations for the pre adjustment variances:

AFRS adjustments due to opening entry transfer from fund 790/840 to other funds. OFM used 1319/3210 and 3210/5111 to make the adjustments and then we need to remove the current year entries from the data to zero out the effects.

AFRS adjustment moved 04 50 revenue reported in non-proprietary funds as 04 16 to allow for reporting. No adjustment will be processed as these will close to equity and the amounts reported are immaterial.

AFRS only correction for balancing COP entries and clearing AFRS error report. Transferred 3221-0807 to 3210-0499. Since the both accounts are revenue accounts and close to equity and the correction could not be made by the business unit, an AFRS adjustment was processed and no other corrections will need to be made.

The source of revenue reconciliation grand totals for AFRS and ctcLink had a variance of $4.7 million, which was broken down in the columns by fund, GL and source of revenue - all occurring in source 0499 "Other Revenue" and explained as opening entry adjustments made through OFM. The final variance after all adjustments was zero.

<u>Reconciliation of Agency Funds 790 & 840 by GL</u>

The next tab on the reconciliation sheet was titled P4 - Rec 790 - 840, which compares the amounts in ctcLink/PeopleSoft to AFRS entries for Fiscal Year 2023. Columns A through G is the product of a pivot table. Column H calculates the variance between PeopleSoft and AFRS prior to any adjustments. There were several large variances on this reconciliation, however they all netted to zero before adjustments and the final variance in column Q was zero.

Sue provided us with explanations for the pre adjustment variances:

FY23 – AFRS adjustment to transfer 1350-5150 to 1312-5111. They will manually crosswalk any remaining PeopleSoft amounts during FY2024.

FY22 – AFRS adjustment transferred 1355-5155 to 1312-5111. Manually cross-walked any FY23 entries to correct GL during FY23.

GL 4310 in PeopleSoft is cross-walked to 71XX in AFRS for state funds and 1110 for fund 840/790.

AFRS adjustment to balance 1312-1354 and 5111-5154 entries to the PeopleSoft balances. These appear to have a variance, but that is in part to having reported 1354 and 5154 as 1312 and 5111 due-to PeopleSoft not “requiring” a subsid until recently. PeopleSoft corrected this issue during FY23 to ensure that the account will require a subsid going forward.

GL 1383 is cross-walked to 1319 for AFRS reporting in funds 840 & 790.

GL5190 is cross-walked to 5111 for AFRS reporting in funds 840 & 790.

GL 32xx is cross-walked to 5199 for AFRS reporting in fund 790.

GL65xx is cross-walked to 5199 for AFRS reporting in fund 840.

Additional CtcLink to AFRS Reconciliations performed:

Additional reconciliations for GL 1354 and GL 5154 by fund, State Operating Allocations and Capital Allocations were also provided to us. We documented copies of these as well in the SAO condensed recon linked above.

We also received an excel document of a detailed review of fund 840 FY24 Opening entries for Peoplesoft/ctcLink and AFRS. Sue included this because of the process SBCTC and OFM used to balance funds 790 & 840 FY2023. She wanted to ensure that fund 840 balanced between PeopleSoft and AFRS -as these should be equal to the fiduciary balances that remained.

We determined that SBCTC is consolidating and reconciling the ctcLink General Ledger data by fund with AFRS balances at year end, and working directly with OFM to resolve differences before the AFRS adjustment periods close.

Noted Weaknesses are as follows:

None.

2. Preliminary Control Risk Assessment

Based on our understanding and anticipated audit strategy, we assessed preliminary control risk as follows:

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

3. Control Risk at LOW - Test of Key Manual Control:

Not applicable - we are not planning to rely on controls and therefore do not need to test controls; control risk will be assessed at maximum.

I.1.PRG - State Board for Community and Technical Colleges

Procedure Step: Risk Assessment

Prepared By: MEC, 8/16/2023

Reviewed By: RKM, 11/6/2023

Record of Work Done:

1) Inherent Risk (IR):

Based on our understanding of the line item, we assessed inherent risk as follows for each relevant assertion and significant class of transactions:

Existence/Valuation/Completeness/Classification/Occurrence – **MAX**

(2) Control Risk (CR):

As documented in other steps, we assessed control risk as follows for each system and relevant assertion:

ctcLink System: A Reconciliation is performed to ensure that consolidated college & SBCTC financial data uploaded from ctcLink is complete, properly valued and recorded into AFRS correctly.

Existence/Occurrence/Valuation/Classification/Completeness – **MAX**

(3) Risk of Material Misstatement (RMM):

We considered both inherent and control risk and assessed the risk of material misstatement as follows for each relevant assertion and significant class of transactions:

Existence/Valuation/Completeness/Classification/Occurrence – **MAX**

(4) Testing Strategy:

We designed our substantive testing strategy based on our assessment of the risk of material misstatement.

We will review the year-end ctcLink/AFRS data consolidation, conversion, and reconciliation to determine if variances exist between AFRS amounts reported for agency 699 and the consolidated SBCTC and College ctcLink System data.

Auditor Update: We will use the small population substantive testing spreadsheet from the TeamStore to randomly select Colleges for testing their General Ledger data against the SBCTC reconciliation data.

Auditor Update: We will review the Exception Reports for balances specifically related to SBCTC

We anticipate that these tests will provide sufficient appropriate audit evidence to address the assessed risk of material misstatement for relevant assertions in significant classes of transactions.

State of Washington

Procedure Step: Substantive Test
Prepared By: MEC, 11/14/2023
Reviewed By: SHW, 11/22/2023

Record of Work Done:

Substantive tests performed to meet the Existence, Valuation, Completeness, Occurrence, and Classification assertions:

We will verify that consolidated year end reconciliation amounts for colleges and the SBCTC agree to AFRS agency 699 totals to identify any variances.
See AFRS Enterprise reports and SBCTC reconciliation tie outs by sub object and source of revenue here: [SBCTC Recon Data Testing- Subobject/Source of Rev Tieouts]
See Randomly Selected College GL Data Testing here: [FS Sampling: College GL Data Testing]
See Occurrence & Completeness testing of the SBCTC reconciliation data here: [Occurence & Completeness]
See background information regarding Agency funds 840 & 790 and SBCTC/College specific transactions here: [Background Information for Testing]

1. We compared SBCTC's FY23 consolidation and reconciliation spreadsheets to OFM ending FY23 Enterprise Reports by sub object and Source of Revenue here: [SBCTC Recon Data Testing- Subobject/Source of Rev Tieouts]

Existence/Valuation/Classification
Revenue & Expense
To test valuation and existence we ran year end reports from Enterprise Reporting (ER) on the OFM web site for GLs 3210 and 6510. We created pivot tables from the ER reports, by sub object for GL 6510 expenses, and by Source of Revenue for GL 3210; omitting fund 840 from the ER reports. We also created pivot tables from the SBCTC reconciliation data provided to us by Sue Willis [SAO Condensed - SBCTC FY23 Year End Reconciliations] in order to compare to the amounts extracted from ER. We tested to confirm that ER tied to the reconciliation and that any adjustments noted in the SBCTC expense & revenue reconciliations either netted to zero or were supported by adjustment documentation from OFM. See "ER Subobject 6510 Tieout" and "ER Revenue 3210 Tieout" tabs of the testing spreadsheet: [SBCTC Recon Data Testing- Subobject/Source of Rev Tieouts].

There were no variances noted for GL 6510 by sub object. However, for GL 3210 we noted the same variance as was noted by SBCTC in source 0499. The variance was $4.7 million and it was noted on the SBCTC reconciliation as an adjustment by OFM as an opening entry adjustment to distribute 790/840 agency funds, which we verified by reviewing supporting emails and related journal entry support between SBCTC and Kelly Diaz, Statewide Accountant (OFM). Kelly Diaz instructed the SBCTC to make the entry to offset the correcting entries that OFM made to adjust equity accounts for disclosure reporting. ***No issues noted.***

Completeness/Occurrence
To test for Occurrence & Completeness, we used the data tab from the SBCTC FY2023 Year End consolidation & reconciliation here [SAO Condensed - SBCTC FY23 Year End Reconciliations]. We copied the columns containing the fiscal period for both AFRS and ctcLink, the journal source, the district or college business unit, and the AFRS agency numbers and created pivot tables to use in our testing spreadsheet. We created a list of Colleges by district identifier, fiscal year period, and amount in columns A - C. We verified that ctcLink periods 1-132 were represented in the reconciliation data for each college in column D. We created a crosswalk table of Colleges by business unit, agency code, and name from the SBCTC reconciliation in columns E - G. We verified that all colleges and the SBCTC were represented in the Reconciliation provided to us by SBCTC in column H. We tested to confirm that all the Colleges and the SBCTC were present in the reconciliation data for all periods (1-132) occurring in FY23. See testing here: [Occurence & Completeness].

We verified that all the colleges and the SBCTC were included in the FY23 year end AFRS reconciliation provided to us by Sue Willis. Also, we determined that all ctcLink and AFRS periods in FY23 were included in the SBCTC FY23 year end ctcLink/AFRS reconciliation. ***No issues noted.***

2. We used the small population substantive testing spreadsheet from the TeamStore to randomly select Colleges for testing their FY23 General Ledger data against the SBCTC reconciliation data here: [FS Sampling: College GL Data Testing**]**

Existence, Valuation, Completeness, Occurrence, and Classification
Small Population Substantive Sample: We used the small population sampling spreadsheet from the TeamStore to randomly select Colleges from the list of 31 colleges as listed from the occurrence & completeness testing we performed on the SBCTC reconciliation. Our tolerable misstatement rate was set at 7.5% with high assurance, which gave us a planned sample size of 9. We used the random number generator to randomly select 9 colleges from the list.

Due to the various general ledger amounts that we intended to test, we used four small population substantive testing spreadsheets to test Revenue GLs 32xx, Expense GLs 65xx, Cash GLs, and Capital Assets, Net GL amounts in order to set a quantitative threshold for extrapolation of any variances we identified.

- We tested and compared College ctclink GL groupings by AFRS revenue accounts (32xx), AFRS expense accounts (65xx) as reported by the College's ending GLs for FY23 to the SBCTC reconciliation amounts, and to the SBCTC provided Community College ACFR Database to identify any variances.
- We tested and compared College GL groupings by Capital assets, Net GL accounts, and Cash/Equivalents as reported by the College's ending GLs for FY23 to the SBCTC provided Community College ACFR Database to identify any variances.

Automated Control Testing was included in this testing to confirm that the automated CEMLI process utilized by SBCTC to convert data from ctcLink College General Ledger Data was properly converting ctcLink amounts to AFRS account coding. See our confirmation here: [Key Control #1

(Automated) - CEMLI conversion of CtcLink data to AFRS account coding]

We ran a ctcLink QFS_GL_ACCT_ANALYSIS query for each college selected using SAO ctcLink system access provided by SBCTC. We converted the ctcLink account coding to AFRS coding using VLookup formulas in excel and the SBCTC COA Crosswalk.

- We tested to confirm that amounts from the SBCTC reconciliation agree to the revenue and expense amounts from the College ctcLink GL **(Valuation/Classification)**
  - We identified one variance that we traced to an adjustment. ***No issues noted.***
- We tested that all expected College GL information was included in the SBCTC reconciliation and the Community College ACFR Database **(Existence/Completeness)**
  - We tied amounts by general ledger using pivot tables from both the CC ACFR Database and the SBCTC reconciliation and identified that all expected general ledgers were represented in our data for the selected colleges.
- We tested that the ctcLink College GL information agreed with the Community College ACFR Database amounts by College that we obtained from the SAO IT team **(Valuation/Classification).** We tested the following AFRS GLs:
  - Cash & Equivalents: 1110, 1120, 1130, and 1206
  - Capital Assets, Net: 2110 - 2510
  - Expense: 6510 - 6597
  - Revenues: 3210 - 3221
    - Rounding variances were noted in the cash & equivalents, capital assets, and revenue GL amounts. We identified a minor differences in expense for 1 of the 9 Colleges selected. We traced the $208 amount to an SBCTC adjustment for subobject AK which was in the college GL as payroll suspense. Misstatement (known & likely) was below the floor. ***No issues noted.***

Testing Tabs with Details/Procedures Outlined:

- **"Summary" Tab:** This tab summarizes all General ledger information obtained from the other tabs, and compares them for variances and testing conclusions.
- **"Small Pop Substantive Sample" Tabs (by general ledger category):** These tabs describe and document our substantive test attributes, population completeness, exceptions, and misstatements by general ledger category identified, and notes any issues we identified during testing. Any variances are noted as a known misstatement and extrapolated to note any likely misstatements.
- **"CC ACFR DB Summary" Tab:** This tab contains the Trial Balance Query data copied from the Community College ACFR Database that we obtained from the SAO IT team, which contained SBCTC provided data converted from ctcLink to AFRS coding using the SBCTC automated CEMLI process.
  - Using the data, we created pivot tables for each of the 9 colleges selected for testing for the AFRS general ledger categories: Cash, Capital Assets, Net, Expense, and Revenue. We filtered our pivot tables by GL and amount, and filtered by fund to remove Agency Funds 790 and 840 for revenue and expense GLs. We included all funds in the Cash and Capital Assets, Net GLs as those are included in AFRS amounts.

The amounts from all of the pivot tables are summarized on the "**Summary**" tab in the table for comparison with amounts calculated from the other tabs.

"College GL Summaries" Tab: This tab documents the FY23 general ledger information we obtained from running the QFS_GL_ACCT_ANALYSIS query for each college selected. We ran a pivot table by GL, GL description, and amount and used Vlookups from the COA Crosswalk tab to convert the ctcLink information to AFRS coding.

The amounts from all of the pivot tables are summarized on the "**Summary**" tab in the table for comparison with amounts calculated from the other tabs.

"SBCTC REV Data Tab recon" Tab: This tab contains the data from the SBCTC ctcLink to AFRS reconciliation for Revenue Accounts [SAO Condensed - SBCTC FY23 Year End Reconciliations]. We ran pivot tables from the data we copied and filtered by college and ctcLink periods 1-132 to obtain the general ledger amounts by college in AFRS GLs to compare to SAO converted amounts by GL from the College GL summaries tab.

We used the information to confirm the automated CEMLI control and to compare with the ACFR database amounts on the "**Summary**" tab.

"SBCTC REV Data Tab recon" Tab: This tab contains the data from the SBCTC ctcLink to AFRS reconciliation for Expense Accounts [SAO Condensed - SBCTC FY23 Year End Reconciliations]. We ran pivot tables from the data we copied and filtered by college and ctcLink periods 1-132 to obtain the general ledger amounts by college in AFRS GLs to compare to SAO converted amounts by GL from the College GL summaries tab.

We used the information to confirm the automated CEMLI control and to compare with the ACFR database amounts on the "**Summary**" tab.

"COA Crosswalk" Tab: This tab documents the ctcLink chart of accounts crosswalk to AFRS that we obtained from the SBCTC web site and utilized to convert the college ctclink GL information using VLookups to AFRS GLs, sources of revenue, and subobjects.

Columbia Basin Error: During our testing, we identified that one of the randomly selected college's General Ledger contained irregularities in Capital Assets, net GL accounts and depreciation expense. The amounts were identified while compiling our pivot tables from the CC ACFR Database which documented the GL totals for each college in columns on the CC ACFR database tab. The depreciation expense amounts in AFRS GL 6591 for 8 of the 9 colleges were between $2.2 million and $9 million, so the $55.9 million in depreciation booked by Columbia Basin in ctcLink Account 5070040/ AFRS GL 6591 was identified as a potential error based on a comparison with the other selected colleges AFRS GL 6591 amounts. We also compared the capital assets and accumulated depreciation amounts in Columbia Basin's GL and noticed that the accumulated depreciation in some of the accounts exceeded the value of the assets being depreciated, so we investigated this further to determine if it was an error.

We identified that the amounts in the College GL tied to the SBCTC Reconciliation and the CC ACFR database**.** We determined this during the substantive testing outlined above, and documented during controls that SBCTC requires the colleges to resolve errors using SMARTER reports [SMARTER Queries] monthly and at year end. The related SMARTER reports for depreciation, Series #207A-C, identifies whether or not depreciation has been booked but does not test the depreciation amounts for reasonableness. Once the College booked depreciation, the

SMARTER error was resolved even though the amount was not correct or reasonable.

We identified that the College GL contained accumulated depreciation amounts that exceeded the value of the assets being depreciated and we identified that the College GL showed depreciation expense of $55,925,644 in ctcLink Account 5070040/ AFRS GL 6591 sub object "WA".

To follow up on this, we reached out to both the SBCTC and Columbia Basin College to confirm that this was an error and ascertain how it happened. The response from the SBCTC was that their "charter is to advocate, coordinate, and direct Washington state's system of public community and technical colleges. They do try and provide as much information and suggestions as possible to the colleges. If transactions are made that do not follow state requirements, they kick those back to the colleges to correct. Sue's responsibility is to make sure what is on the colleges books is accurately reflected in AFRS only. During the year end process with OFM, they review our aggregated numbers and ask questions. We take those questions and figure out what college or colleges have data that is being questioned, and then ask them for additional information for OFM. If OFM comes back and asks for something to be changed, we pass that information on to the colleges for them to complete".

Kim Brown, Director for Accounting Services & Controller, at Columbia Basin College confirmed that it was an error made on their part due to a new staff, a new system, and a new director. They booked total lifetime depreciation totals for assets rather than the annual totals from their direct line report which created the GL irregularities noted in the pivot tables above. Kim let us know that they will be switching from direct line to the ctcLink asset management system, plan to use this error as a training opportunity, and work with SBCTC to correct the balances in the ctcLink accounts.

We used the Columbia Basin Direct line report to calculate the correct depreciation adjustments to the associated general ledger accounts in order to quantify the error. We identified that the beginning balances for Capital Assets, Net at Columbia Basin College did not tie to the Directline report, with various differences noted. We added this information to the FAWF for Columbia Basin College. See "Columbia Basin Issue" for details here. [Columbia Basin Issue]

We determined that AFRS Agency 699 consolidated reported amounts for Capital Assets, Net is understated by approximately $55.7 million.
We determined that AFRS Agency 699 consolidated reported amounts for Depreciation expense in AFRS GL 6591 is overstated by approximately $55.7 million.

We noted this as an audit issue here: [E: CBC Error in Columbia Basin College's General Ledger**]. See AOM link in the conclusion.**

3. We reviewed the Exception Reports for balances specifically related to SBCTC: [Unchanged and Questionable Balances**].**
We identified the following questionable balances related to SBCTC:

General Ledger Accounts with Unchanged Balances

SBCTC did not reconcile $10,601,757 in due to/from activity during their reconciliation of ctcLink data to AFRS.

Assets with negative balances

Account 001 GL 1319 Other Receivables $3,452,926
Account 060 GL 1206 Investments with LGIP $1,808,875
Account 846 GL 1110 Cash in Bank $12,158,063
Account 790 GL 1110 Cash in Bank $29,636,220
Account 790 GL 1205 Temporary/Pooled Cash $7,607,876
Account 790 GL 1318 Unbilled Receivables $1,286,611

Liabilities with negative balances

Account 145 GL 5111 Accounts Payable $5,968,919
Account 145 GL 5181 Employee Insurance Deductions Payable $1,971,137
Account 846 GL 5190 Unearned Revenues $1,645,675

We followed up with SBCTC and they agreed with OFM's comments regarding these balances. They will work with OFM and the colleges to correct these balances during FY24. **See issue here: [**V: SBCTC_Unchanged and Questionable Balances (Part of ML) See ISS.32**]. See AOM link in the conclusion.**

I.2.PRG - Community & Technical Colleges Testing - Seattle

Procedure Step: Summary & Conclusion

Prepared By: RKM, 11/3/2023

Reviewed By: RKM, 11/8/2023

Record of Work Done:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?

The results of substantive tests do not indicate a need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
The quality and quantity of evidence obtained was sufficient and appropriate.

I.2.PRG - Community & Technical Colleges Testing - Seattle

Procedure Step: Cash and Pooled Investment_Controls
Prepared By: RKM, 11/3/2023
Reviewed By: SHW, 11/3/2023

Record of Work Done:

Material Balances and Assertions:

Internal controls in the Community and Technical College System address the following balances:

Higher Education Special Revenue Fund - Cash and Cash Equivalents - Existence
Higher Education Student Services Fund - Cash and Cash Equivalents - Existence

See lead sheet here: [Lead Sheet]

1. Gain an Understanding of Internal Controls

Cash & Bank Reconciliation

We met with Kyoko Connolly, Accountant, on 9/27/2023 to discuss the bank reconciliation process at Seattle Colleges to gain an understanding of key controls. Their bank reconciliation process changed in February of 2021 with the implementation of the ctcLink system. They used to have a monthly reconciliation to the Bank of America account completed with no issues. The new system has presented many challenges and they are very behind in the monthly bank reconciliations. The new system has a daily reconciliation process where they are uploading monthly bank reports into the system for reconciliation with the Student Financials, AR, and AP modules. They use monthly GL Queries filtered by month to compare GL Account 1000070 (cash in bank) to the information in the bank statement transaction by transaction **(Key Control #1 - Existence).** The student financial module has the most transactions to reconcile to and they do this by item type. Any variances identified are reported back to the department responsible for adjustments to be made to correct the balance.

Investment Reconciliation

Kyoko Connolly downloads the investment statements from the respective websites for the LGIP investments and the bond investment. She compares the activity to all GL activity during the month as part of the investment reconciliation **(Key Control 2)**. She performs the calculation for the current interest revenue and records that amount through a JV. The Executive Director of Finance will review and approve the JV before it is posted. During FY23, Kyoko stated that the bond held with US Bank matured in December 2022 but the cash and investment accounts were not adjusted due to staff shortage. We will determine the misstatement related to this during testing at: [Cash & Investments].

Petty Cash Reconciliation
Kyoko Connolly requests the cash balance reports annually from each department that has petty cash on hand. There are 23 cash locations across the three campuses. Kyoko will compare these balances to what is recorded in the GL. If there are variances, she will research the cause and make adjustments to correct the differences.

Reconciliation Review
Before the conversion to ctcLink, the director would review the monthly bank reconciliation and the controller would sign off on it. Per Kyoko, there has been no review done by their current Executive Director of Finance, Davina Fogg **(Key Control 3)**. Kyoko stated that she will work to re-establish the process of monthly review of the bank reconciliations. Kyoko indicated that they are still researching variances and matching transactions. They are working with SBCTC on the unreconciled items. The June 2023 Bank reconciliation is not complete at this time but Kyoko stated that she will have it prepared by 10/6/2023 for testing.

Summary of Key Controls:
Key Control #1 (Existence): The College uses system reports to reconcile to the bank statement transaction by transaction.
Key Control #2 (Existence): The College performs a year-end investment reconciliation.
Key Control #3 (Existence): The monthly bank reconciliation is reviewed and approved by the director.

Noted Weaknesses are as follows:
None.

2. Confirm Understanding

Key Control #1 (Existence): The College uses system reports to reconcile to the bank statement transaction by transaction.
We obtained the June 30, 2022 reconciliation prepared by Kyoko Connolly, Accountant. We noted that there was an amount of $139,263 in the "Other Reconciling Items" category that referenced a tab titled "Discrepancies". The list of discrepancies between book and bank showed deposits and withdrawals from various years that could not be reconciled between book and bank. We determined the College is performing a reconciliation at year-end to ensure existence of cash.

Key Control #2 (Existence): The College performs a year-end investment reconciliation.
There was no investment reconciliation performed during FY23 due to staff shortage. This control procedure was in place, but not performed

during FY23. See issue at: [V: Seattle_Year-End Bank and Investment Reconciliations].

Key Control #3 (Existence): The monthly bank reconciliation is reviewed and approved by the director.
The Executive Director of Finance did not review the bank reconciliations for the current year. This control procedure was in place, but not performed during FY23. See issue at: [V: Seattle_Year-End Bank and Investment Reconciliations].

3. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

4. Control Risk at LOW - Test Key Controls

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

5. Final Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

I.2.PRG - Community & Technical Colleges Testing - Seattle

Procedure Step: Cash and Pooled Investments_Testing

Prepared By: CJM, 11/2/2023

Reviewed By: RKM, 11/2/2023

Record of Work Done:

Material Balances and Assertions:

Higher Education Special Revenue Fund - Cash and Cash Equivalents - Existence
Higher Education Student Services Fund - Cash and Cash Equivalents - Existence

Controls are documented in the Cash and Pooled Investments_Controls step.

Substantive tests performed to meet the Existence assertion:
See testing at [Cash & Investments]. We obtained June 30, 2023 month-end reconciliation, bank/investment statements, petty cash spreadsheet, and petty cash counts from Kyoko Connolly, Accountant, to verify existence of cash and pooled investments as of 6/30/2023.
We obtained the June 30, 2023 accounts receivable consolidated report, bank statements, and reconciliation. We also obtained July 2023 Bank statement to verify deposits in transit and outstanding checks. We tested for existence by ensuring that reported balances existed at fiscal year end, are on hand and in the name of the college, and agree to actual amounts in existence at the bank.

We were able to tie all June 30th deposits in transit to the July 2023 bank statement. **No issues noted**

We selected 38 samples to test for outstanding checks. We noted that 12 of the 38 samples we tested found outstanding checks past 180 days which is not in compliance with SAAM 85.38.40.a(2). **See issue here** [].

I.2.PRG - Community & Technical Colleges Testing - Seattle

Procedure Step: Depreciable Capital Assets_Controls

Prepared By: DRR, 11/2/2023

Reviewed By: RKM, 11/3/2023

Record of Work Done:

Material Balance and Assertions:
Internal controls in the Community and Technical College System address the following balance:

Governmental Activities - Depreciable Assets (Net of Accumulated Depreciation) - Existence, Valuation

See lead sheet here: [Lead Sheet]

1. Gain an Understanding of Internal Controls
We met with Terri Plischke , CtcLink Finance Pillar Lead, on 9/28/2023 regarding controls over depreciable assets. Terri explained that all assets

(except small and attractive) have been migrated from DirectLine to CtcLink's Asset Manager module. All assets were migrated to CtcLink as of the "Go Live" date for Seattle College but opted to use DirectLine to manage their assets. The State Board determined that all colleges were to use CtcLink as their main system for assets. Because of this, Terri prepared a reconciliation from June 2022 to May 2023 between DirectLine and CtcLink's Asset Manager. This was completed in May 2023 before current year additions and depreciation were entered into the system. Per Terri, the addition, disposal, and depreciation adjustments were previously done annually under the DirectLine system. Departments would provide fixed asset reporting forms for any additions or disposals made within the last couple months of the fiscal year, to be input by the following employees:

Migel Gatmaytan, Purchasing Manager - Equipment
Michelle Nguyen, Accountant - Building, CIP, & Library

She noted that the College will begin to record assets and depreciation on a monthly basis, beginning FY2024.

Additions:

Equipment/Library Resources

Equipment/library resources go through the standard purchase requisition process. The process begins with the normal purchase order process that is used for all purchases. In addition to this the requestor will fill out a fixed asset reporting form with the equipment information including PO number, PO date, state tag, equipment description, and commodity code. Once the asset is confirmed as being received, the equipment acquisition section of the asset reporting form is filled out with the date received and asset location. This form is provided to Migel Gatmaytan, Purchasing Manager, or Michelle Nguyen, Accountant, who will add the asset into the Asset Module (AM) in CtcLink using the invoice for asset cost. They review all information on the form for accuracy to ensure it has the correct commodity code (**Key Control 1 - Equipment Additions**). This process was performed between May 2023 - June 2023, after the DirectLine to CtcLink reconciliation was complete.

Buildings and Improvements

Buildings and improvements are funded through COP and are usually multi-year budgeted projects. During the construction, Project Managers from each campus approve construction invoices, alongside DES, department capital teams, and VP Administrators, and forward them to Michelle for processing. At the end of the year, Michele runs a query to pull capitalized building expense accounts to review the expenditures. When a building project is completed, the totality of the relevant expenditures will be capitalized from construction-in-process via a journal entry and buildings still under construction will have expenditures added to CIP in CtcLink.

Depreciation

The College relies on CtcLink's calculations for depreciation expense. CtcLink automatically calculates an asset's depreciation based upon manual input of a commodity code (provides service life) and in-service date **(Key Control 2 - DirectLine Depreciation Calculation)**. The service date uses either the occupied date for buildings or investment date for equipment/resources.

Disposals

Disposals are initiated via a request from campus departments to purchasing, after approval from the department. Assets can either be repurposed for use throughout the college or surplused through DES. Miguel handles DES surplusing and submits a request with a listing of assets being sent for surplus. The request is approved by DES and the college is sent a Surplus Authority number. Once the assets are sent and the surplus authority is fulfilled, Miguel will remove the assets from CtcLink. Michelle is responsible for removing building assets when a building is demolished. She works with the college and SBCTC or DES when necessary. Library resources are also removed from CtcLink by Michelle when they are fully depreciated.

Inventory
Per Migel Gatmaytan, the College performs a physical inventory every two years, broken into two rounds. The first round will have Migel and custodians identify as many of the assets as they can for District, Central, North, and South campuses. The second round consists of Migel attempting to locate all assets that were not found during the 1st round. Migel stated that they have completed the first round for the District and North campuses for FY2022-23 and expect to complete the first round for all campuses by January 2024. He said that this inventory has taken longer because of employee turnover without proper transitions.

Controls Weakness:
No reconciliation of the GL to AM.

Summary of Key Control(s):
Key Control 1: Equipment/Library additions are recorded in CtcLink from invoices and fixed asset reporting forms (Existence, Valuation).
Key Control 2: CtcLink automatically calculates an asset's depreciation based upon manual input of a commodity code (provides service life) and in-service date (Valuation).

Noted Weaknesses are as follows:
The College has not been able to reconcile the GL to Asset Management. The unreconciled variance is $2.0M and beneath the floor Seattle Fixed Asset Reconciliatiion **See issue [**V: Seattle GL to Asset Management Reconciliation**]**

2. Confirm Understanding

Key Control 1 - Equipment/Library additions are recorded in CtcLink from invoices and fixed asset reporting forms (Existence, Valuation).
We reviewed invoice #BH38337 sent 7/7/2022 in the amount of $31,746.71 and the fixed asset reporting forms (FARF) associated with the invoice recording asset 1000249. We noted that the total of $31.746.71 was for the purchase of 6 of the same item, for $5,291.12 each. The amount in ctcLink Asset Management (AM) ties to the FARF and the invoice without exception. **No issues noted.**

Key Control 2 - CtcLink automatically calculates an asset's depreciation based upon manual input of a commodity code (provides service life) and in-service date (Valuation).
See confirmation of the automated control at [Depreciable Capital Assets Testing]. **No issues noted.**

3. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

4. Control Risk at LOW - Test Key Controls

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

5. Final Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

I.2.PRG - Community & Technical Colleges Testing - Seattle

Procedure Step:	IT Control Testing_Depreciation
Prepared By:	DRR, 11/1/2023
Reviewed By:	SHW, 11/2/2023

Record of Work Done:

This record may contain information considered exempt from public disclosure under RCW 42.56.420 of the Public Records Act. As such, distribution of this record is limited.

1. Understanding of Automated Key Control:
Material System: CtcLink Asset Manager - Depreciable Capital Assets

Key Automated Control: The CtcLink system automatically calculates depreciation based on the asset information entered: in-service date, commodity code, and asset value.
Our understanding of the overall control is documented as part of our understanding of controls over relevant assertions for ctcLink Asset Manager at the Depreciable Capital Assets_Controls step.

2. Key Automated Control Confirmation and Testing:

We confirmed and tested the key automated control as follows, to determine whether the software calculation correctly valued each transaction:

We tested the same assets selected in our valuation/existence sample. We used a 7.5% tolerable misstatement and a moderate assurance to select and recalculate accumulated depreciation on 7 asset additions (and 7 reductions only to determine removal of asset to zero value) to confirm the automated control and determine whether the software correctly valued each transaction. We used a report from Asset Management (AM) called "Asset Master Log" showing the fields included in the calculation. The fields used in the calculation are useful life, salvage value, asset cost, and in-service date. We then recalculated the accumulated depreciation and tied the amount back to the amount actually posted in AM. See testing at [Depreciable Capital Assets]. We determined that the system is accurately calculating monthly depreciation based on the date entered for sampled items. **This automated control is in place.**

3. Understanding and Testing General IT Controls:

Not applicable - we are not planning to rely on automated controls and therefore do not need to test general controls; control risk will be assessed at maximum.

I.2.PRG - Community & Technical Colleges Testing - Seattle

Procedure Step:	Depreciable Capital Assets_Testing
Prepared By:	DRR, 11/6/2023
Reviewed By:	RKM, 11/7/2023

Record of Work Done:

Material Balance and Assertions:

Governmental Activities - Depreciable Assets (Net of Accumulated Depreciation) - Existence, Valuation

Controls are documented in the Depreciable Capital Assets_Controls step found here [Depreciable Capital Assets_Controls].

Substantive tests performed to meet the Existence assertion:
We used the small population sampling spreadsheet (7.5% tolerable misstatement, moderate assurance) to determine our sample size. We haphazardly selected 7 additions and 7 disposals for testing.

Additions & Reductions Testing:
We tested for the following attributes related to **Existence**:
A = The asset meets OFM capitalization criteria (SAAM 30.20)
B = Acquisition date/disposal date was properly recorded, traced to invoice/disposal form and amount reported represents actual costs that exist of as of the report date.
C = Are assets fairly classified as buildings, CIP, equipment, infrastructure, etc.

See testing at: [Depreciable Capital Assets] tab "2- Existence Valuation". For selected assets, we obtained invoices, fixed asset reporting forms, purchase orders, disposal requests and email documentation from Terri Plischke, ctcLink Finance Pillar Lead.

Our additions testing did not note any issues related to existence. For our disposals testing, the College was unable to locate invoices to support the historical cost for the six library assets. Variance noted is below the floor. See our testing for details.

Buildings Testing:
We used the small population sampling spreadsheet (7.5% tolerable misstatement, moderate assurance) to determine our sample size. We haphazardly selected 11 items to test. We verified all 11 building assets existed by tracing the buildings to North or South Seattle College maps. See testing at: [Depreciable Capital Assets] tab, "3 - Buildings - Existence". **No issues noted.**

Substantive tests performed to meet the Valuation assertion:
See above for sampling methodology.

Additions & Reductions Testing:
We tested for the following attributes related to **Valuation:**
D = The asset is recorded at historical cost as compared to original invoice and all ancillary charges necessary to place in intended location or Asset is properly removed from asset listing, equaling zero value at year end.
E = **IT CONTROL** - ctcLink automatically calculates straight-line depreciation based on asset information entered: in-service date, commodity code, and asset value.

See testing at: [Depreciable Capital Assets] tab "2 - Existence Valuation". See attribute E - IT Control Testing Depreciation ROWD here: [IT Control Testing Depreciation].

Our additions testing found two assets that were depreciated at the incorrect rate due to errors in the selected profile IDs and associated useful life. **See issue in conclusion above.** However, ctcLink is correctly calculating depreciation using the profile IDs that the College selected for the assets. For our disposals testing, the College was unable to locate invoices to support the historical cost for the six library assets. Variance noted is below the floor. See our testing for details.

I.2.PRG - Community & Technical Colleges Testing - Seattle

Procedure Step: Charges for Services_Controls

Prepared By: SBG, 10/29/2023

Reviewed By: RKM, 11/8/2023

Record of Work Done:

This record may contain information considered exempt from public disclosure under RCW 42.56.420 of the Public Records Act. As such, distribution of this record is limited.

Material Balances and Assertions:

Internal controls in the Community and Technical College System address the following balances:

Governmental Activities - Education - Higher Education Charges for Services - Occurrence, Valuation

Higher Education Special Revenue - Charges for Services - Occurrence, Valuation

See lead sheet here: [Lead Sheet]

1. Gain an Understanding of Internal Controls

Software used by community colleges to generate tuition revenue is developed and maintained by State Board of Community and Technical Colleges (SBCTC). Student information is captured in the ctcLink system in Campus Solutions Core module. Tuition is automatically calculated and applied to student accounts within Student Financials (SF). The rates and codes used in the tuition calculation process reside within several key system tables, which are maintained in part by SBCTC and by the local colleges.

On 9/29/23, we spoke with Terri Plischke, ctcLink Finance Pillar Lead, regarding controls over student tuition and fees within ctcLink. The College went live with ctcLink in February 2021.

Admissions & Class Registration
Student can register on-line or at the Registrar's office. Critical information associated with tuition revenue is captured at this point regarding the student's status (i.e. resident, non-resident, veteran, etc.), and this data is posted to the Campus Solutions Core module.

The Registrar's office processes the student applications within Campus Solutions module. When the first billing record is generated for the student (i.e., for admissions or testing fees), an account is created for the student in the Campus Solutions Core module.

Students typically register for classes on-line, but they can also do so in person. Classes are defined within the Campus Solutions Core module. The information captured in Campus Solutions Core during registration will be used in calculating the amount of tuition owed by each student.

A student's tuition and fee liability is recorded in the Campus Solutions Core database when students register for classes, but revenue will not be recognized in the GL until a journal is created in Campus Solutions Core and sent to Student Financials via nightly batch.

At the time of the student enrollment, the Campus Solution module generates the student's class schedule which calculates the tuition and fees to the student's account based on a student's enrollment information (i.e. classes, hours), residency status, and any applicable tuition waivers.

Waivers
There are three types of Waivers:
- Residency Classification – This waiver allows individuals to pay in-state tuition even if they have not resided in Washington State for the prior 12 months (i.e., Active Duty Military and Dependents)
- Mandatory Classification – These waivers are mandatory by RCW or SBCTC policy (i.e., Children and Spouses of Deceased or Disabled Law Enforcement Officers or Firefighters)
- Optional Classification – Colleges have discretion in whether to participate in optional waiver programs and how much to waive (i.e., Athletic waivers).

The College uses all of the SBCTC waivers but has waivers unique to the College. The waivers are created in the PCD environment (testing) in ctcLink. After verifying they have been entered correcting they will be released/input into PRD (production).

Course Creation
Terri explained that course creation is handled by the departments at each college within Seattle Colleges. Mark Baumann, Campus Solutions and Data Specialist, oversees this process and is available to help the departments. Terri stated Mark Baumann is also involved in the reviewing process to make sure the courses have been set up correcting with the proper fees, credits, etc.

Tuition and Fee Amounts

Tuition and fees are a combination of State Board-wide rates that are provided in a tuition table by the State Board and unique fees set and adjusted by the College. Terri said that each fee needs to be edited individually in the system in PCD test environment.

Additionally, ctcLink breaks down the tuition further than it was in FMS. For example, resident tuition was one rate in FMS. This is broken into building (fund 060), operating (fund 149), and student activities (fund 522) within ctcLink. After all necessary changes are implemented to tuition they run a query to verify all of the rates. This query is forwarded to fiscal for their review. The individual colleges will also review these rate changes. After ensuring all rates have been changed correctly they will be released into PRD (production) in ctcLink.

To test that everything within Campus Solutions (waivers, residency, tuition, courses) has been set up properly and student tuition and fees are accurately calculated they create test students. They test different student combinations of courses, residency status, and waivers to test the system.

Tuition Calculation

The Campus Solutions (ctcLink) automatically calculates student tuition and fee charges from the student account, student course registration, tuition and fees entered **(Key Control 1 – Automated ctcLink Valuation)**. The report will run for students that have made a changes in schedules every day and every week for all students. However a known weakness exists in ctcLink. The system makes revenue and accounts receivable entries are generated as soon as a student registers. This is incorrect as there has been no exchange of value and the colleges do not have yet a legally enforceable claim on those resources. SBCTC communicated this matter to colleges in a memorandum along with instructions on how to prepare a correcting journal entry. This weakness is addressed by key control #3 noted below.

Tuition payment

Tuition can be paid on-line, by phone, or in person at the Cashier's office. Payments are captured by the Campus Solutions subledger for CTCLink. This will only hit the GL once a week. When they close out the cashiering job. ctclink generates the files and sends them to the college once a week. Revenue is posted to the GL after the payment is received, the account receivable for the student's tuition is also reversed at the time of payment.

Cashiers receive payments and code receipts by student, which automatically hard codes to fee codes set in the system. The speed type have all coding information that will go to the GL codes. Students can either pay at the office, mail, or at the cashier's office that is collected and entered in the ctclink system by Cashiers. Payments must be received prior to the posted tuition deadline. If payment is not received the student is dropped. Depending on the timeframe of the deadline they will get 100%, 50%, or no refund. Registration staff identifies dropped students and gives cashiering a dropped students listing.

Cashiers at each College reconcile their drawers each day. The deposits are picked up daily and delivered to the bank. A deposit slip goes with the actual bank deposit and is sent to the Accounting Office. The Accounting Office uses the deposit slips to ensure the information in the bank account is accurate. Bank statements are reconciled to GL activity each month by an Accountant and reviewed to ensure reported revenue activity agrees to the bank statements, see cash & pooled investment controls at: [Cash and Pooled Investment Controls] **(Key Control 2 - Occurrence)**

Posting to the GL
Tuition revenue is recognized when a student's enrollment is complete and student status is validated. Upon completion of the student's enrollment, a journal entry is created in Campus Solutions Core and sent to Finance via nightly an automated nightly batch process.

Cash receipts are posted to the GL through a nightly batch process, and if there are posting problems, the system notifies the user that the batch did not post. Corrections are made through a batch edit screen, and the corrected batch is remitted. Tuition payments result in revenue being posted to Fund 840 under the source codes 0424 (tuition) and 0430 & 0431 (supplemental fees). Note that Spring/Summer pre-payments for Fall Quarter tuition are posted to GL account 5192 (deferred revenue).

To ensure only the revenues that occurred during the fiscal year are recorded, the College reviews unearned tuition revenue reports. This report shows them the amount that is unavailable revenues. After fiscal year-end, the unearned tuition revenue report is reviewed for the amount of unearned revenue and the report is used as support for the for the adjustment to move tuition from GL account 2040010 to the correct fiscal year related to when the services will be provided and the revenue earned/recognized **(Key Control 3 - Occurrence)**.

Distribution / Allocation to Revenue accounts
An automated monthly process is run in ctcLink to allocate tuition revenue payments from GL fund 840 to the funds below. With the exception of Service & Activities fees (set by the Local Board of Trustees), the individual fund distribution percentages are determined by the Legislature. The local college manually posts and retains these percentages in the Tuition Schedule.

060 (Building fee portion; remitted back to the State)
149 (Operating fee portion)
522 (Services & Activities portion)
561 (Comm/Tech College Innovation portion)
860 (Institutional Financial Aid portion)

We obtained the tuition and fee schedule from Terri (FY 2023 CTC Tuition and Fee Rates - FINAL - Starts Fall 2022).

Transfer to AFRS
The process continues to be a manual, although SBCTC is working on an automated interface to transfer financial data to AFRS. System Accounting Coordinator handles all ctcLink uploads to AFRS. Every month, on the AFRS cutoff date, runs a query in ctcLink of all journal entries created. This is a summary level report that is downloaded into an Excel spreadsheet. The Coordinator then creates two pivot tables; one by funds and amounts, another by general ledgers and amounts. Staff expects the pivot table by fund and amount to be zero. Staff then compare the second pivot table to another report, which is generated for the State Auditor's Office (SAO). Both reports are queried from the same database, the one for SAO contains a few more fields. When all the amounts agree, staff prepare the file to be uploaded into AFRS.

Staff then sorts the file by fund, general ledger, and amount. The customization now generates the output files (flat files with transaction codes) and sends them to AFRS similar to how it is done in the Legacy system. There are usually 1600 to 2200 lines for each college each month. This file is saved as a flat file format and is uploaded into AFRS using the OFM's Financial Toolbox. A test run in what is known as the SUP environment (copy of previous day's production) is then used to check for any major issues. Staff is then able to capture a copy of the flat file and uses that to reconcile between what is in ctcLink and what was transmitted to AFRS. Staff makes any necessary corrections to the AFRS batch and releases the output file to AFRS.

ctcLink automatically posts to the Agency Financial Reporting System (AFRS) on a monthly basis. Colleges utilize a web-based tool called SMART (Standard Monthly Analysis and Review of Transactions) to identify transaction posting problems and make correcting entries in the college's accounting system. After ctclink closes at year-end, they use SMART to enter adjustments which are posted to AFRS by the State Board (SBCTC).

SBCTC is responsible for the reconciliation between the ctcLink data to the AFRS data. The reconciliation is performed on a monthly basis and exception reports are produced that are researched and corrected. SBCTC sends the college monthly error reports that have to do with AFRS coding issues.

Key Controls:

- **Key Control 1 – AUTOMATED (ctcLink) Valuation -** The College's ctcLink subledger, Campus Solutions, creates student's class schedules which then automatically calculates tuition and fees, based on student data, tuition codes, and tuition rates set up within the system to ensure tuition and fees due are properly calculated.
- **Key Control 2 - (Occurrence) -** Bank statements are reconciled to GL activity each month by an Accountant and reviewed to ensure reported revenue activity agrees to the bank statements.
- **Key Control 3 - (Occurrence) -** After fiscal year-end, the unearned tuition revenue report is reviewed for the amount of unearned revenue and the report is used as support for the for the adjustment to move tuition from GL account 2040010 to the correct fiscal year related to when the services will be provided and the revenue earned/recognized.

Noted Weaknesses are as follows:

None

2. Confirm Understanding

Key Control 1 – AUTOMATED (ctcLink) Valuation - The College's ctcLink subledger, Campus Solutions, creates student's class schedules which then automatically calculates tuition and fees, based on student data, tuition codes, and tuition rates set up within the system to ensure tuition and fees due are properly calculated.

We confirmed the automated control at [IT Control Testing_Charges for Services].

Key Control 2 - (Occurrence) - Bank statements are reconciled to GL activity each month by an Accountant and reviewed to ensure reported revenue activity agrees to the bank statements.
See control confirmation at [Cash and Pooled Investment Controls].

Key Control 3 - (Occurrence) - After fiscal year-end, the unearned tuition revenue report is reviewed for the amount of unearned revenue and the report is used as support for the for the adjustment to move tuition from GL account 2040010 to the correct fiscal year related to when the services will be provided and the revenue earned/recognized.
Kyoko Connolly, Senior Accountant, provided the Unearned Revenue FY2023 workbooks and journal entries recording the revenue for each College. We reviewed JE SF003* recording $4,322,514.26 in unearned revenue for FY23 Seattle North College. The amount recorded matched the Seattle North College workbook. *No issues noted.*

3. Preliminary Control Risk Assessment

MAX - We noted <u>no matters</u> involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

4. Control Risk at LOW - Test Key Controls

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

5. Final Control Risk Assessment

MAX - We noted <u>no matters</u> involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

<u>I.2.PRG - Community & Technical Colleges Testing - Seattle</u>

Procedure Step:	IT Control Testing_Charges for Services
Prepared By:	SBG, 10/29/2023
Reviewed By:	RKM, 11/1/2023

State of Washington

Record of Work Done:

This record may contain information considered exempt from public disclosure under RCW 42.56.420 of the Public Records Act. As such, distribution of this record is limited.

1. Understanding of Automated Key Control:

Material System: Tuition Revenue

Key Automated Control: The ctcLink system automatically calculates tuition for all students based on residency, division, and credit load status. (Valuation)

A high level understanding of the automated control is documented as part of our overall understanding of controls over relevant assertions for the ctcLink system at the Charges for Services_Controls step.

The tuition revenue calculation processing resides within a third-party vendor application system, which cannot be modified by system users. The only way for college users to affect the calculation is through edits to associated data tables and screens, and many of those tables are restricted to modification by State Board at the college level.

2. Key Automated Control Confirmation and Testing:

We confirmed and tested the key automated control as follows, to determine whether the automated controls can be relied upon:

To confirm the automated control we recalculated the ctcLink calculated student tuition & fees amounts on student accounts at: [Charges for Services]. *No issues noted.*

3. Understanding and Testing General IT Controls:

General controls related to the automated control **were not** tested to ensure that the control operated consistently during the audit period, accordingly control risk was set at **MAX.**

I.2.PRG - Community & Technical Colleges Testing - Seattle

Procedure Step:	Charges for Services_Testing
Prepared By:	SBG, 10/31/2023

Reviewed By: RKM, 11/1/2023

Record of Work Done:

Material Balance and Assertions:

Governmental Activities - Education - Higher Education Charges for Services - Occurrence, Valuation
Higher Education Special Revenue - Charges for Services - Occurrence, Valuation

Controls are documented in the Charges for Services_Controls step.

We focused our testing on revenue source 424 and 430 as they made up 97 percent of Charges for Services. We selected a sample of ctcLink tuition by student and quarter to determine whether the tuition revenue was properly calculated and occurred during the year.

Substantive tests performed to meet the Occurrence assertion:
We reviewed the account statement for each student and noted the quarter and date paid for tuition and fee charges were recorded in the correct period. See testing at "FS Substantive Sample" at: [Charges for Services]. ***No issues noted.***

Substantive tests performed to meet the Valuation assertion:
We recalculated tuition and fee amounts and tied them back to the College fee code tables to ensure tuition and fee charges were correctly calculated. See testing at "FS Substantive Sample" tab at [Charges for Services]. ***No issues noted.***

I.2.PRG - Community & Technical Colleges Testing - Seattle

Procedure Step: Education Expenses_Controls
Prepared By: SBG, 10/18/2023
Reviewed By: RKM, 11/8/2023

Record of Work Done:

Material Balances and Assertions: Final Planning Community Colleges Selected for Testing

Internal controls in the Community and Technical College System address the following balances:
Governmental Activities- Education - Higher Education Expenses- Occurrence, Classification
Higher Education Special Revenue - Charges for Expenses- Occurrence, Classification

AUDITOR NOTE: We rely on the work performed at the fund level to substantiate the government-wide level.

See lead sheet at: [Lead Sheet]

1. Gain an Understanding of Internal Controls

Payroll:

On 10/2/23, we met with Annie Butler, Director of Compensation and Benefits- Seattle Colleges, to gain an understanding of internal controls over payroll expenses at the College. The College utilizes the Human Capital Management Pillar in the CTCLink system to process bimonthly payroll transactions. The system has automated approval levels for employee time cards and changes to payroll such as modifications to existing salary or positions. The college also utilizes an internal district wide shared spreadsheet to also track any updates and capture all payroll changes, new positions requested, combo code or budget account coding updates, notes, and payroll related requests. It is shared by management in human resources, payroll and benefits, departments, and the business office. Contracts for regular salaried employees, and faculty are entered into the system and approved by college department managers and the employee. Stipend amounts are entered onto an E-Form and approved by appropriate staff before being paid out **(Key Control #1 - Occurrence, Classification).**

New hourly, student, and part time positions such as faculty must be submitted using a new hire request form specific to each campus location, and any changes in the system must be supported by approved documentation.

Time sheets are filled out in the CTCLink system by employees each pay period. Use of paid time off must be requested through employee self service and approved by the employee's supervisor in management self service. Once the employee submits the time sheet, it is automatically routed to the supervisor for approval. Once the supervisor electronically approves the time sheet it is routed to payroll. Contracts for regular salaried employees, and faculty are entered into the system and approved by college department managers and the employee. Stipend amounts are entered onto an E-Form and approved by appropriate staff before being paid out **(Key Control #1 - Occurrence).**

SBCTC has provided the colleges with a 67 step checklist for processing payroll. Annie confirmed that the checklist is utilized each pay period to ensure complete processing and resolve errors.

Initial Setup (steps 1-2)

Process Absence and Time & Labor (steps 3-14)

Process Payroll (steps 15-53)

Confirm Payroll (steps 54-57)

Post-Confirm Tasks (steps 58-67)

Annie prepares reconciliations each pay period for gross earnings, total deductions, and earnings by pay type using system reports. Due to staffing challenges, the reconciliations are not currently being reviewed or approved, however the college has recently filled positions so she will be training new staff to perform the reconciliations and she will review and approve. The college is not currently able to restrict overtime due to staffing levels, but the system will automatically calculate over time rates based on the employees time card, which is approved by the employee's supervisor.

Summary of Key Controls:

- **Key Control #1 (Occurrence, Classification) -** Modifications to employment affecting payroll are supported in ctcLink and an E-form as necessary and all changes are required to approved in the system.
- **Key Control 2 (Occurrence) -** Timecards are created by employees and approved by their supervisors, verifying time worked during the pay period.

Noted Weaknesses are as follows: None

2. Confirm Understanding

Key Control #1 (Occurrence, Classification)- Modifications to employment affecting payroll are supported in ctcLink and an E-form as necessary and all changes are required to approved in the system.

We reviewed the contract audit history for Jessica Logan E.S., employee ID#101024356 for contract 0632231132 to teach an English courses during the Winter Term 2023. The total contract amount was $5,334.20 paid out in 6 payments. The contract was generated in the Faculty workload module of the CTCLink system on 12/29/22 by Nancy Leverton at 4:03pm. The contract was approved by Curtis Bonney on 12/29/22 at 5:14pm and also on 12/30/22 at 10:54am by Grant Raupp. The employee, Jessica Logan, accepted the contract on 5/1/23 at 7:33am.

We also reviewed an EForm for BMWC Director Work, MiSun Bishop emp ID#101023163. The stipend was the semi-monthly amount of $355 (total contract amount is $1420). The form noted the budget account coding: Operating unit: 7062, Account:5000070, Fund: 149, Class:011, Department 41951. The percentage was 100% and there was a combocode of 000211728. Approval was noted in the signature log at the bottom as follows:

task VP by lilia.fomai
Reject @ 27Jul2022 14:55 in task Payroll by young.lim APPROVED --- 12Aug2022 17:39 in task NHC Review@ 12Aug2022 17:39 in task NHC Review by jaime.cardenas APPROVED --- 16Aug2022 15:36 in task Business Office @ 16Aug2022 15:36 in task Business Office by jennydao.tran
Reject @ 27Jul2022 14:55 in task Payroll by young.lim APPROVED --- 12Aug2022 17:39 in task NHC Review@ 12Aug2022 17:39 in task NHC Review by jaime.cardenas APPROVED --- 16Aug2022 15:36 in task Business Office @ 16Aug2022 15:36 in task Business Office by

jennydao.tran

No issues noted.

Key Control 2 (Occurrence) - Timecards are created by employees and approved by their supervisors in the system, verifying time worked during the pay period.
We reviewed the time cards for Lim Young, employee ID 101024964 and a pay stub, for 9/1/22 - 9/15/22 in the amount of $2,906. We recalculated the employee's gross wages by hours paid to the employee using the rate on the pay stub for each time sheet. ***No issues noted.***

Accounts Payable:
On 10/4/23, we met with Ulrike Lopez, Accounts Payable Supervisor, to gain an understanding of the disbursement processes and internal controls over accounts payable at Seattle Colleges. The College transitioned to the CTCLink system in February of 2021.

The A/P department processes various types of disbursements such as vendor payments, student refunds, payroll vendor payments, and travel reimbursements in the form of checks, ACHs, and wires. Vouchers are entered into the accounts payable module based off of original invoices or A19s for capital projects or state agency payments.

Original Invoices and A19s are scanned and uploaded into the system and attached to each voucher **(Key Control #1- Occurrence).** Any item ordered from vendors that is over $2500 must go through the purchase requisition and purchase order process. All vouchers and Purchase orders must go through the CTCLink Approval WorkFlow Engine (AWE) for review and approval and budget check before they can be paid **(Key Control #2 - Classification).**

If receiving is set to be required in the system for items on a PO, then an accounts payable staff member will enter the receipt into CTCLink once the item has been received. If a PO is not in place, such as for items under $2,500, then the invoice is not entered until the department sends it to A/P. Departments do not send invoices to A/P unless the item has been received.

The college has an internal form they send to vendors requesting ACH payments instead of checks. The vendor fills it out and returns it to the college. This information is entered into the system.

Duplicate payments are prevented by the system based on invoice numbers. However, the invoice number can be overridden. Ulrike stated that happens when they need to enter a credit for an invoice already in the system.

Checks and ACH's that are approved and ready for payment go through a paycycle that will only pick up payments in approved and/or matched with PO and receipt if required status. The AP person then reviews a check register report to verify the list of checks and ACHs to be processed that day. The A/R person receives this report from A/P and then the checks are printed in the A/R department. Check stock is stored in a locked cabinet.

All payments are reconciled using the daily and monthly reconciliation processes.

The supplier and vendor lists in peoplesoft are maintained by the SBCTC and each individual college. They all share this list and can enter vendors and location updates. Once a supplier is entered or updated, it is set to unapproved and it goes through an approval process by a system support person at SBCTC. W-9s are required to be attached, and TINs must match the W-9 from the vendor.

Summary of Key Controls:
Key Control #1- Occurrence - Original Invoices or A-19s are attached to the voucher so the approver can view before approving.
Key Control #2- Classification - If a voucher is created from a Purchase Order, the approver can review the budget account coding prior to approval. If the voucher is not created from a PO, then the budget account coding is determined by the department submitting the invoice to A/P. All vouchers and POs are required to pass budget check before payment can be made.

Noted Weaknesses are as follows: None

2. Confirm Understanding

Key Control #1- Occurrence - Original Invoices or A-19s are attached to the voucher so the approver can view before approving.
We reviewed voucher #00011496 (2/1/22) in the ctcLink system and verified that original invoices (1/26/22) were attached and shown to the approver (7/19/22).

Key Control #2 - Classification - If a voucher is created from a Purchase Order, the approver can review the budget account coding prior to approval. If the voucher is not created from a PO, then the budget account coding is determined by the department submitting the invoice to A/P. All vouchers and POs are required to pass budget check before payment can be made.
We reviewed voucher #00011496 created from approved purchase order #1451 for Orkin pest control and verified that the budget account coding was imported directly from the purchase order and that the budget was valid. The voucher was approved and the budget status was valid at the time of payment.

3. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

4. Control Risk at LOW - Test Key Controls

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

5. Final Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

I.2.PRG - Community & Technical Colleges Testing - Seattle

Procedure Step: Education Expenses_Testing

Prepared By: SBG, 10/23/2023

Reviewed By: RKM, 10/29/2023

Record of Work Done:

Material Balances and Assertions:

Governmental Activities- Education - Higher Education Expenses- Occurrence, Classification
Higher Education Special Revenue - Charges for Expenses- Occurrence, Classification

Controls are documented in the Education Expenses_Controls step.

Substantive tests performed to meet the Occurrence and Classification assertion:
Payroll:
See Testing here:[Educational Expenses]

We tested payroll disbursement transactions to determine whether reported expenses/expenditures represent real obligations incurred during the period and if reported expenses/expenditures were allocated to the proper fund and period (Occurrence and Classification). During testing we determined if expenses were supported by valid documentation, earn type amounts agreed to the supporting documentation, and that expenses were recorded to the proper fund and period.

We randomly selected 39 employees from the CTCLink Query CTC_PY_PAY_CHECK_DETAIL_2082577610 that we obtained from Annie Butler, Director of Compensation and Benefits- Seattle Colleges. There were 3,090 employees listed representing a total of $117,249,678.80 in gross wages on the report for fiscal year 2023, so we utilized the random number generator to select our sampling population. See testing at Educational Expenses, tab "FS Substantive Sample (Payroll)".

We requested documentation from the college (Annie Butler, Director of Compensation and Benefits) such as employee contracts, approved time sheets, pay stubs, and payroll action forms to support the gross wages paid to the 39 selected employees at Seattle Colleges. We traced amounts in the supporting documentation to amounts by earn type for each employee to verify occurrence and classification. We also verified gross wages for each employee by earn type using the CTLink query QHC_PY_EMPL_WAGES (one was provided for each employee tested), provided by Annie Butler. We noted four minor variances, all below the floor, therefore we did not carry to the aggregation of misstatements.
No issues noted.

Accounts Payable:
See Testing here:[Educational Expenses]

We tested Accounts payable disbursement transactions to determine whether reported expenses/expenditures represent real obligations incurred during the period and if reported expenses/expenditures were allocated to the proper fund and period (Occurrence and Classification). During testing we determined if expenses were supported by valid documentation, amounts agreed to the supporting documentation, and that expenses were recorded to the proper fund and period.

We obtained a query from Ulrike Lopez, Accounts Payable Supervisor: QFS_AP_VCHR_ACCTG_LINE-4225152. The query was a detailed listing of transactions for Objects E - J. We randomly selected 39 transaction to test. See testing at Educational Expenses, tab "FS Substantive Sample (AP)".

Since we had access to the CTCLink system, we were able to utilize the accounts payable module to search for each voucher identification number on our transaction sample list. In the system, we were able to review and verify the approval history for the vouchers, view attached original invoices and A-19s, and review the budget account coding or chart string for each voucher line to ensure it correlated with the associated approved purchase order or the attached A-19. If applicable, we were also able to see receiving information. We were able to verify that the attachment was shown to the approver(s) to indicate that the cost was approved to pay before they approved the payment.

Our selection included some vouchers for US Bank National Association, that did not have approvals and documentation attached. We inquired with Ulrike and she let us know that this was actually a Purchasing Card transaction. These transactions also go through the Accounts payable module, however they do not have the documentation attached or the approvals viewable within the accounts payable module. On 10/20/23, we met with Miguel Gatmyan, Program Manager for Purchasing, to discuss the approvals for the US Bank transactions. He walked us through the reconciling statement section of CTCLink (part of the P-card module), showing that the transactions wouldn't get to this step unless it was approved. He showed us the ProCard Comments, that is used to do a forced override, for instances like a budget coding error. ***No issues noted.***

State of Washington

I.2.PRG - Community & Technical Colleges Testing - Seattle

Procedure Step: Federal Grants-In-Aid_Controls

Prepared By: SBG, 10/18/2023

Reviewed By: RKM, 11/8/2023

Record of Work Done:

Material Balances and Assertions:

Internal controls in the Community and Technical College System address the following balances:

Governmental Activities - Education - Higher Education Operating Grants and Contributions - Occurrence

Higher Education Special Revenue - Federal Grants-In-Aid - Occurrence

See lead sheet here: [Lead Sheet]

1. Gain an Understanding of Internal Controls

For fiscal year 2023 we noted Department of Education grants and contracts revenue made up approximately 95 percent of the total Federal grants-in-aid balance. Our control understanding and testing will focus on these revenues.

Grants

On 10/18/23, we met with Lee Grubb, Accountant, to discuss procedures and internal controls related to the draw downs and recordings of grants. Before funds can be drawn, a Grant Manager creates an invoice requesting approval. Once the amount on the invoice is approved, the funds can be requested. Lee explained that the Federal Grants-in-Aid revenue from the Department of Education is requested through the G5 portal on the Department of Education's website. These drawdowns are completed by Lee. Mikyong still completes drawdown requests for National Science Foundation funds. For the College all CARES Act funds were requested through the Department of Education. Lee completes drawdown requests for Federal Grants, but doesn't complete the requests for State/Private or Local Grants. For State, Private or Local grants, the requests would be through the agency or organization administering the funds.

Each fiscal month end, Lee runs the "QFS_GL_JRNL_ACCT_ANALYSIS", Program/Organization Trial Balance report for each campus and org index within CTCLink. Each Org index corresponds to a different grant type, with the program/org title describing the specific award. The reports are a program/organization trial balance for that month and provide expenditure and revenue amounts. From each report, Lee will calculate the current month's draw-down amount for each grant as follows:

Expenditures (GL 6510 and 6505) + Accrued Revenue (GL3205) + Prior award balance (GL 9510) - Cash Revenues (GL 3210) = Draw-down amount for the month. This is calculated by CTCLink, but Lee verifies it and looks for any discrepancies.

For each grant, revenues and expenses are also tracked in Excel spreadsheets that tracks the YTD expenditures and revenues requested. Grant managers create invoices for each grant. The invoice is approved when the amount reconciles to the calculated monthly drawn-down amount **(Key Control 1 - Occurrence).** When the invoice is approved, the request is sent to the district. For Department of Education funds, the G5 portal is used to request funds, for other sources the grant is requested from the source itself. For example, grants from State Agencies are requested through the agency itself. As a district, the college confirms that ACH payments are received as a deposit. In CTCLink, approval is required before any funds can be drawn-down.

Lee verifies that the draw-down is received in full by reviewing the daily ACH report from Bank of America. After verifying the receipt, she creates a journal entry to record the revenue in CTCLink. She provides the documentation above, including a screenshot of the draw request and ACH statement to Davina Fogg, Executive Director of Finance/Controller for approval of the batch transactions to record the revenue **(Key Control 2 - Occurrence).**

Summary of Key Controls:
Key Control 1 - Occurrence - Grant revenue draws are based upon actual grant expenditures less revenues received. For each grant these are tracked on individual spreadsheets.

Key Control 2 - Occurrence - After verifying receipt of draw amounts, documentation including the GA1335 for FMS (or QFS_GL_JRNL_ACCT_ANALYSIS for CTCLink), draw request screenshots, and ACH bank statement are sent alongside a journal entry batch recording revenue receipt. These documents are reviewed and approved by the Executive Director of Finance/Controller.

2. Confirm Understanding
Key Control 1 - Occurrence - Grant revenue draws are based upon actual grant expenditures less revenues received. For each grant these are tracked on individual spreadsheets.
With the support for batch #AB-221031 we received screenshots of the tracking spreadsheet for Seattle Colleges. The spreadsheet tracked multiple grants and showed requested amounts, department, accounts, journal ID, and project numbers. A pivot table was used to separate expenses by project. For project #0000004590, there was $27,049.95 of requested reimbursement related to Trio Talent Search. The request amount tied to invoice #CA-0000010406 for $27,049.95. We reviewed the email for the G5 draw down request, showing the Grant PI as Gareth Sebastian Myrick, and Cody Hiatt, Director of Fiscal Services, approving the draw down (10/28/22). *No issues noted.*

Key Control 2 - Occurrence - After verifying receipt of draw amounts, documentation including the GA1335 for FMS (or QFS_GL_JRNL_ACCT_ANALYSIS for CTCLink), draw request screenshots, and ACH bank statement are sent alongside a journal

entry batch recording revenue receipt. These documents are reviewed and approved by the Executive Director of Finance/Controller.
We reviewed batch AB-230316 recording $119,486 in PELL for March 2023. Attached to the batch prepared by Mikyoung Giy was a printout of an Excel spreadsheet for PELL and the ACH report. The ACH report from Bank of America showed a credit of $119,486 to Seattle Colleges. The College provided the email approving the draw request, a screenshot of the request for $119,486 being submitted within the G5 Portal and an invoice from Seattle Colleges to the Department of Education for $119,486. ***No issues noted***

3. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

4. Control Risk at LOW - Test Key Controls
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

5. Final Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

I.2.PRG - Community & Technical Colleges Testing - Seattle

Procedure Step: Federal Grants-In-Aid_Testing
Prepared By: SBG, 10/18/2023
Reviewed By: RKM, 10/29/2023

Record of Work Done:

Material Balances and Assertions:

Governmental Activities - Education - Higher Education Operating Grants and Contributions - Occurrence
Higher Education Special Revenue - Federal Grants-In-Aid - Occurrence

Controls are documented in the Federal Grants-In-Aid_Controls step.

Substantive tests performed to meet the Occurrence assertion:
We reviewed AFRS data to determine what revenue sources were material for testing. We determined source 384 made up 95% of the Federal Grant-In-Aid balance and decided to focus our testing on source 384 (Department of Education). See our summary at: [Federal Grants In Aid] tab, "Population Completeness".
We used the FS Substantive Sample spreadsheet with tolerable misstatement and assurance levels dictated by the material balance workpaper for a planned sample size of 30. We selected 4 individually significant items and randomly selected 30 samples throughout FY23.
Lee Grubb, Accountant, provided batches with supporting invoices, bank statements, reimbursement forms, and payment requests for the tested transactions. See testing at Federal Grants In Aid, tab, "FS Substantive Sample ". We determined reported revenues represent actual amounts relating to the period (Occurrence). ***No issues noted.***

I.3.PRG - Community & Technical Colleges Testing - Spokane

Procedure Step: Summary & Conclusion

Prepared By: JLE, 11/7/2023

Reviewed By: RKM, 11/8/2023

Record of Work Done:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
We noted no results from our substantive tests which would indicate a need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
We determined that the quality and quantity of evidence obtained was both sufficient and appropriate.

I.3.PRG - Community & Technical Colleges Testing - Spokane

State of Washington

Procedure Step: Cash and Pooled Investment_Controls
Prepared By: CJG, 10/10/2023
Reviewed By: RKM, 11/7/2023

Record of Work Done:

Material Balances and Assertions:

Internal controls in the Community and Technical College System address the following balances:

Higher Education Special Revenue Fund - Cash and Cash Equivalents - Existence
Higher Education Student Services Fund - Cash and Cash Equivalents - Existence

See lead sheet here: [Lead Sheet]

1. Gain an Understanding of Internal Controls

On 9/13/23 we met with the following people to discuss internal controls over cash and investments:

Clint McGregor, Fiscal Services Account Manager
David Williams, Controller
Tiffany Henderson, Director of Financial Reporting
Laurice May, Fiscal Analyst 2

Cash

CCS has had no change in FY23 to their list of cash bank accounts, which are:

Bank of America Checking
Bank of America Sweep
Washington Federal Bank (Checking)
Mount West/Glacier (Savings)
USBank Business Silver (Money Market)

The BoA accounts are CCS' main accounts with the most daily activity. Daily, Laurice (FA2) will download checking account information (daily deposits, ACH, checks, adjustments, EFTs, etc.) from the BoA's website using the CashPro tool in order to reconcile the day's transactions. She imports the file from BoA into ctcLink. SBCTC also goes to the BoA website and imports the transaction file into ctcLink so Laurice can compare her version, to SBCTC's version, then to the GL in ctcLink. As the data in ctcLink does not give a lot of specific detail about each transaction, Laurice uses the information from BoA to create detailed entries called "Treasury journal entries" to post to the GL. To ensure proper segregation of duties, staff who receipt cash have no access/input to the bank reconciliation process.

At month end, Laurice performs the reconciliation for all cash counts except for USBank. A separate reconciliation is prepared for the USBank checking account and this reconciliation is prepared by David Williams and reviewed and approved by Tiffany. Typically, there are multiple bank activities that need to be reconciled. David provided us a document that describes the different types of journals that must be reconciled book to bank [Bank.Reconciliation.Narrative.2023]. CCS has found that reconciling the journals by type has helped them to complete more accurate bank reconciliations. After Laurice prepares the reconciliation then Clint, Fiscal Services Account Manager, reviews and approves it to ensure it is accurate **(Key Control 1)**. At year end, a similar process is performed as with month end, but David also performs a review of the entire year's reconciliations.

For petty cash, approximately once a month Clint prepares a tracking spreadsheet based on petty cash counts from each of the cash receipting locations. This information is compiled by Tiffany. Clint will compare this data to what is in the GL in ctcLink to ensure amounts are recorded correctly in the system.

<u>Investments</u>
CCS has the following investment accounts:
- LGIP
- Banner Bank - CD (two accounts)
- USBank Safekeeping (Money Market)

Once a month Clint prepares a monthly reconciliation of investment accounts. He receives investment account statements from Tiffany and LGIP statements from the CFO. Once his reconciliation is complete, showing CCS' monthly position, he sends the reconciliation to Tiffany for review and approval. **(Key Control 2)** Once approved, Clint prepares the journal entries to post to the GL. These entries are reviewed and approved by the CFO prior to posting.

At year end, Clint takes the investment statements from the entire year and compares the actual statements to the GL to make sure that all activity has been accounted for in the GL. Once the year end reconciliation is prepared, David reviews and approves it to ensure it is accurate.

<u>Historical Information</u>:
During 2019, the State Board force closed each FY from 2016 through 2019. In order to bring the balances back to current for the start of 2020, the College performed several entries to write off cash balances which were growing due to the issues in ctcLink. In FY19 we were shown a CASH spreadsheet which showed the adjustments made in 2019 that were applicable for 2016, 2017, 2018 and 2019. In order to do this, the College

created a summary of amounts to be adjusted, and then took amounts out of the cash accounts (101150, 101151, 101160), into 342700 and then out of 342700 and into 603372 for prior period adjustments. The total amount of adjustments made were:

2016 - $5,318,010.03
2017 - $6,143,096.53
2018 - $9,001,754.39
2019 - $14,277,483.62
Total adjustments made in 2019 = $34,740,344.57

There were no write offs for 2020, 2021, 2022 or 2023. For controls to ensure that the GL is reconciled to AFRS see: [Controls - ctcLink System Reconciliation]. This is done at the state level.

Summary of Key Control(s):

Key Control #1 (Cash - Existence): Monthly, the fiscal analyst 2 prepares a reconciliation of cash bank accounts between bank statements and the GL to ensure recorded cash amounts represent actual assets. The Fiscal Services Account Manager reviews and approves the reconciliation to ensure its accuracy.

Key Control #2 (Investments - Existence): Monthly, the Fiscal Services Account Manager prepares a reconciliation of investment account balances to ensure all account activity from the statements is accounted for in the GL. The Director of Financial Reporting reviews and approves the reconciliation to ensure its accuracy.

Noted Weaknesses are as follows:
None.

2. Confirm Understanding

Auditor Note: Confirmation documentation showed that the staff named as preparer/reviewer during our control meeting did not always align with the staff who actually prepared/reviewed the reconciliations. Each preparer was an appropriate individual qualified to prepare the reconciliation and the reviews were performed by supervisory staff. No issue noted.

Key Control #1 (Cash - Existence): Monthly, the fiscal analyst 2 prepares a reconciliation of cash bank accounts between bank statements and the GL to ensure recorded cash amounts represent actual assets. The Fiscal Services Account Manager reviews and approves the reconciliation to ensure its accuracy.
We reviewed the June 2023 reconciliations for all bank accounts. We noted the following:

Bank of America Checking - 1000070: Prepared by David Williams, Controller, on 8/15/2023 and reviewed by Tiffany Henderson, Director of Financial Reporting, on 8/31/2023. *On 9/19/23, we met with David and Tiffany to walk through the reconciliation and David provided us with a revised version of this reconciliation, as he continued to make corrections after the dates of preparation/review.*

- Bank of America Sweep - 1000100: Prepared by Laurice May, Fiscal Analyst 2, on 7/10/2023. The reconciliation did not include evidence of review.
- Washington Federal Bank - 1000080: Prepared by Laurice May, Fiscal Analyst 2, on 7/11/2023 and reviewed by Tiffany Henderson, Director of Financial Reporting (no date given).
- Mount West/Glacier - 1000090: Prepared by Laurice May, Fiscal Analyst 2, on 7/11/2023. The reconciliation did not include evidence of review.
- USBank Business Silver - 1000110: Prepared by Laurice May, Fiscal Analyst 2, on 7/10/2023. The reconciliation did not include evidence of review.

We recommend CCS ensure all reconciliations include a signature and date of review to evidence that the review and approval has taken place and in a timely manner as required by SAAM 85.50.40.c.
See issue here: [V: CCS Lack of documented review and approval of bank and investment reconciliations]

Key Control #2 (Investments - Existence): Monthly, the Fiscal Services Account Manager prepares a reconciliation of investment account balances to ensure all account activity from the statements is accounted for in the GL. The Director of Financial Reporting reviews and approves the reconciliation to ensure its accuracy.
We reviewed the "FY23_Investment_Workbook.xlsx" which included the June 2023 Investment Reconciliation. We noted the reconciliation included activity for all investment accounts. There was no clear indication of who prepared the document and who reviewed it (such as signature/date), however, there was a cell that included a comment from Clint MacGregor (Fiscal Services Account Manager) and several cells with review comments from David Williams, Controller. **This appears to evidence that a review took place, however, we recommend as noted above that all reconciliations include a signature and date of review to evidence that the review and approval has taken place and in a timely manner as required by SAAM 85.50.40.c.** **See issue here:** [V: CCS Lack of documented review and approval of bank and investment reconciliations]

3. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

4. Control Risk at LOW - Test Key Controls

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

5. Final Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be

effective to reduce detection risk to an acceptable level.

I.3.PRG - Community & Technical Colleges Testing - Spokane

Procedure Step: Cash and Pooled Investments_Testing
Prepared By: CJG, 10/10/2023
Reviewed By: RKM, 11/8/2023

Record of Work Done:

Material Balances and Assertions:

Higher Education Special Revenue Fund - Cash and Cash Equivalents - Existence
Higher Education Student Services Fund - Cash and Cash Equivalents - Existence

Controls are documented in the Cash and Pooled Investments_Controls step.

Substantive tests performed to meet the Existence assertion:
See testing here: [Cash and Pooled Investments Testing]

AFRS to ctcLink:
We obtained ctcLink data using the query QFS_GL_SNP_DETAIL, filtered for cash and investments and AFRS data from here: [Final Planning Community Colleges Selected for Testing]. We determined that the AFRS balances tie to ctcLink without exception. However, due to the complexity of testing the AFRS amounts individually we decided to test the College's entire cash and pooled investments balance to determine if it existed as of June 30, 2023. The main focus of testing is GL titled, "Cash - Bank 1" since this GL consisted of most of the AFRS balances we selected. This GL account is the College's main Bank of America checking account. See tab, "AFRS & ctcLink" at: [Cash and Pooled Investments Testing].

Cash & Investments Summary:
We obtained June 30, 2023 month-end reconciliations, bank/investment statements, and petty cash reports from David Williams, Controller, and Tiffany Henderson, Director of Financial Reporting, to verify existence of cash and pooled investments as of 6/30/2023. Additionally, we obtained the July 2023 bank statements to verify reconciling items and outstanding checks. See summary on tab, "Cash & Investment Summary"

at: [Cash and Pooled Investments Testing]. We noted a difference of $717,986 between the total amount substantiated and GL codes 1110, 1130, 1205, 1206, 1209, and 1210 in FAP/AFRS. This variance is below the Higher Education Special Revenue and Student Services opinion units floor. ***No issues noted.***

Outstanding Checks:
For outstanding checks, we obtained the Bank of America outstanding check report (ctcLink). We noted the balance of outstanding checks on the outstanding checks report tied to the Bank of America reconciliation prepared by the College. Additionally, we used the Financial Audit Substantive Sample testing spreadsheet to randomly selected 38 outstanding checks and reviewed either the July outstanding check report or July 2023 bank statement to ensure the checks were either still outstanding or were paid in July 2023. See tab, "Outstanding Checks Testing" at: [Cash and Pooled Investments Testing]. Testing resulted in an exception rate of 39.5% for the test "was the check outstanding for less than 180 days". We determined to document an issue for all checks that were outstanding for greater than 180 days for a total of 363 checks valued at $71,979.12. Per SAAM 85.38.40, agencies should monitor aged outstanding reports on a regular basis as state law requires outstanding warrants to be canceled after 180 days. The total misstatement is below the Higher Education Special Revenue and Student Services opinion units. We will not be taking this to the **AOM**, however we created an **issue** because of the noncompliance with state law. See: [V: CCS Outstanding Checks].

Deposits in Transit:
We traced 94% of the deposits in transit to the July 2023 bank statement, leaving a variance of $3,279.36 between the bank statements and what was documented in the college's bank reconciliation for deposits in transit. This variance is below the Higher Education Special Revenue and Student Services opinion units and tracing 94% provides sufficient coverage that deposits in transit existed as reported at FYE. ***No issues noted.***

I.3.PRG - Community & Technical Colleges Testing - Spokane

Procedure Step:	Depreciable Capital Assets_Controls
Prepared By:	CJG, 10/9/2023
Reviewed By:	RKM, 10/29/2023

Record of Work Done:

Material Balances and Assertions:

Internal controls in the Community and Technical College System address the following balance:

Governmental Activities - Depreciable Assets (Net of Accumulated Depreciation) - Existence, Valuation

See lead sheet here: [Lead Sheet]

1. Gain an Understanding of Internal Controls

On September 13, 2023, we met with David Williams, Controller, Debra Griffin, Surplus/Inventory Control Specialist, Yabing Fisher, Expense Senior Accountant, and Tiffany Henderson, Director of Financial Reporting to gain an understanding of internal controls over depreciable capital assets.

CCS follows the SAAM, Chapter 30, for guidelines on what to capitalize and determining appropriate useful lives. We reviewed the SAAM at https://www.ofm.wa.gov/sites/default/files/public/legacy/policy/30.20.htm and noted the following:

- Threshold for capitalizing assets is $5,000 for furniture/equipment and library resources.
- Buildings, building improvements, improvements other than buildings, and leasehold improvements with a cost of $100,000 or greater are capitalized, however, land and construction in progress are non-depreciable capital assets.

The Community Colleges of Spokane mainly uses the ctcLink Asset Management Module (AM) for asset tracking and automatically calculating straight line depreciation.

Additions:

During FY23, CCS acquired a new inventory control system called TME. This software is used in tandem with AM in ctcLink to track small and attractive assets. Most new assets are added by Debra to the TME and AM, with information gained from communication between Debra and purchasing. Purchasing contacts Debra and requests a profile ID and state tag number for the asset to add to the purchase requisition. The profile ID is what designates the asset's useful life as determined by the SAAM for that asset category. Debra reviews the information on the requisition for accuracy and sends it back to purchasing for them to turn the requisition into a purchase order. Once the purchase order is complete, it is routed back to Debra for review and approval. Debra maintains a list of all pending purchase orders with state tags and as they are received by Central Services or delivered on site, she tags the asset for inventory. Then Debra adds the asset to AM and also to TME if applicable. Information added includes the profile ID, item description, serial number, location, cost (per invoice), date of acquisition and other pertinent information about the item **(Key Control 1 – Existence, Valuation)**

Tiffany receives an email that includes a list of all additions and retirements every month. Although there are no secondary checks/reviews when Debra is entering asset information into AM (or TME), Tiffany reviews this list to ensure that everything ties to what is in the system. David, Yabing and Brandi Browning (CFO) are also cc'd on this email. Yabing reviews information from an accounting perspective and she is authorized to go into the systems and make corrections if necessary.

Disposals

When a department decides to dispose of equipment, the manager of the department submits a "Property Disposal Request" form to Debra at the

Central Services Office. The Central Services department then processes the request by putting the item in their queue for pick-up. Once surplus equipment arrives at the Central Services warehouse. Debra Griffin will determine what the disposition will be:

Online Auction with Department of Enterprise Services for general and some specialized equipment
Reinland Auctions for vehicles, heavy equipment, specialized industrial trades equipment
Recycle for salvage
Disposal for items with no sale or salvage value

Disposed, recycled and withdrawn assets are reconciled once a month while auctions are reconciled after the auctions are complete and CCS has received documentation and check for any amount owed. "E" cycle assets are reconciled once equipment is picked up by vendor.

Lost and Stolen equipment follow a more extensive process which includes completion of a Campus Security Incident Report with campus Security. Stolen equipment also requires a crime check number from the Spokane Police Department. Lost and stolen equipment is reconciled either monthly or as soon as Central Services receives all required documentation.

Debra is responsible for the tracking of tagged assets. Once the determination is made to remove the asset from service, she gives it a general authority number to track it and retires the asset in ctcLink using the "RET" transaction type. The Logistics Manager approves all retirements by signing the property disposal request form **(Key Control 2- Existence).** All documentation is stored at Central Services. Debra will also send a fixed asset retirement report to accounting.

Yabing reconciles disposals on a monthly basis (as mentioned above in additions, she is included on a monthly email that includes the list of that month's additions and retirements). She verifies the asset was appropriately removed from the TME and AM systems and processes a JV in the GL to reflect the activity. Within ctcLink, the movement of the asset to retirement creates a system-generated JV, which is processed (reviewed and posted) by Yabing. JVs for additions, retirements, and depreciation are a monthly, system generated process and SBCTC discourages colleges from making manual modifications to these system generated JVs. However, if modifications need to be made to the JV or asset information, CCS would work with SBCTC and utilize the approved workflow engine in ctcLink (established users who have access to review and approve journal entries).

CCS has not had any building retirements/sales in several years. Because many buildings are funded with several sources including federal funding, the value of these assets are tracked in order to properly satisfy federal requirements and refunding of federal funds upon disposal. David explained that if the college were to dispose of a building, they would work with the grants analysts to obtain proper support and would retire the building by making an entry to remove the asset.

<u>Depreciation</u>

The College relies on the depreciation calculated by the ctcLink system. The straight line method using no salvage value is used for all asset depreciation calculations. The cTcLink system automatically calculates depreciation based on profile types and the asset information entered: in-service date and asset value/cost **(Key Control 3 (Automated)-Valuation).** An entry is created and posted when CCS runs the closing process at month end and is reviewed for reasonableness. David reconciles all capital asset types, including depreciation balances, between the AM and GL at year end. Periodically, he also performs testing of sampled assets to validate depreciation calculations.

Construction in Progress
As payments are made to vouchers, AP assesses payments and approves for expenditures to be capitalized and added to AM. Expenditures for capital assets are flagged as a capitalizable asset upon purchase and based on construction phase. CIP is capitalized at fiscal year end. Yabing works with the capital projects team to determine which projects have been completed, which are still in progress. Yabing performs a detailed reconciliation by project ID using data from the GL to determine amounts to report as CIP at FYE.

Noted Weaknesses are as follows:
None.

Summary of Key Control(s):
Key Control 1 (Existence, Valuation) – The Inventory Control Specialist adds asset information such as Profile ID and acquisition cost to the Asset Management Module in ctcLink using source documentation such as invoices and receiving reports to ensure the system reflects an asset that actually exists and one that is appropriately valued.
Key Control 2 (Existence) - The Surplus Inventory Control Specialist reviews and approves property disposal request forms before removing assets from service. The Logistics Manager secondarily approves all retirements.
Key Control 3 (AUTOMATED - Valuation) - The College relies on the depreciation calculated by cTcLink. The system automatically calculates depreciation based on the asset profile type and information entered: in-service date, commodity code, and asset value.

2. Confirm Understanding

Key Control 1 (Existence, Valuation) – The Inventory Control Specialist adds asset information such as Profile ID and acquisition cost to the Asset Management Module in ctcLink using source documentation such as invoices and receiving reports to ensure the system reflects an asset that actually exists and one that is appropriately valued.
We reviewed the invoice INVSO589310 dated 6/9/23 from Copiers Northwest for a Copier-ImageRunner Advance and related parts. Invoice total was $13,664.46. This asset was tagged as F21182 in AM with a purchase cost of $13,664.46 and profile ID of 7033 (Multifunction Devices - EQUIP), which is appropriate for the asset. **No issues noted.**

Auditor Update: We noted during testing that the purchase cost of additions did not always tie to source records/invoices. Per Tiffany Henderson, these errors are due to the previous process for how assets were added and reconciled monthly. Their process has been updated (updated/current process is documented in our control understanding above). We have documented an overall issue for the unreconciled status of AM to the GL, see issue linked in conclusion.

Key Control 2 (Existence) - The Surplus Inventory Control Specialist reviews and approves property disposal request forms before removing assets from service. The Logistics Manager secondarily approves all retirements.
We reviewed the Property Disposal Request form CCS-22-056 dated 2/1/23 for asset ID 132635. We noted the justification for removal was "item recycled through one of our designated recylers" and it is certified as disposed of by Debi Griffin on 2/1/23. The form also indicates the action taken by Central Services: date of disposal is indicated as 2/1/23 and is signed by Logistics Manager Paul Katz. **No issues noted.**

Key Control 3 (AUTOMATED - Valuation) - The College relies on the depreciation calculated by cTcLink. The system automatically calculates depreciation based on the asset profile type and information entered: in-service date, commodity code, and asset value.
We confirmed the automated control at: [IT Control Testing Depreciation]. See step for additional detail. **This control is in place.**

3. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

4. Control Risk at LOW - Test Key Controls

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

5. Final Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

I.3.PRG - Community & Technical Colleges Testing - Spokane

Procedure Step: IT Control Testing_Depreciation

Prepared By: CJG, 10/5/2023

State of Washington

Reviewed By: RKM, 10/29/2023

Record of Work Done:

This record may contain information considered exempt from public disclosure under RCW 42.56.420 of the Public Records Act. As such, distribution of this record is limited.

1. Understanding of Automated Key Control:
Material System: Asset Management (AM)
Key Automated Control: The AM module automatically calculates depreciation based on the asset information entered: in-service date, commodity code, and asset value.

Our understanding of the overall control is documented as part of our understanding of controls over relevant assertions for Asset Management at the Depreciable Capital Assets_Controls step.

2. Key Automated Control Confirmation and Testing:
We confirmed and tested the key automated control as follows, to determine whether the software calculation correctly valued each transaction:

- Profile Type: Useful life (as determined by the SAAM)
- Profile Type: Salvage value (none used by the college)
- Manual Entry: Asset value/Cost
- Manual Entry: In-service date

We tested the same assets selected in our valuation/existence sample. We used a 7.5% tolerable misstatement and a moderate assurance to select and recalculate accumulated depreciation on 11 asset additions (and 12 reductions only to determine removal of asset to zero value) to confirm the automated control and determine whether the software correctly valued each transaction. We used a report from the AM - Fixed Asset Module on the "AM Data" tab showing the fields included in the calculation, as listed above. We then recalculated the accumulated depreciation and tied the amount back to the amount actually posted in AM. See testing at [Depreciable Assets Testing]. We determined that the system is accurately calculating monthly depreciation based on the date entered as placed in service for sampled items. **This automated control is in place.**

3. Understanding and Testing General IT Controls:
Not applicable - we are not planning to rely on automated controls and therefore do not need to test general controls; control risk will be assessed at maximum.

I.3.PRG - Community & Technical Colleges Testing - Spokane

Procedure Step: Depreciable Capital Assets_Testing
Prepared By: CJG, 11/2/2023
Reviewed By: RKM, 11/3/2023

Record of Work Done:

Material Balance(s) and Assertion(s):

Governmental Activities - Depreciable Assets (Net of Accumulated Depreciation) - Existence, Valuation

Controls are documented in the Depreciable Capital Assets_Controls step.

Population Reconciliation and Sample Selection:

CCS utilizes the Asset Management (AM) module within ctcLink to manage its assets. We received several reconciliation spreadsheets including AM data and data from the GL from Tiffany Henderson, Director of Financial Reporting and David Williams, Controller. Reconciliations included:

- Fixed.Assets.2023.xlsx
- GL.Pivot.Breakout.2023.xlsx
- AM Accounting Line 2023.v2.xlsx
- Copy of CIP Recon.dw.8.1.23.xlsx

CCS stated that the GL is their main book of record and they do have a variance between the GL and AM as a result of residual ctcLink conversion issues. David Williams stated that CCS is working with SBCTC to correct the variances and hopes to correct them in FY24.

On tab "FY23 Summary Recon", [Depreciable Assets Testing] we reconciled capital asset activity for FY23 between the GL, AM and AFRS (via FAP - Source: Trial Balance Activity - Fund/Program/Org). We determined there is no variance between the CCS GL and what is reported in AFRS, however, there is a $8,783,219.51 variance between the GL and AM (below the floor). SAAM 30.20.95 and 85.60.60 require agencies to reconcile AFRS capital assets to the detail listing of capital assets in the agency's **authorized** capital asset management system. Their general ledger would not be an authorized capital asset management system. We recommend CCS continue to work with SBCTC to ensure its asset system is reconciled with the GL and assets are appropriately tracked. **See issue here: [**V: CCS Unreconciled Assets in the Asset Management System**]**

State of Washington

We determined to use the GL data as the basis for our population verification and sample selections.

We determined assets placed into service and retired during FY23 as part of our GL/AM/AFRS reconciliation here: [Depreciable Assets Testing] using GL and AM data obtained from Tiffany Henderson, Director of Financial Reporting. We noted the GL Data does not contain asset IDs, only Journal IDs, and the AM Data only contains asset IDs, not Journal IDs. We obtained a third report from Tiffany, called the "AM Accounting Line" that contained both IDs and we used the three reports to ensure we were picking samples from the reconciled and verified GL population. We found a population of 105 asset addition journal entries to the GL and 136 asset reduction journal entries to the FL. We used the small population sampling spreadsheet with a 7.5% tolerable misstatement and moderate assurance needed for both assets and reductions to determine a sample size of 11 additions and 12 reductions, selected haphazardly. In our review, we noted no individually significant item in the asset additions and no individually significant items in reductions.

Substantive tests performed to meet the Existence assertion:

Additions & Reductions Testing:

We tested for the following attributes related to **Existence**:

A = The asset meets OFM capitalization criteria (SAAM 30.20)

B = Acquisition date/disposal date was properly recorded, traced to invoice/disposal form and amount reported represents actual costs that exist of as of the report date.

C = Are assets fairly classified as buildings, CIP, equipment, infrastructure, etc.

See testing at: [Depreciable Assets Testing] tab "3- Existence Valuation". For selected assets, we obtained invoices, disposal forms and other supporting documentation from Tiffany Henderson.

For asset additions, we noted one asset (F21183) that was placed in service in error as the work had not been completed in FY23. It has been removed from AM (purchase cost $28,340). There were an additional 7 assets whose invoices did not match the purchase cost in AM. Per Tiffany Henderson, the errors are related to the previous process of how assets were added and reconciled monthly. CCS has updated their process and this should not be an issue going forward. Total known misstatement due to incorrect recording of purchase cost for these 8 assets is $43,238 projecting to a likely misstatement of $436,285. ***Both known and likely misstatements are below the floor. Exception rate exceeds the tolerable misstatement and we considered additional testing. We determined not to perform additional testing as we have already documented an issue for known issues with AM and its unreconciled status with the GL and AFRS. See conclusion above.***

For asset reductions, we noted all assets met capitalization criteria, were classified correctly and were properly disposed. Two assets were considered small and attractive and were appropriately removed from AM. Disposals forms and proper procedures and documentation were retained and marked as removed from the system. Property disposal packets included the disposal request form, central services equipment disposal form, and screen shots from AM showing the asset was disposed of (entry "RET"). Property disposal forms included justification for removal, date of request, action taken by central services and were signed by Debi Griffin, Surplus Inventory Control Spec 2. Equipment disposal forms listed asset tag number, date of disposal and were also signed by the Logistics Manager. ***No issues noted.***

Buildings Testing:
We determined to test buildings as building assets net of depreciation make up 78% of total depreciable assets. We then verified $286,153,971 (92%) in building assets existed by tying building cost as tracked in AM to buildings reported on CCS campus maps, by selecting building assets of greatest value. We then traced the buildings to Google maps. See testing at: [Depreciable Assets Testing] tab, "4 - Buildings Existence". ***No issues noted.***

Substantive tests performed to meet the Valuation assertion [Depreciable Assets Testing]:
We tested for the following attributes related to **Valuation**:
D = The asset is recorded at historical cost as compared to original invoice and all ancillary charges necessary to place in intended location OR Asset is properly removed from asset listing, equaling zero value at year end.
E = IT CONTROL- ctcLink automatically calculates straight-line depreciation based on asset information entered: in-service date, commodity code, and asset value.

See testing at: [Depreciable Assets Testing] tab "3 - Existence Valuation". We determined that the system is properly calculating monthly depreciation based on the the appropriate criteria (date, life, value) entered in the system (automated IT control). We did note that the purchase cost for 8 additions was incorrect, causing the depreciation to also calculate incorrectly. We did not recalculate depreciation using the invoice cost as the automated IT control is operating effectively based on data entered into the system and the variance in depreciation, if using the corrected asset cost, would be immaterial to the governmental activities opinion unit. ***No issue noted.***

We noted all reductions selected for tested were removed from the asset module and fully depreciated before year end. ***No issues noted.***

I.3.PRG - Community & Technical Colleges Testing - Spokane

Procedure Step: Charges for Services_Controls
Prepared By: JLE, 11/6/2023
Reviewed By: RKM, 11/8/2023

Record of Work Done:

Act. As such, distribution of this record is limited.

Material Balances and Assertions:

Internal controls in the Community and Technical College System address the following balances:

Governmental Activities - Education - Higher Education Charges for Services - Occurrence, Valuation

Higher Education Special Revenue - Charges for Services - Occurrence, Valuation

See lead sheet here: [Lead Sheet]

1. Gain an Understanding of Internal Controls

On 9/8/2023, we met with Tiffany Henderson (Director of Financial Reporting), David Williams (Director of Fiscal Services), and Brooke Sackman (Student Finance Accounting Manager), to gain an understanding of controls over Charges for Services.

Software used by community colleges to generate tuition revenue is developed and maintained by State Board of Community and Technical Colleges (SBCTC). Student information is captured in the ctcLink system, within the Campus Solutions Core module (CS). Tuition is automatically calculated and applied to student accounts within the Student Financials module (SF). The rates and codes used in the tuition calculation process reside within several key system tables, which are maintained in part by SBCTC, and by the local colleges.

Admissions & Class Registration

Student can register on-line at the Admissions office, where the student application is processed within the CS module. Critical information associated with tuition revenue is captured at this point regarding the student's status (i.e. resident, non-resident, veteran, etc.), and this data is then posted to CS. When the first billing record is generated for the student (i.e., for admissions or testing fees), a billing account is then created for the student in CS.

Students typically register for classes on-line, but they can also do so in person. Classes are defined within CS. The information captured in CS during registration is then used in calculating the amount of tuition owed by each student. (i.e., residency, waiver, and credit load information is used in conjunction with rates defined in the SF tuition tables, to generate an owed tuition amount).

A student's tuition and fee liability is recorded in the CS database when students register for classes, but revenue will not be recognized in the GL until a journal is created in CS and sent to SF via nightly batch.

Tuition Calculation

Tuition is automatically calculated by the ctcLink system **(Key Control 1 - Valuation)**, based on the following factors:

Residency - in state versus out of state rates, student status as determined by student assertion and FAFSA information.

Division - rates vary for for lower (freshman and sophomore) versus upper (junior and senior) level classes.

Credit Load - a student's amount of registered credits, as determined by their registration schedule within the CS module.
Waivers or Special Programs - there are a plethora of tuition waivers which students may qualify for, such as 'children or spouses of deceased or disabled law enforcement officers/firefighters', and 'high school completion'. There are also available programs such as 'Running Start'. These programs and waivers reduce or completely waive the overall tuition amount owed by the student.

Tuition rates are calculated based on information in Tuition Tables. The majority of these tables are maintained by SBCTC. For those tables and screens which are subject to CCS Board of Trustees (BOT) approval, the SF Accounting Manager (Brooke Sackman) is responsible for updating tuition table rate information within ctcLink as necessary, as determined by BOT action. After each update to tuition table rate information, the SF Accounting Manager haphazardly selects small samples of students and performs a re-calculation, to ensure that the ctcLink auto-calculation is functioning correctly.

Tuition Payment

Tuition can be paid on-line or in person at the Cashier’s office. Payments are captured by the ctcLink receipting module and recorded in SF. Colleges may use a tuition installment program for designated students. Outstanding balances are retained in SF, and are and posted to the GL when payment is made.

Cash

There are always two staff (cashiers) in a cash receipting location. When cash is receipted, funds are immediately counted by a cashier, who then processes the posting of the payment to the students account, and provides a receipt. The cashier also stamps checks for endorsement. Cashiers keep endorsement stamps and deposit-ready material in a safe. Access to the safe combination is restricted to necessary individuals, and is granted by internal audit. Cash which is received throughout the day remains in a locked till. At the end of day, the till is balanced and reconciled. Each cashier is responsible for their own reconciliation. The reconciliation process includes comparing receipts from the credit card terminal and cash in the till to the ctcLink ‘review tender’ screen within the cashiering module. Once these amounts balance, the cashier completes an Excel tracking document and prints this document. At this point, each cashier reviews, counts, verifies, and signs off on each other's work. All cashiering documentation backup (the Excel tracker, 'review tender' screen information, and receipts) are bundled and retained. Deposit-ready cash items are placed in the safe to await secure transport. Loomis Security Transport trucks come and pick up funds 3x a week.

Online Credit Card Payments

Payments made through CyberSource are automatically linked into system (online credit card payments). CyberSource automatically posts to ctcLink, which flows through to the GL via the SF journal (posted in a daily SF batch).

ACH/Wire Transfer

This payment method is mainly used by international students. The software 'PayMyTuition' is utilized, which functions similarly to CyberSource. A confirmation of the wire is provided to CCS, and once funds are received, CCS manually inputs the payments into ctcLink.

Payment Plans

Nelnet offers a payment plan which spreads the total payment amount for a term in equal installments over the length of the term. Students who wish to enroll may elect to do so within 30 days of term start. Similarly to CyberSource, Nelnet payments are automatically linked into the system as they are received.

Laurice May (Fiscal Analyst 2) performs a daily bank reconciliation to ctcLink, by running an electronic data download from the Bank of America, and reviewing each individual transaction, tying it to the ctcLink journals. Variances are investigated, corrected, and communicated up to Clint (Fiscal Services Account Manager), and then to Tiffany and David. At month end, Laurice performs the bank statement to GL activity reconciliation for all cash counts. Typically, there are multiple bank activities that need to be reconciled. David provided us a document that describes the different types of journals that must be reconciled from book to bank, see: [Bank.Reconciliation.Narrative.2023].

CCS has found that reconciling the journals by type has helped them to complete more accurate bank reconciliations. After Laurice prepares the reconciliation then Clint (Fiscal Services Account Manager) reviews and approves it to ensure accuracy **(Key Control 2 - Occurrence)**. At year-end, a similar process is performed as with month end, but David also performs a review of the entire year's reconciliations.

Posting to the GL

Tuition revenue is recognized when a student's enrollment is complete and student status is validated. Upon completion of the student's enrollment, a journal entry is created in Campus Solutions Core and sent to Finance via nightly an automated nightly batch process.

Cash receipts are posted to the GL through a nightly batch process, and if there are posting problems, the system notifies the user that the batch did not post. Corrections are made through a batch edit screen, and the corrected batch is remitted. Tuition payments result in revenue being posted to Fund 840 under the source codes 0424 (tuition) and 0430 & 0431 (supplemental fees). Note that Spring/Summer pre-payments for Fall Quarter tuition are posted to GL account 5192 (deferred revenue).

In order to validate that GL postings are accurate and complete, CCS has designated Clint McGregor (Fiscal Services Accounting Manager), as responsible for a daily check of which system generated journal entries (as described above) were generated during overnight processing. He reviews and posts these journal entries. Part of Clint's review includes ensuring that expenses can be covered by a valid budget within the system, and that revenues are expected. **(Key Control 2 - Occurrence)**. For custom journal entries, Clint is the first reviewer, and Tiffany is the second. Custom journal entries are denoted by a 000 prefix. Custom journal entries are required to include backup attachment information explaining the purpose of the journal entry.

To additionally ensure completeness and accuracy, system-generated GLs are set up to not allow any adjustments, and will continue re-generating daily until posted. For custom journal entries, in addition to undergoing multiple rounds of review, the person who requested the entry will also re-run data after the adjustment is made, functioning as a third level of review.

Distribution / Allocation to Revenue accounts

An automated monthly process is run in ctcLink to allocate tuition revenue payments from GL fund 840 to the funds below. With the exception of Service & Activities fees (set by the Local Board of Trustees), the individual fund distribution percentages are determined by the Legislature. The local college manually posts and retains these percentages in the Tuition Schedule.

060 (Building fee portion; remitted back to the State)
149 (Operating fee portion)
522 (Services & Activities portion)
561 (Comm/Tech College Innovation portion)
860 (Institutional Financial Aid portion)

We obtained the tuition and fee schedule from Tiffany as part of our PBC requests at the start of the audit.

Transfer to AFRS

The process continues to be manual, although SBCTC is working on an automated interface to transfer financial data to AFRS. System Accounting Coordinator handles all ctcLink uploads to AFRS. Every month, on the AFRS cutoff date, the System Accounting Coordinator runs a query in ctcLink of all journal entries created. This is a summary level report that is downloaded into an Excel spreadsheet. The Coordinator then creates two pivot tables; one by funds and amounts, another by general ledgers and amounts. Staff expects the pivot table by fund and amount to be zero. Staff then compare the second pivot table to another report, which is generated for the State Auditor's Office (SAO). Both reports are queried from the same database, the one for SAO contains a few more fields. When all the amounts agree, staff prepare the file to be uploaded into AFRS.

Staff then sorts the file by fund, general ledger, and amount. The customization now generates the output files (flat files with transaction codes) and sends them to AFRS similar to how it is done in the Legacy system. There are usually 1600 to 2200 lines for each college each month. This file is saved as a flat file format and is uploaded into AFRS using the OFM's Financial Toolbox. A test run in what is known as the SUP environment (copy of previous day’s production) is then used to check for any major issues. Staff is then able to capture a copy of the flat file and uses that to reconcile between what is in ctcLink and what was transmitted to AFRS. Staff makes any necessary corrections to the AFRS batch and releases the output file to AFRS.

In addition to the SBCTC-provided checklists and steps listed above, CCS follows their own internal check list at year-end close. The checklist assigns various staff members responsibilities for making end of year closing entries. Tiffany Henderson, David Williams, and Brandy (Budget Director) review all year-end closing work.

Identified Key Controls:

Key Control 1 (AUTOMATED - Valuation): The ctcLink system automatically calculates tuition for all students based on residency, division, and credit load status.

Key Control 2 (Occurrence): Cash deposit records are reconciled to electronic bank statements on a daily basis, and the bank statements are reconciled to GL activity on a monthly basis, ensuring reported revenue activity agrees to reported assets. This reconciliation is prepared by the Fiscal Analyst 2, and reviewed and approved by the Fiscal Services Account Manager. Prior to posting GL activity relating to student charges, the Financial Reporting staff reviews the system-generated journal entries, ensuring they are accurate and complete.

Noted Weaknesses: None.

2. Confirm Understanding

Key Control 1 (AUTOMATED - Valuation): The ctcLink system automatically calculates tuition for all students based on residency, division, and credit load status.

See confirmation of understanding documented at the 'IT Control Testing_Charges for Services Calculation' program step [Automated Control].

Key Control 2 (Occurrence): Reconciliation of receipted tuition payments are reconciled to Bank Statements, which are reconciled to GL activity. Prior to posting GL activity relating to student charges, the Financial Reporting staff reviews the system-generated journal entries, ensuring they're accurate and complete.

See confirmation of bank reconciliation understanding documented at the 'Cash and Pooled Investment_Controls' program step [new]. We participated in a live walk-through of the process to post GL activity relating to student charges on 9/8/2023. Clint McGregor (Fiscal Services Accounting Manager) shared his screen, and showed us the Excel journal validation workbook templates which are used by CCS in order to review and post journal entries (JEs). We noted that the instructions included a breakdown of the specific entries which are happening within the Student Finance screens when tuition is billed and cash is receipted. We noted that these workbook templates also include instructions on how to validate that the information within ctcLink (Student Finance) is accurate when compared to the system-generated JE. We observed as Clint logged into ctcLink and accessed the applicable screens where he performs a daily check for the journal entries which are waiting to be posted. We noted that there were no outstanding journal entries, as he had already completed this work earlier that day (new system-generated JEs will generate during the batched overnight processing, and there were no new outstanding custom JEs). **No issues noted.**

3. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

4. Control Risk at LOW - Test Key Controls

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at **MAX**.

5. Final Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

I.3.PRG - Community & Technical Colleges Testing - Spokane

Procedure Step: IT Control Testing_Charges for Services

Prepared By: JLE, 11/7/2023

Reviewed By: SHW, 11/7/2023

Record of Work Done:

This record may contain information considered exempt from public disclosure under RCW 42.56.420 of the Public Records Act. As such, distribution of this record is limited.

1. Understanding of Automated Key Control:

Material System: ctcLink Tuition Revenue System (Campus Solutions Student Finance module)

Key Automated Control: The ctcLink SF module automatically calculates tuition for all students based on student profiles (residency, division, and credit load) and tabled tuition information (Valuation).

Key Personnel:

David Williams, District Director of Fiscal Services
Tiffany Henderson, Director of Financial Reporting
Brooke Sackman, Student Finance (SF) Accounting Manager

Our understanding of the automated control is documented as part of our overall understanding of controls over relevant assertions for Charges for Services at the 'Charges for Services_Controls' program step, see: [Charges for Services_Controls].

The tuition revenue calculation processing resides within a third-party vendor application system, which cannot be modified by system users. The only way for college users to affect the calculation is through edits to associated data tables and screens, and at the College-level, many of those tables are restricted to modification by the State Board.

2. Key Automated Control Confirmation and Testing:
To confirm the automated control, we re-calculated the student tuition & fees amounts billed to student accounts at: [Charges for Services Testing]. There were no material issues noted during testing.
We determined that this automated control is in place.

3. Understanding and Testing General IT Controls:
Not Applicable - we are not planning to rely on automated controls and therefore do not need to test general controls; control risk will be assessed at **MAX**.

I.3.PRG - Community & Technical Colleges Testing - Spokane

Procedure Step: Charges for Services_Testing
Prepared By: JLE, 11/7/2023
Reviewed By: RKM, 11/8/2023

Record of Work Done:

Material Balance(s) and Assertion(s):

Governmental Activities - Education - Higher Education Charges for Services - Occurrence, Valuation
Higher Education Special Revenue - Charges for Services - Occurrence, Valuation

Controls are documented in the 'Charges for Services_Controls' program step, see: [Charges for Services_Controls].

We materially agreed our testing population and college-reported GL data to that which was reported in EIS and in AFRS queries found at: [Interim Planning_Community Colleges Selected for Testing]. **No issues noted.**

Because we do not plan to assess control risk at low, we did not test general controls. We used a 7.5% tolerable misstatement and Moderate assurance (as determined based on the risk of material misstatement, as developed by the State Team at: [Lead Sheet]). Using the TeamStore sampling spreadsheet, we randomly selected 34 students for testing. Our testing selections were made from a report obtained from Tiffany Henderson (Director of Financial Reporting) titled 'SF Accounting Line - Revenue'. We pivoted this report to show the breakdown of total tuition charges by term for each student. See testing at: [Charges for Services Testing].

We requested billing statements and ctcLink Campus Solutions (CS) student account information, as well as the FY23 Board-approved tuition rate tables. These were provided by Tiffany Henderson.

Substantive Tests Performed to Meet the Occurrence and Valuation assertions:
In order to determine whether reported revenue information occurred, we traced student ID numbers to GL data, billing statements, and CS student account information, noting that information was consistent across these three sources. We also verified that the reported revenue occurred during the correct term (spring, summer, fall, winter) and fiscal year (2023).

In order to determine whether reported revenue information was reported at the correct valuation, we re-calculated the amount billed to students, using the following data from the student profile: residency status, credit division, and credit load. This input data was used to find the tuition rate which should have been assessed per the FY23 Board-approved tuition rate tables. We then adjusted for various waivers, Running Start program benefits, etc.

During testing, we noted one exception to the Occurrence assertion, where tuition was under-billed by $52.13. It appears that this student dropped and added several classes, which were a mix of lower and upper division credits. This exception was not material and was not pervasive, as such, we will not create an issue. As the issue was beneath the floor for materiality, we will not carry this to the aggregation of misstatements.

We determined that reported revenues represented actual amounts relating to the period (occurrence), and were properly calculated (valuation).
See conclusion above.

I.3.PRG - Community & Technical Colleges Testing - Spokane

Procedure Step:	Education Expenses_Controls
Prepared By:	JLE, 10/24/2023
Reviewed By:	RKM, 11/8/2023

Record of Work Done:

Material Balances and Assertions:

Internal controls in the Community and Technical College System address the following balances:

Governmental Activities- Education- Higher Education Expenses - Completeness (SBCTC only - see State Board for Community and Technical Colleges), Occurrence, Classification

Higher Education Special Revenue- Charges for Expenses - Completeness (SBCTC only - see State Board for Community and Technical Colleges), Occurrence, Classification

See lead sheet at: [Lead Sheet]

1. Gain an Understanding of Internal Controls

Payroll

On 9/13/23, we met with Melody Matthews (Director of Human Resources Information Systems), Peter Lubetich (Payroll Department Manager), Tiffany Henderson (Director of Financial Reporting), and David Williams (Director of Fiscal Services), to gain an understanding of internal controls for payroll expenditures at CCS.

Recruiting and New Hires

Prior to recruitment, all position requests are entered into the CCSnet PROS (position request online system). The input fields include position title, position control number, position description, expected hours, full-time vs part-time, and classification. These factors drive the rate of pay (such as hourly, exempt, etc.). This system tracks and shows all approval chains related to the position (including budgetary approval). These approvals include the originator, their immediate supervisor, executive approval, budgetary approval, and finally Melody's approval. Any new, full-time permanent positions require a 2nd staffing review after all other approvals have been signed off on **(Key Control 1 - Occurrence)**.

Prior to signing her approval, Melody reviews the Position Request to determine that all information is completed and correct, with no missing fields. She ensures that vacant positions are not being filled twice. After approving, Melody changes the status to 'recruiting', and the system then automatically posts the open position on the College webpage. At this point, a screening committee is responsible for conducting interviews and extending job offers. Once the committee decides to move forward with an applicant, they change the position request status to 'hired', which pushes a notification to Melody's HR team. HR is responsible for ensuring that the new employee completes the new hire application packet. Once the paperwork is complete, it's entered into ctcLink, and HR proceeds with employee 'set-up' in the system, including payroll set-up.

On the ctcLink Payroll and Compensation screens, HR sets the appropriate job code, status (exempt vs. non-exempt), and salary information (range and step), ensuring that the information entered matches the approved Position Request. ctcLink then automatically calculates the salary from tables, based on these inputs. Classified salary schedules are maintained by OFM, sent to SBCTC, and then uploaded on behalf of CCS. For professional exempt and faculty schedules, Melody is the individual designated to update these salary lookup tables, based on Board approvals. Budget changes are only allowed on the 1st or the 15th of the month. There are no mid-pay period changes allowed. Every time that an employee change is made (new employee, promotion, reclassification), then HR checks to ensure that ctcLink is correctly calculating the wage for that employee. Spot-checks are also done whenever salary schedules are updated.

ctcLink has certain built-in security features to prevent undesirable access to payroll information. The only individuals with system access to update payroll lookup tables are Greg (Melody's supervisor), Tiffany Henderson, and David Williams. As another example, an individual cannot update their own payroll information, such as giving themselves a promotion or changing their job class. ctcLink also disallows retroactive payments.

<u>Promotions and COLAs</u>
An Employee Action Notice (EAN) is required for any job location change, supervisor change, stipend, pay increase, or re-allocation. Each EAN goes through the same approval process as Position Requests. A justification also has to be provided with each EAN, showing the original letter for reallocation analysis and a new job description. Once the EAN and justification are approved, the HR team accordingly adjusts the employee's ctcLink inputs for the Payroll and Compensation screens. Promotions are handled slightly differently - all promotions require a Position Request form for the open position, and the process is then very similar to that of adding a new employee **(Key Control 1 - Occurrence)**.

<u>Employee Separation</u>
When an employee separates, an EAN is required, and the letter of resignation or notice of termination must be attached. Separations are not allowed to be backdated. Once an EAN is submitted, HR makes the necessary adjustments in the ctcLink Payroll and Compensation screens. These screens include certain checkboxes, such as 'forward to payroll', which pushes out a notification to the payroll team responsible for auditing leave balances. The notification is also forwarded to IT, who removes all ctcLink permissions for the separating employee.

<u>Processing Payroll</u>
CCS maintains a 'Payroll' subfolder on their Share Drive, where HR maintains a spreadsheet for new hires and separations, including employee type, start/end dates, etc. This ensures that Peter's team in payroll and benefits is aware of personnel changes where action is needed on their end.

Payroll begins processing for each cycle the day prior to the state cut-off date. The payroll team reviews the electronically-submitted time cards, ensuring that all employees have loaded in their time for the correct period, and that it was properly approved **(Key Control 2 - Occurrence, Classification)**. Leave is tracked manually by the payroll department, and is entered as needed into the system. Once the payroll team has verified that time and leave entries are correct, then they use the 'create paysheet' ctcLink feature, which pulls in time, leave, and pay rate data for each employee, creating each paycheck. The Department compares job data information to the generated pay processing data. They verify that no employees are missed, and that separated staff are properly excluded, using VLookup formulas. Payroll then follows the 40-step State checklist, which requires them to run various queries, perform reconciliations, and follow-up on any unusual situations. Once completed, the system is asked to validate the information, and it is subsequently forwarded to SBCTC.

Summary of Key Control(s):
Key Control 1 - Any new hires or modifications to employment which affect payroll are supported by an approved EAN or Position Request form (Occurrence).
Key Control 2 - The payroll team reviews the electronically-submitted time cards, ensuring all employees have loaded in their time for the correct period, and that it was properly approved (Occurrence, Classification).
Noted weaknesses are as follows: None.

Disbursements

On 9/13/23, we met with Heather Pedersen (Account Expensing Supervisor), Jim Scott (Purchasing Order Supervisor), Tiffany Henderson (Director of Financial Reporting), and David Williams (Director of Fiscal Services), to gain an understanding of internal controls for general expenditures at CCS.

Purchase Requests
All new purchase requests are entered into ctcLink through an AP module. Departments create requisitions within ctcLink for the purchase of a service or supply. For routine purchases, or those made within pre-determined buying limits (which vary by Department), the purchaser creates a Purchase Order. This includes information such as the supplier number, dollar amount, how the expenses should be charged (budgetary information), signatures (from the originator and the approving supervisor), as well as any comments for the specific purchase. The invoice or receipt is attached as supporting paperwork, and the packet is sent to an 'AP inbox', which captures all submitted payment requests.

For larger purchases, after gaining budgetary approval, the request is sent to Jim, who reviews the Purchase Order request, verifying that all needed information is complete, and that policies and state law are being followed, including review for whether there are any existing contracts affecting the request, if the request can process as a direct buy, or if the process needs to be put on hold until a bid takes place. After Jim approves Purchase Orders, the Department and originator are able to proceed with the purchase. Once the purchase is complete, the invoice is added to the documentation, and the packet is then sent to the 'AP inbox'.

Issuing Payments
On a daily basis, AP staff reviews each purchase request and supporting documentation prior to entering the request for payment. This review includes verification that all supporting documentation is complete and is properly approved, that submitted invoice dates are current and reasonable, and that purchases are allocated to the correct fund **(Key Control 3 - Occurrence, Classification)**. Once reviewed, the relevant information is then entered into the appropriate ctcLink screens within the AP module, which automatically generates a liability and expense entry to the GL. Two times a week, the AP department runs pay cycles, which generate the actual payment (either ACH or physical check). This pay cycle process debits the liability which was previously generated, and credits cash out the door. Prior to final batching and processing of the pay cycle, Jim, along with Louanne Paupst (Fiscal Specialist 1) and Yabang Fisher (Expense Accounting Senior), review and approve all payments.

ctcLink access is segregated by duty - only AP staff tasked with entering purchase requests are allowed to do so, and only the above-named supervisors are allowed to enter final approval of payments. Supervisors do not have user access to enter payments themselves. ctcLink will not process the pay cycle without the supervisory review being completed. In the event of absence, Tiffany and David serve as 2nd and 3rd backup reviewers.

Purchase Cards
Each card has its own limits, which are determined by the requesting supervisor. Heather is responsible for for setting up the card with the requested limits. Limit increases, whether temporary or permanent, require a supervisory request be sent to Heather, who will review the request and either authorize or deny the increase. Pre-approval is not required for purchases made within the purchasing limits. Card users are trained on appropriate practices, and then each purchase is reviewed prior to ultimate payment.

Staff accountants are responsible for reviewing and auditing purchase card transactions on a daily basis. Once staff marks transactions as 'verified', Heather performs a secondary review of these transactions. Daily, Heather runs a ctcLink cycle which pushes the approved transactions to AP. This creates vouchers, which show up in the twice-weekly pay cycle. When the pay cycle is run, payment is remitted to JP Morgan.

Noted weaknesses are as follows: None.

2. Confirm Understanding

Key Control 1 - Any new hires or modifications to employment which affect payroll are supported by an approved EAN or Position Request form (Occurrence).

We reviewed an EAN for Brian McCann, effective 9/1/2022, requesting to reallocate from a Tutor (College-Level), to an Instruction & Classroom Support Technician I. We noted that the EAN would change the employee's salary schedule to 39, Step B, which is the correct range for this job position according to OFM. We noted that all information on the EAN was completely filled out, including budgetary information, supervisor information, employee ID numbers, position numbers, department numbers, and justification for the change. The EAN was originated by Sarah Boyd (Arts and Sciences Office Manager), and approved by Erin Smith (the employee's immediate supervisor - Assistant Dean of Arts and Sciences). We noted additional approvals, including Jennifer Martin (College President), and budgetary approvals. We noted that the final approval was made by Melody Matthews (Human Resources Director). **No issues noted.**

Key Control 2 - The payroll team reviews electronically-submitted time cards, ensuring employees loaded in time for the correct period, and that it was properly approved (Occurrence, Classification).

We reviewed the CCS internal checklist used by the Payroll Department in preparing the 3/10/23 payroll cycle (payroll period 2/16/23 - 2/28/23).

We noted that on 3/4/23, the following tasks were marked as 'complete':

- Verify that overtime eligible Exempt employees have submitted their timesheets.
- Run the 'QHC TL PAYABLE TIME OVERLAP' query to find issues with duplicate reporting of hours.

- Verify OVT and SOV reported correctly, using the 'CTC TL PAY TIME BY PERIOD' query.
- Verify TRC codes being used in the current payroll (verify CBP, SNR, CTP, HWK, SOV).
- Verify no negative hours are waiting for approval, using the 'QHC TL PAYABLE TIME STATUS' query.
- Verify reported time not payable, using the 'QHC TL RPTD NOT PAYABLE' query.
- Check classified employees who have not completed their timesheets, using the 'QHC TL RPTD TIME NO HOURS' query.
- Verify denied timesheets, using the 'QHC TL PAYABLE TIME STATUS' query.
- Check for reported time with no 'out' using the 'QHC TL RPTD TIME NO OUT' query.
- Check for paytime needing approval, using the 'CTC PAYTIME NEEDS APPROVAL' query.
- Check comp time TRC codes/payout.
- Check for holiday duplications (verify no HOL submitted on H17 timesheets).
- Check for unauthorized holidays (verify no HOL submitted on H17 timesheets).
- Verify 'worked on holiday' (verify no HOL submitted on H17 timesheets).

No issues noted.

Key Control 3 - Prior to payment, the AP Department reviews purchase requests, ensuring the request is properly supported and approved, that submitted invoice dates are current and reasonable, and that purchases are allocated to the correct fund (Occurrence, Classification).
We reviewed Purchase Order #6678 and the associated Invoice A-22508 from Orbis Cascade Alliance for $2,782.58, dated 7/22/2022. The purchase request was submitted by Melinda Martin (Librarian), for an Oxford Art Online access subscription for the period of July 1, 2022 - June 30, 2023. The purchase was allocated to Fund 148, which according to the OFM Fund Reference Manual, is fund type BA Special Revenue Funds - the fund account title is 'Institutions of Higher Education Dedicated Local Account'. We noted that on 7/27/2022 the invoice was reviewed and marked as 'OK to pay' by AP. **No issues noted.**

3. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

4. Control Risk at LOW - Test Key Controls

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

5. Final Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be

effective to reduce detection risk to an acceptable level.

I.3.PRG - Community & Technical Colleges Testing - Spokane

Procedure Step: Education Expenses_Testing
Prepared By: JLE, 10/24/2023
Reviewed By: RKM, 11/8/2023

Record of Work Done:

Material Balances and Assertions:

- Governmental Activities- Education- Higher Education Expenses - Completeness (SBCTC only - see State Board for Community and Technical Colleges), Occurrence, Classification
- Higher Education Special Revenue- Charges for Expenses - Completeness (SBCTC only - see State Board for Community and Technical Colleges), Occurrence, Classification

Controls are documented above in the Education Expenses_Controls step.

See testing at: [Education Expenses Testing] - 'Payroll Testing' and 'AP Testing' tabs.

Testing Selections
We ran an EIS query for 'Expenditures by Object - Subobject - ', in order to analyze changes in expenditures and to determine testing coverage for higher education expenditures at the Community Colleges of Spokane (CCS).
We noted that there were no major differences in either amount or overall balance composition from prior year. We planned to obtain 92% coverage of the total balance by testing Subobjects A: Salaries and Wages, and E: Goods and Other Services. We also performed testing as part of Depreciable Capital Assets and Federal Grants-In-Aid. For Depreciable Capital Assets, we tested occurrence (existence) by verifying that the asset acquisition date/disposal date was properly recorded, traced to invoice/disposal form, and that the amount reported represents actual costs that exist of as of the report date; we also tested that assets were fairly classified as buildings, CIP, equipment, infrastructure, etc., in accordance with SAAM 30.20. For Federal Grants-In-Aid, we traced sampled revenues from the GL to supporting billings or subsequent receipts to verify that the revenue occurred and was adequately supported. See work performed at [Depreciable Assets Testing] and [Federal Grants In Aid Testing], respectively.

State of Washington

Utilizing the FS Substantive sampling worksheets from the TeamStore, we randomly selected 30 transactions for payroll testing, and 30 transactions for general disbursements testing.

Payroll selections were made from a payroll detail for FY23, provided in the initial PBC request by Tiffany Henderson (Director of Financial Reporting). While reconciling this population to the reported ctcLInk and EIS data, we noted a $529,626 variance which was due to end-of-year payroll accurals, which were subsequently recognized in 2024. As such, we determined the population to be complete for testing purposes.

Disbursement selections were made from the 'QFS_GL_SCRECNP_DETAIL' ctcLink query (ran for accounts 500010 through 5120020). See below for our description of reconciling this population to the reported EIS data.

Note: This SRECNP DETAIL query produced several 'batched' transaction selections (e.g., one selection was the cumulative total of several underlying transactions). It's important to work with CCS to obtain selections from a more user-friendly report.

Substantive tests performed to meet the Occurrence assertion:
For payroll selections, we obtained HR contract or Employee Action Notice (EAN) documentation, and paystub or timesheet information from Tiffany Henderson (Director of Financial Reporting).
For each selected payroll transaction we reviewed the following:

- Whether the reported payee actually existed at the time of payment, as supported by signed and approved contract or EAN (we additionally verified that the reported payment date did not occur outside the specified contract/EAN dates).
- Whether the reported expenditure represented real amounts, as supported by paystub or timesheet information.
- Whether the reported payroll period agreed to the paystub or timesheet information.

For general disbursement selections, we obtained the Purchase Order and corresponding invoice, receipt, or other proof of purchase from Tiffany Henderson (Director of Financial Reporting). For each selected disbursement transaction we reviewed whether the reported expenditure represented real amounts, as supported by the purchase order and invoice, receipt, or other such documentation.

During disbursements occurrence testing, we noted that one invoice, for $53.41, was unable to be located by the College. This led to a projected misstatement amount of $25,179, which is beneath the floor and within the tolerable misstatement rate. As such, we will pass on further testing, and will not carry this to the AOM. **No issues noted.**

Substantive tests performed to meet the Classification assertion:
For payroll selections, we obtained paystub or timesheet information from Tiffany Henderson (Director of Financial Reporting). We verified whether the recorded payment date belonged in, and was properly allocated to, the 2023 fiscal year.

For disbursement selections, we obtained the Purchase Order and corresponding invoice, receipt, or other proof of purchase from Tiffany Henderson (Director of Financial Reporting). For each selected disbursement transaction we reviewed the invoice date and payment date, comparing these to the expenditure date reported in ctcLink. We verified whether this payment belonged in, and was properly allocated to, the 2023 fiscal year. We additionally compared reported funds to the OFM Fund Reference Manual, verifying that the reported fund was reasonable given the expenditure. **No issues noted.**

I.3.PRG - Community & Technical Colleges Testing - Spokane

Procedure Step: Federal Grants-In-Aid_Controls

Prepared By: CJG, 10/2/2023

Reviewed By: RKM, 10/29/2023

Record of Work Done:

Material Balances and Assertions:

Internal controls in the Community and Technical College System address the following balances:

Governmental Activities - Education - Higher Education Operating Grants and Contributions - Occurrence
Higher Education Special Revenue - Federal Grants-In-Aid - Occurrence

See lead sheet here: [Lead Sheet]

1. Gain an Understanding of Internal Controls

We met with the following people on 9/13/23 and also 9/21/23 to update our understanding over federal grants-in-aid:

David Williams, Controller
Tiffany Henderson, Director of Financial Reporting
Brandy Browning, Director of Accounting and Budget
Bordeaux Milette, Fiscal Analyst 3 (Non-Financial Aid Grants)
Diana Biddison, Budget Analyst 3 (Non-Financial Aid Grants)
Tammy Zibell, Director of Financial Aid and Work Study
Alexandra Bailey, Director of Financial Aid and Veteran Services

State of Washington

There are several types of federal grants received at Community Colleges of Spokane (CCS) which require separate processes. We have categorized these into two basic grant types: Financial Aid Related (DOE), and Non-Financial Aid Related (DOA, DOL, HHS, etc.)

<u>Financial Aid Grants:</u>
The financial aid related grants are through the Department of Eduction (DOE) including, Pell Grants, Federal Supplemental Educational Opportunity Grant (SEOG), and Federal Work Study Program (FWS).

Expenses:
To be eligible for federal awards, students fill out the FAFSA and DOE determines eligibility based on different criteria for each grant. Review of eligibility and awarding is determined on campus in the Financial Aid Office (FAO). Once the amount of federal aid has been determined, the FAO sends students award letters and lets them know the dollar amounts of their awards. In the disbursement phase of the process, federal regulations allow them to disburse funds up to 10 days in advance, but CCS usually disburses 3-4 days in advance and students don't have access to the funding until the first day of the quarter. CCS has an established disbursement process where they work together with the student finance office to separate the duties of award and disbursement. CCS staff in the FAO, normally the Associate Director or a Disbursement Specialist, runs a predefined disbursement process which is a query that checks for enrollment, if any factors have changed, and continued eligibility within the system. The FAO then sends the Manager of Student Accounting, Brooke Sackman, a file containing a list of all student accounts and the amounts that are to be disbursed. Brooke uploads it as a batch to Bank Mobile to apply the awarded amounts to those student's accounts. The file from the FAO contains item types. Those item types have a string of coding to the chart of accounts so they post to the correct grant.

DOE grants also allow for a certain percentage of indirect costs to be included for reimbursement. CCS has an approved indirect cost rate plan, but if there is a determined rate inside the grant agreement itself, then the rate in the agreement will be used. The FAO calculates the expenditure amount with the correct indirect cost rate with the Manager of Student Accounting's assistance.

Reimbursement:
Once the awards to student accounts have been posted, the Manager of Student Accounting runs queries out of the accounting software to determine how much has been applied to each type of grant. The Manager of Student Accounting pulls the reports for the entire grant award period to date (which is the start of the FY) from the Student Management subledger. These reports contain lists of student accounts in which the funds were applied. The Manager of Student Accounting performs a reconciliation, taking the total revenue already received and subtracting it from total expenditures to obtain the total draw amount and to ensure all applicable expenditures are included in the draw request and are for the correct period **(Key Control 1).**

In order to avoid overdrawing and having to return funds, the Manager of Student Accounting will draw slightly less (depending on the grant, average of $50k) than the actual calculation. The amount is determined based on experience with the grants and professional judgement. Draw downs from the online G5 system are based on actual expenditures. G5 is the DOE's grants management system designed to track grant awards and issue reimbursement. Draw downs are submitted approximately 3 days prior to the start of each school quarter and then another around two weeks after the quarter starts. Then approximately once a month for the rest of the term. This allows for students to have had a chance to finalize their schedules with any classes added or dropped. Because tuition expenses are constantly a moving target, at the end of the FY the Manager of Student Accounting does a true-up reconciliation (with Financial Aid and G5) by running detailed expenditure reports from the CCS accounting system and balancing to the total expenditures tracked in G5. The Manager of Student Accounting ensures that only the transactions related to the applicable grant year are included by running expenditure reports by student term (winter, spring, summer, fall).

David stated that they do occasionally need to make corrections for recording expenses or revenues in the wrong period. This is especially true for activity on the last day of the month or at the end of the fiscal year. Errors are caught during reconciliations and in order to make the correction, fiscal analysts create accrual entries to move the revenues and expenses to the correct fiscal period.

Revenue Recognition:
The Manager of Student Accounting sets up an AR and revenue when funds are requested. Once the draw from the G5 system has been approved, funds are electronically transferred into the College's bank account. A verification email is received from the grantor/agency documenting the EFT transmission which is used to apply funds to the appropriate invoices (A/R). The FA2 who performs the daily cash reconciliations, Laurice May, clears the receivable to recognize the revenue.

<u>Non-Financial Aid Grants:</u>
Non-financial aid related grants are through the DOA, DOL, HHS, etc.

Expenses:
At each of the colleges, program managers are responsible for approving purchases (generally using P-Cards) for allowable activities as well as reviewing and approving the payroll/travel in which employees charge time to various grants. Billings are reviewed again at the District Office for reasonableness and are then approved for payment through the normal AP process. All receipts and backup documentation are attached in the billing system to support transactions. Once the expenditures have been paid, the Fiscal and Budget Analysts are able to review the supporting documents for reasonableness (based on the specific grant) and to ensure the expense are properly valued and recorded in the appropriate period prior to requesting reimbursement. As mentioned above, the college has an approved indirect cost rate plan and costs for the period are calculated and entered by Diana or Bordeaux prior to requesting reimbursement using the rate from this plan, or the rate from the grant agreement if specified to do so. Credits are recorded as reducing the correlating expenditure and are picked up in the expenditure detail report. Additionally, when billings are recorded at fiscal year end, they are accrued back into the appropriate period so that when the revenue is recognized, it is being accrued back and applied to the correlating expenditure.

Reimbursement:
For state board grants, OBIS (Online Budget & Invoicing System) is billed first and then the billing is done in the grant module to calculate the revenue for reimbursement; non state board grants require the creation and submission of a pre-approved reimbursement request template. At the end of the month (or quarterly depending on the grant agreement) the Fiscal or Budget Analyst runs expenditure reports from the GL and

balance these reports to the Colleges billing module to ensure that all expenditures are included and are for the correct period. The Fiscal and Budget Analyst use the GL actual expenditures report to prepare the reimbursements **(Key Control 2)**. For grants requiring a template, the reimbursement request is given to the Manager of Student Accounting to review and submit. The Fiscal and Budget Analyst review expenditure detail and monitor grant budgets to ensure that the expenditures are for the correct fiscal year. Diana stated that the college uses the fixed price billing method to bill all their grants in ctcLink so that no CAPC journals are produced. They do have grants that are cost reimbursable and grants that are fixed price grants. For cost reimbursable grants, the calculation of revenue for reimbursement is determined by the amount of expenditures charged to the grant for the month. For fixed price grants, the calculation of revenue for reimbursement is determined by the grant contract, which either specifies how much to bill each month or specifies how to determine how much to bill each month/quarter. CCS bills both types of grants under the fixed price billing method in ctcLink. All grants are recorded in the GL and grant bills are picked up by running a GL report. The GL grant report is balanced and expenditures are reviewed by the Fiscal and Budget Analyst to ensure all bills were reconciled for the period.

Revenue Recognition:
As all grants are processed under the fixed price billing method, CCS avoids creating excess revenue entries through unbilled receivable (CAPC) journals. OBIS is manually billed where a JE is created to debit AR control and credit revenue. Upon EFT of the funds from the granting agency, the receivable amount is reduced by the treasury clerk using the EFT detail to apply to the correct AR invoice.

Note: The information in the accounting system, which is a result of the processes above, is gathered for reporting at the state level.

Noted Weaknesses are as follows:
None.

Summary of Key Control(s):
Key Control 1 (Occurrence - Financial Aid): The Manager of Student Accounting performs a reconciliation, taking the total revenue already received and subtracting it from total expenditures to obtain the total draw amount and to ensure all applicable expenditures are included in the draw request and are for the correct period.

Key Control 2 (Occurrence - Non-Financial Aid): The Fiscal and Budget Analyst, use expenditure reports for the grant period to date and balances these reports to the College's billing module to ensure that all expenditures are included and are for the correct period. Once determined, the correct entry is made - (DR) receivable / (CR) revenue.

2. Confirm Understanding

Key Control 1 (Occurrence - Financial Aid): The Manager of Student Accounting performs a reconciliation, taking the total revenue already received and subtracting it from total expenditures to obtain the total draw amount and to ensure all applicable expenditures are included in the

draw request and are for the correct period.
We obtained the reconciliation spreadsheet "Workpapers SP23 3.30 Draw.xlsx" from Tiffany Henderson, Director of Financial Reporting. The spreadsheet was prepared by Brooke Sackman, Manager of Student Accounting. The spreadsheet shows disbursements for the period 3/1/23-3/30/23 for CARES, SEOG, DL and Pell. The reconciliation includes tabs with detailed expenditure data, including payment dates, from ctcLink to support the amounts reported as disbursed for the period. The reconciliation also includes a calculation of the amount to draw, which was underdrawn to keep a buffer. The reconciliation notes a draw of the following amounts:

WA171 and WA172 CARES - $0
WA171 and WA172 SEOG - $0
WA171 DL - $2,237,022
WA172 DL - $1,042,053
WA171 Pell - $2.570,691.41
WA172 Pell - $990,383.80
Total $6,841,150.22

We viewed a screenshot showing the G5 draw confirmation that tied to amounts from the recon, with a deposit date of 4/3/23. We traced these to the April Bank of America bank statement, showing deposits made on 4/3/23 in the total amount of $6,841,150.22. We also obtained the related invoice (MSC-0000017125) and the portal funds request email sent from Brooke Sackman to WSAC dated 3/30/23. We noted that the draws on the spreadsheet, invoice, bank statement, and the portal funds request email tied without exception. ***No issues noted.***

Additional information for context provided by the College for the confirmation:

- Reports are run by item type out of the CS Pillar of ctcLink to determine what awards have been granted to students and, thus, what amount of reimbursement to request in the form of a G5 draw.
- Limited staff have access to perform draws in G5 in the Business Office (CFO, Controller, Budget Director, SF Manager as Lead).
- Based on the amounts from the CS Pillar reports a draw is requested on Department of ED’s G5 web portal used to track Federal grant awards.
- Internally a BI Billing invoice is generated by Fiscal staff – the result of creating this invoice in ctcLink is a system generated journal which is reviewed by the GL Senior Accountant or Director of Financial Reporting for posting to the general ledger. This journal debits AR 1010100 and credits Revenue 4022280. This also sets the transaction up in queue to be attached to a cash receipt in treasury.
- When cash is received in the Bank of America account Laurice May, Fiscal Analyst 2, selects the transaction in ctcLink as a part of her daily bank reconciliation. This selection and clearing for her daily reconciliation creates another system generated journal which is also reviewed by the GL Senior Accountant or Director of Financial Reporting for posting to the general ledger. This journal debits Cash 1000070 and credits AR 1010100 clearing the receivable with cash and completing the transaction.

Key Control 2 (Occurrence - Non-Financial Aid): The Fiscal and Budget Analyst, use expenditure reports for the grant period to date and

balances these reports to the College's billing module to ensure that all expenditures are included and are for the correct period.
We obtained the June 2023 Head Start draw back up documentation "SMARTLK #659" dated 7/28/23. The total for this draw per the billing module was $1,265,780.75. We saw email communication noting the draw was prepared by Diana Biddison, and approved and submitted by Brandy Browning, Director of Accounting and Budget. The packet included a screen shot from the Department of Health and Human Services' Payment Management System and an invoice CA-0000014322 that tied to the same amount. We viewed detailed expenditure activity that tied to the draw amount. ***No issues noted.***

3. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

4. Control Risk at LOW - Test Key Controls

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

5. Final Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

I.3.PRG - Community & Technical Colleges Testing - Spokane

Procedure Step:	Federal Grants-In-Aid_Testing
Prepared By:	CJG, 10/4/2023
Reviewed By:	RKM, 10/29/2023

Record of Work Done:

Material Balances and Assertions:

Governmental Activities - Education - Higher Education Operating Grants and Contributions - Occurrence
Higher Education Special Revenue - Federal Grants-In-Aid - Occurrence

Controls are documented in the Federal Grants-In-Aid_Controls step.

Substantive tests performed to meet the Occurrence assertion:

Reconciliation: [Federal Grants In Aid Testing]
We obtained AFRS data for CCS Federal Grants in Aid and Higher Education Operating Grants and Contributions from the ACFR database, as shown here: [Final Planning Community Colleges Selected for Testing]. We analyzed the data and determined 99% of the federal grants in aid balance and 76% of the higher education operating grants and contributions balance were comprised of revenue from the Department of Education and the Department of Health and Human Services (funds 145 and 846 for sources 384 and 393). We determined to focus our testing on these two sources as they provide sufficient coverage of the balances.

We utilized the ctcLink crosswalk to determine that these AFRS revenue source codes translate to ctcLink accounts 4022280, 4110030 and 4022290. We obtained FY23 Grant revenue for funds 145 and 846 from David Williams, Controller and Tiffany Henderson, Director of Financial Reporting. We determined amounts tied without exception between AFRS/ctcLink.

Sample Selection and Testing: DOE [Federal Grants In Aid Testing] and HHS [Federal Grants In Aid Testing]
We utilized the sampling spreadsheet for populations of 365 or less to determine sample sizes (17 for DOE and 13 for HHS). We noted no individually significant items. To test that reported revenue occurred during the fiscal period and was supported by adequate documentation, we received the following for each sample from Tiffany Henderson, Director of Financial Reporting:

- GL data showing expenditures and the reconciliation performed to determine the amount of funds to draw
- Invoices showing the amount requested for reimbursement
- Screen shots from the G5 system showing confirmation of the payment request
- Email confirmations from G5 showing the payment request has been processed and will be deposited in the college's bank account
- For HHS Head Start samples, we received invoices, SMARTLK billings showing a breakdown of the amount to draw along with expenditure reports that tied to the draw amount, and screen shots from the HHS Payment Management System showing the ACH payment

We traced sampled revenues from the GL to supporting billings or subsequent receipts to verify revenue occurred and was adequately supported.
No issues noted.

I.4.PRG - Community & Technical Colleges Testing - Bellevue

Procedure Step: Summary & Conclusion
Prepared By: BFW, 10/30/2023
Reviewed By: RKM, 10/30/2023

Record of Work Done:

(1) Do the results of substantive tests indicate a need to modify our risk assessment (IR, CR and RMM)?
The results of substantive tests do not indicate a need to modify our risk assessment.

(2) Was the quality and quantity of evidence obtained sufficient and appropriate?
The quality and quantity of evidence obtained was sufficient and appropriate.

I.4.PRG - Community & Technical Colleges Testing - Bellevue

Procedure Step: Cash and Pooled Investment_Controls
Prepared By: BFW, 10/20/2023
Reviewed By: RKM, 10/24/2023

Record of Work Done:

Material Balances and Assertions:

Internal controls in the Community and Technical College System address the following balances:

Higher Education Special Revenue Fund - Cash and Cash Equivalents - Existence
Higher Education Student Services Fund - Cash and Cash Equivalents - Existence

See lead sheet here: [Lead Sheet]

1. Gain an Understanding of Internal Controls

We met with Jennifer McMillan, Finance Manager, and Sharon Liang, Fiscal Analyst, via Teams on September 27, 2023 to discuss Bank and Investment Reconciliations at Bellevue College.

The College has investments in the following accounts:

Local Government Investment Pool
U.S. Bank (Checking)
US Bank Safekeeping (Money Market)
Municipal Investor (US Bank)

Cash & Bank Reconciliation

There are 2 levels of reconciliations done. The first one is done daily within Peoplesoft with the FA5 downloading the bank statement in excel format into the system. This is matched up with AP and AR transactions and it automatically matches up the transactions. There is a screen within the system that shows unreconciled transactions. The second level is a monthly book to bank focusing on cash and GL balances. Jennifer prepares it using queries and reports in Peoplesoft that show in transit items as well as reports that show the daily reconciliation that Sharon is doing. Jennifer prepared the June 2023 reconciliation and the director reviewed and approved **(Key Control #1- Existence).** They are currently hiring for a FA5 to replace someone who retired, which is why Jennifer is preparing and the director is currently approving.

Investments Reconciliation

Jennifer explained she uses several workbooks to track investments. The College previously did not have much in investments but, in the last year, invested more. These workbooks track all anticipated transactions for the life of the investments and Jennifer uses these figures to reconcile monthly to the GL and ensure transaction are occurring as they should. The monthly reconciliation is reviewed by the FA5 or Accounting Manager **(Key Control #2 - Existence)**

Summary of Key Control(s):

Key Control 1 (Existence): Jennifer McMillan, Finance Manager, reconciles the GL to bank statements, noting all reconciling items on the reconciliation spreadsheet, then signs the reconciliation form and the Finance Director reviews.

Key Control 2 (Existence): Jennifer McMillan, Finance Manager, performs monthly reconciliations between the workbooks and GL to ensure interest payments, amortizations, balances, and maturities are as expected.

Noted Weaknesses are as follows:

None noted

2. Confirm Understanding

Key Control 1 (Existence): Jennifer McMillan, Finance Manager, reconciles the GL to bank statements, noting all reconciling items on the reconciliation spreadsheet, then signs the reconciliation form and the Finance Director reviews.
We obtained the June 2023 bank to GL reconciliation. We noted it was prepared by Jennifer McMillan, Finance Manager on 8/30/2023 and signed as reviewed by Tyrell Bergstrom, Executive Director on 9/18/2023. **No issues noted.**

Key Control 2 (Existence): Jennifer McMillan, Finance Manager, performs monthly reconciliations between the workbooks and GL to ensure interest payments, amortizations, balances, and maturities are as expected.
We obtained the June 2023 investment reconciliations performed by Jennifer McMillan, Finance Manager on 7/26/2023 and approved and signed electronically by Roselle Hay, Accounting Manager on 7/26/20203. **No issues noted.**

3. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

4. Control Risk at LOW - Test Key Controls

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

5. Final Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

I.4.PRG - Community & Technical Colleges Testing - Bellevue

Procedure Step:	Cash and Pooled Investments_Testing
Prepared By:	BFW, 10/20/2023
Reviewed By:	RKM, 10/24/2023

Record of Work Done:

Material Balance(s) and Assertion(s):

Higher Education Special Revenue Fund - Cash and Cash Equivalents - Existence
Higher Education Student Services Fund - Cash and Cash Equivalents - Existence

Controls are documented in the Cash and Pooled Investments_Controls step[Cash and Pooled Investment_Controls].

Substantive tests performed to meet the Existence assertion[Cash and Investments]:
We obtained ctcLink data using the query QFS_GL_SNP_DETAIL, filtered for cash and investments and AFRS data from here: [Final Planning_Community Colleges Selected for Testing]. We determined that the AFRS balances tie to ctcLink without exception. See "Balance Breakdowns" tab here: [Cash and Investments]. **No issues notes.**

We obtained the June 30, 2023 month-end reconciliation, bank and investment statements, and petty cash counts from Jennifer McMillan, Finance Manager, to verify existence of cash at 6/30/2023. We also obtained the July 2023 bank statement packet to verify reconciling items and outstanding checks. We traced 100% of deposits in transit to the July 2023 bank statement and tied a sample of outstanding checks to the US Bank reconciliation report. See testing on "Cash & Investments" tab at: [Cash and Investments]. We noted a difference of $44,116 between the bank reconciliation and the GL. Since this is below the floor, we not take to the aggregation of misstatements.

Additionally, we obtained the petty cash reconciliation and tied petty cash to GL 1130 in FAP without exception. See "Petty Cash Reconciliation" tab: [Cash and Investments]. **No issues noted.**

For outstanding checks, we obtained the US Bank reconciliaiotn report (ARP) and tested a random sample of 37 outstanding checks and one individually significant item. We noted all checks were outstanding for less than 180 and days and were either cleared in July 2023 or listed as outstanding. See "OS Checks" tab: [Cash and Investments]. **No issues noted.**

I.4.PRG - Community & Technical Colleges Testing - Bellevue

Procedure Step:	Depreciable Capital Assets_Controls
Prepared By:	BFW, 10/20/2023

Reviewed By: RKM, 10/24/2023

Record of Work Done:

Material Balances and Assertions:

Internal controls in the Community and Technical College System address the following balances:
Governmental Activities - Depreciable Assets (Net of Accumulated Depreciation) - Existence, Valuation

See lead sheet here: [Lead Sheet]

1. Gain an Understanding of Internal Controls

We spoke with Jennifer McMillan, Finance Manager, on September 27, 2023 to gain an understanding of internal controls over depreciable assets. Jennifer explained the College uses Asset Management (AM) for capital assets. It was also explained there were no major changes in processes from the prior year, aside from the fact they no longer use DirectLine for reconciling to AM. They are comfortable with the reliability of AM this year.

Additions

Equipment and Library Resources

The equipment asset addition starts with requisition form in ctcLink. The requestor checks the box noting the purchase is for capitalized equipment and they will enter the commodity code. After the form is prepared it is sent on to Purchasing where the requisition is reviewed and turned into a purchase order. Once the invoice and equipment are received it is sent along to Accounts Payable for payment. Accounts Payable gets the invoice and verify the equipment has been received. They will then process the payment for the invoice. Each month the AP2AM (AccountsPayable to AM Push) in ctcLink is run. This process gathers up all AP since the last time this report was run and sends them to AM. Sharon Liang, Fiscal Analyst 5, reviews AM for this push from AP. She reviews for proper coding of the asset, costs, fund, etc. After her review it is released in AM and the costs are assigned to assets **(Key Control 1 - Existence/Valuation)**.

Each month Sharon will perform a reconciliation between AM and the GL, checking assets and depreciation **(Key Control 2 - Valuation)**.

Buildings and Improvements

Each project has a unique code that is used to track capital expenses. Buildings are booked at the end of the year from the capital expense codes. Sharon records the building additions in AM. In AM buildings have a parent asset for the original project and child assets for any improvements/additions. Any additions to buildings are setup as child assets by AM under the parent building asset. All depreciable asset additions are captured and adjustments to the GL accounts are made via the monthly automated journals from AM.

Depreciation

The College uses AM to track all of their capitalized assets. The system automatically calculates straight-line depreciation for each asset based on the in-service date, cost, and commodity codes **(Key Control 3 – Valuation- AUTOMATED).** Each month they run a "close depreciation" process in AM. This creates the automated journals entries for depreciation and expense based on the AM module's calculations.

Disposals

Departments initiate the disposal process by submitting a "Surplus Property Disposal/Move Request" form **(Key Control 4 – Existence)**. This form must be approved by management of the corresponding department before any actions are taken. Once approved, items are moved to the central storage where Facilities determines whether they should be sent to State Surplus, or reused elsewhere on campus. Items identified as surplus are entered into DES by the Receiving Manager. Once items are picked up by DES, the Receiving Manager provides a detailed list of surplus items to Accounting who subsequently disposes of the assets within AM. The automated journals from AM update the GL with these changes on a monthly basis.

Noted Weaknesses are as follows:

None

2. Confirm Understanding

Key Control 1 (Existence/Valuation) - Equipment Additions - Capitalized equipment additions are recorded at costs from process payments identified as capitalized equipment expenses.

During our substantive testing we reviewed supporting documentation for 7 additions and noted that each asset packet contained an Equipment Inventory Input. The form contained notes for asset acquisition cost, date, ID number and other pertinent information. We noted that the acquisition costs tied to the supporting invoices without exception. **No issues noted.**

Key Control 2 (Valuation) - The College performs a monthly reconciliation between capital expenditure accounts and capital asset balances in ctcLink, AssetManagement to ensure assets and depreciation are recorded at correct values, and additions tie to capitalized expenditures.

We obtained the "Final FY23 CR2128 AM Recon SL (Sharon Liang)" spreadsheet from Jennifer. We noted a tab called "CR2128 SL" with totals from the CR2128 and GL vlookup pulling in the individual asset accounts. The GL tied to AM totals with only 1 cent rounding differences. Jennifer also provided the "FY23 Asset Recon FINAL" spreadsheet reconciling assets additions in capital asset accounts to capital expenditure accounts. The total additions of $3,209,761.03 tied exactly to the total capitalized expenditures. ***No issues noted.***

Key Control 3 (Valuation-AUTOMATED)- The AssetManagement module automatically calculates depreciation for capitalized assets based on the cost recorded from processed payments and commodity code (which determines useful life).

See confirmation of automated control at [IT Control Testing Depreciation].

Key Control 4 (Existence) - Departments initiate the disposal process by submitting a "Property Disposal Request" form. This form must be approved by management of the corresponding department before any actions are taken.
During our substantive testing we reviewed supporting documentation of 3 reductions and noted that each asset packet contained a Property Disposal Request form which was signed by both the manager of the requesting department. **No issues noted.**

3. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

4. Control Risk at LOW - Test Key Controls

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

5. Final Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

I.4.PRG - Community & Technical Colleges Testing - Bellevue

Procedure Step: IT Control Testing_Depreciation

Prepared By: BFW, 10/20/2023

Reviewed By: RKM, 10/25/2023

Record of Work Done:

This record may contain information considered exempt from public disclosure under RCW 42.56.420 of the Public Records Act. As such, distribution of this record is limited.

1. Understanding of Automated Key Control:
Material System: ctcLink Asset Module
Key Automated Control: The Asset Module of ctcLink automatically calculates depreciation based on the asset information entered: in-service date, commodity code, and asset value.

Our understanding of the automated control is documented as part of our overall understanding of controls over relevant assertions for **ctcLink Asset Module** at [Depreciable Capital Assets_Controls].
2. Key Automated Control Confirmation and Testing:
To confirm the automated control and determine whether the software correctly valued each transaction, we re-performed the depreciation calculation for a sample of depreciable assets. See testing at "Existence Valuation" tab: [Depreciable Assets Testing].

3. Understanding and Testing General IT Controls:
General controls were not tested because we assessed control risk at MAXIMUM for the material systems

I.4.PRG - Community & Technical Colleges Testing - Bellevue

Procedure Step:	Depreciable Capital Assets_Testing
Prepared By:	BFW, 10/20/2023
Reviewed By:	RKM, 10/26/2023

Record of Work Done:

Material Balance and Assertions:

Governmental Activities - Depreciable Assets (Net of Accumulated Depreciation) - Existence, Valuation

Controls are documented in the Depreciable Capital Assets_Controls step.

Substantive tests performed to meet the Existence assertion[Depreciable Assets Testing]:
We verified $193,205,250 (93.7% of building assets) in building assets by locating them on Google maps - see "Buildings (Existence)" tab. We selected buildings based on high dollar amounts (those valued at over $2.5M) and based on risk of material misstatment (some that were not

looked at in the prior year and may not have met the high dollar value factor). **No issues noted.**

We tested the FY2023 additions and reductions by tying a random sample of 7 additions, as well as one individually significant item for additions, to invoices and payment documentation and 3 reductions to disposal forms, using the small population substantive sample spreadsheet, to verify existence. See "Existence Valuation" tab. **No issues noted.**

Substantive tests performed to meet the Valuation assertion[Depreciable Assets Testing**]:**
We tested the same sample of additions and reductions, as mentioned above, to determine if the asset is recorded at historical cost as compared to original invoice and all ancillary charges necessary to place in intended location. See testing at "Existence Valuation" tab **No issues noted.**

Because we tested depreciation expense in its entirety in FY22 with no issues, we determined using the sample of additions already selected above would provide sufficient assurance that depreciation expense is calculating accurately. We recalculated depreciation expense for the sample of 7 additions and noted amounts tied without exception, see testing at "Existence Valuation" tab. **No issues noted.**

I.4.PRG - Community & Technical Colleges Testing - Bellevue

Procedure Step:	Charges for Services_Controls
Prepared By:	MEC, 10/20/2023
Reviewed By:	RKM, 10/30/2023

Record of Work Done:

This record may contain information considered exempt from public disclosure under RCW 42.56.420 of the Public Records Act. As such, distribution of this record is limited.

Material Balances and Assertions:

Internal controls in the Community and Technical College System address the following balances:

Governmental Activities - Education - Higher Education Charges for Services - Occurrence, Valuation
Higher Education Special Revenue - Charges for Services - Occurrence, Valuation

See lead sheet here: [Lead Sheet]

1. Gain an Understanding of Internal Controls

We spoke with Jennifer Mcmillan, Fiscal Services Manager, and Roselle Hay, Accountant, on September 26, 2023 regarding controls over student tuition and fees in the ctcLink system. The college converted to ctcLink from the legacy FMS system during FY22, so this was the first full fiscal year on the ctcLink System.

Software used by community colleges to generate tuition revenue was developed and is maintained by State Board of Community and Technical Colleges (SBCTC). Student information is captured in the ctcLink system in Campus Solutions (CS) Core module. Tuition is **automatically calculated** and applied to student accounts within the Student Financials (SF) Module based on their class registration for the quarter. The rates and codes used in the tuition calculation process reside within several key system tables, which are maintained by SBCTC. Tuition and fee rate tables are updated annually and posted on the SBCTC website.

Admissions & Class Registration

Student can register on-line through their ctcLink account or in person at the Admissions office. Critical information associated with tuition revenue is captured at this point regarding the student's status (i.e. resident, non-resident, veteran, etc.), and this data is posted to the Campus Solutions Core module.

The Admissions office processes the student applications within Campus Solutions module. When the first billing record is generated for the student (i.e., for admissions or testing fees), an account is created for the student in the Campus Solutions Core module.

Students typically register for classes on-line, but they can also do so in person. Classes are defined within the Campus Solutions Core module. The information captured in Campus Solutions Core during registration will be used in calculating the amount of tuition and associated fees owed by each student.

A student's tuition and fee liability is recorded in the Campus Solutions Core database when students register for classes, but revenue will not be recognized in the GL until a journal is created in Campus Solutions Core and automatically sent to Student Financials via nightly batch.

Tuition Calculation

Item Types

Item types are the basic work unit of the Student Financial application in ctcLink. Each item type defines and describes a unique action. The system uses item types to transfer student account information to the general ledger based on the set up. SBCTC maintains item types for the college and has a ticketing system for any requested updates, changes or additions to the item type list. There are unique item types for tuition, different types of fees, payments, financial aid which are grouped by category. Jennifer let us know that only the SBCTC can approve, create, or make changes to item types GL distribution in the system.

The ctcLink system automatically calculates tuition for all students based their class registration and the tuition rate and fee tables set by the State Board **(Key Control 1- Valuation, AUTOMATED)**. The result of this calculation is recorded in the SF database and will be netted against any financial aid awards or fee waivers in determining each student's final liability.

Cashiers receive payments and code receipts by student which automatically codes to item types set up in the system. Students can either pay at the office, or mail payments into a kiosk electronic that is collected and entered in the system by cashiers. If payment is not received by the payment deadlines set by the college (prior to start- registrations staff runs this office), the student is dropped. Registration staff identifies dropped students and gives cashiering department a list.

Tuition payment

Tuition can be paid on-line or in person at the Cashier's office. Payments are captured by the ctcLink receipting module and recorded in the Student Financials (SF) module. Each college may use a tuition installment program allowing designated students to pay tuition in several installments. Outstanding balances are retained only in Student Financials (SF) and posted to the GL when payment is made. A student's tuition and fee liability is recorded in the SF module database when they register for classes, and revenue is recognized in the GL at the time of registration.

Posting to the GL

Tuition revenue is recognized when a student's enrollment is complete and student status is validated. Upon completion of the student's enrollment in classes for the term, a journal entry is created in Campus Solutions (CS) and sent to Finance via nightly an automated nightly batch process.

Cash receipts are posted to the GL through the nightly batch process, and if there are posting problems, the system notifies the user that the batch did not post. Corrections are made through a batch edit screen, and the corrected batch is remitted. Tuition payments result in revenue being posted to Fund 840 under the source codes 0424 (tuition) and 0430 & 0431 (supplemental fees).

Tuition payments result in revenue being posted to each fund associated with tuition (060, 149, 522, 561, 860) under the tuition GL Account codes: 4000020, 4000030, 4000040, 4000065. Note that Spring/Summer pre-payments for Fall Quarter tuition (deferred revenue) are moved to a deferred revenue GL Account 2040010 at FYE. This entry is reversed on July 1 of the next fiscal year.

Reconciliation

Student financials batches are reconciled to the GL on a regular basis by a Fiscal Analyst 5 (FA5), though the college let us know that their FA5 position is currently being recruited. They do daily cash reconciliations and use system reports and queries to identify any discrepancies between the student financials module and the general ledger. An electronic report is downloaded from the bank each month that includes all of the check deposits, credit card payments and refunds for the prior month. An FA5 Accountant in Finance performs a bank reconciliation to ensure all funds received reconcile to the bank and are posted to the GL. The FA5 Accountant in Finance performs a SF module to GL reconciliation to ensure all funds received are posted to the GL **(Key Control 2 - Occurrence).**

Distribution / Allocation to Revenue accounts

An automated monthly process is run in ctcLink to allocate tuition revenue payments from GL fund 840 to the funds below. With the exception of Service & Activities fees (set by the Local Board of Trustees), the individual fund distribution percentages are determined by the Legislature. The local college manually posts and retains these percentages in the Tuition Schedule. We obtained the FY23 tuition schedule and documented it here: [Charges for Services Testing CONFIDENTIAL]

060 (Building fee portion; remitted back to the State)
149 (Operating fee portion)
522 (Services & Activities portion)
561 (Comm/Tech College Innovation portion)
860 (Institutional Financial Aid portion)

Transfer to AFRS

The process continues to be a manual, although SBCTC is working on an automated interface to transfer financial data to AFRS. System Accounting Coordinator handles all ctcLink uploads to AFRS. Every month, on the AFRS cutoff date, the Coordinator runs a query in ctcLink of all journal entries created. This is a summary level report that is downloaded into an Excel spreadsheet. The Coordinator then creates two pivot tables; one by funds and amounts, another by general ledgers and amounts. Staff expects the pivot table by fund and amount to be zero. Staff then compare the second pivot table to another report, which is generated for the State Auditor's Office (SAO). Both reports are queried from the same database, the one for SAO contains a few more fields. When all the amounts agree, staff prepare the file to be uploaded into AFRS.

Staff then sorts the file by fund, general ledger, and amount. The customization now generates the output files (flat files with transaction codes) and sends them to AFRS similar to how it is done in the Legacy system. There are usually 1600 to 2200 lines for each college each month. This file is saved as a flat file format and is uploaded into AFRS using the OFM's Financial Toolbox. A test run in what is known as the SUP environment (copy of previous day's production) is then used to check for any major issues. Staff is then able to capture a copy of the flat file and uses that to reconcile between what is in ctcLink and what was transmitted to AFRS. Staff make any necessary corrections to the AFRS batch and releases the output file to AFRS.

Key Controls:

- **Key Control 1 – AUTOMATED (Valuation)** - The ctcLink system automatically calculates tuition for students based on their residency, division, registration, and the tuition rate and fee tables set by the State Board.
- **Key Control 2 - (Occurrence)** - Receipted tuition payments are reconciled to the general ledger on a daily and monthly basis based on the payment receipt method. The FA5 Accountant in Finance performs a SF module to GL reconciliation to ensure all funds received are posted to the GL.

Key Control 3 - (Occurrence) - At year end, the Finance Manager reviews the amount collected for the upcoming Summer and Fall quarters and moves the tuition and related receivables by journal entry to the deferred revenue account to be recognized in the correct fiscal year.

Noted Weaknesses are as follows:

None.

2. Confirm Understanding

Key Control 1 – AUTOMATED (Valuation) - The ctcLink system automatically calculates tuition for students based on their residency, division, registration, and the tuition rate and fee tables set by the State Board.

We confirmed the automated control at [IT Control Testing Charges for Services] and tested it here: [Charges for Services Testing CONFIDENTIAL] - *No issues noted.*

Key Control 2 - (Occurrence) - Receipted tuition payments are reconciled to the general ledger on a daily and monthly basis based on the payment receipt method. The FA5 Accountant in Finance performs a SF module to GL reconciliation to ensure all funds received are posted to the GL.

We met with Jennifer McMillan on September 29, 2023 over teams and she walked us through her many types of reconciliations of the SF module in ctcLink to ensure the information is posted to the general ledger accurately and completely. We focused on the "FY22/23 SF Cash" Spreadsheet which totaled the daily SF and SFC journals from student registration and cashiering by day to provide a daily total. There was a tab for each day to represent the daily totals. This fed into another tab that compared these totals with daily deposits by type. Jennifer explained that the deposits received can be from many sources including Nelnet (payment plans), Bankmobile refunds (student aid), online credit card (Cybersource) payments, but the deposits all have different timing and can be received a few days from the collection date. The daily deposit totals are downloaded from bank reports and documented on another tab of the spreadsheet. Jennifer has a formula that combines the types of deposits and sorts them by date.

Jennifer runs pivot tables from SF and GL reports to compare the totals by day - She uses the CTC All Cashier Receipts query and the GL account analysis query to compare item type totals by day and month.

There was also a column to identify final differences that need to be researched and corrected if necessary. Jennifer let us know that the Treasury module in the General ledger Finance pillar does not automatically post all SF transactions so "external Transactions" must be created in the treasury module using the summarized daily SF reports in order to tie out the final monthly bank reconciliations.

Jennifer also reconciles SF payments by tender type which feeds into the main reconciliation. She uses the E214 report form the SF module and compares it with the Key bank merchant log by month.

We determined that the finance department is performing regular reconciliations of the SF module to the General ledger to ensure that differences are identified and corrected, and the information reported in the general ledger is accurate and complete.

No issues noted.

Key Control 3 - (Occurrence) - At year end, the Finance Manager reviews the amount collected for the upcoming Summer and Fall quarters and moves the tuition and related receivables by journal entry to the deferred revenue account to be recognized in the correct fiscal year.

We requested the support for the journal entry related to unearned revenue collected during FY23 for summer and fall tuition of the next fiscal year. We were provided with three spreadsheets:

The first one was titled "Unearned Revenue- AR offset FY23" which was support for Journal entry 337369, dated 6/30/2023 during period 12. It contained a pivot table for accounts 1011010 (SF Tuition receivable) and 1011020 (SF Fees Receivable) from a detail report on the next tab. The report had the parameter at the top: "SF Trans w ItemAcct Term in FY" for unit 080 in FY2023. It designated terms from 2235 to 2243, and from account 1011010 to account 101120.

The pivot table sorted the amounts from the two receivable accounts by fun and totaled them to $7,680,591.99.

There was another pivot table from the report below the first one that totaled the information above by department.

Next to this was detail of debits to account 2040010 (unearned revenue ST) and credits to be made to the receivable accounts by department.

The next spreadsheet was titled "Unearned Revenue - Net Summary FY23" which contained pivot tables of the information above as applied to the revenue accounts and the net result of journal entry 337369 by fund to each revenue account.

The next spreadsheet was titled "Unearned Revenue FY23" and it contained pivot tables from the report SF Rev Source for Unearned Amount". The report detailed SF Journals posted to GL accounts by fund, department, account, term, and item type by date for unit 080. The pivot tables summarized the information from the report by fund and account.

We also reviewed the effect of the journal on the general ledger using the QFS_GL_ACCT_ANALYSIS query we ran in ctcLink for FY23 for Bellevue College filtered for Journal 337369/all accounts and confirmed that the support provided matched the journal entry and that revenue accounts were appropriately debited and credited.

We determined that the college is analyzing general ledger accounts and moving amounts collected for the next fiscal year to unearned revenue to ensure that reported revenues were posted to the correct fiscal year.

No issues noted.

3. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

4. Control Risk at LOW - Test Key Controls

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

5. Final Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

I.4.PRG - Community & Technical Colleges Testing - Bellevue

Procedure Step: IT Control Testing_Charges for Services

Prepared By: MEC, 10/19/2023

Reviewed By: RKM, 10/28/2023

Record of Work Done:

This record may contain information considered exempt from public disclosure under RCW 42.56.420 of the Public Records Act. As such, distribution of this record is limited.

1. Understanding of Automated Key Control:
Material System: Tuition Revenue
Key Automated Control: The ctcLink system automatically calculates tuition for all students based on residency, division, and credit load status. (Valuation)
A high level understanding of the automated control is documented as part of our overall understanding of controls over relevant assertions for the ctcLink system at the Charges for Services_Controls step.

The tuition revenue calculation processing resides within a third-party vendor application system, which cannot be modified by system users. The only way for college users to affect the calculation is through edits to associated data tables and screens, and many of those tables are restricted to modification by State Board at the college level.

2. Key Automated Control Confirmation and Testing:

We confirmed and tested the key automated control as follows, to determine whether the automated controls can be relied upon:
To confirm the automated control we recalculated the ctcLink calculated student tuition & fees amounts on student accounts at: [Charges for Services Testing CONFIDENTIAL]. *No issues noted.*

3. Understanding and Testing General IT Controls:

General controls related to the automated control **were not** tested to ensure that the control operated consistently during the audit period, accordingly control risk was set at **MAX.**

I.4.PRG - Community & Technical Colleges Testing - Bellevue

Procedure Step:	Charges for Services_Testing
Prepared By:	MEC, 10/19/2023
Reviewed By:	RKM, 10/28/2023

Record of Work Done*:*

Material Balances and Assertions:

Governmental Activities - Education - Higher Education Charges for Services - Occurrence, Valuation
Higher Education Special Revenue - Charges for Services - Occurrence, Valuation

Controls are documented in the Charges for Services_Controls step. [Charges for Services_Controls]

Testing Population:

We requested a list of all students by quarter from FY23 with amounts charged for tuition and fees. Jennifer McMillan, Finance Manager provided us with a pivot table from a Student Financials Module Query containing student transaction level data totaled by student, quarter and GL account. We copied the pivot table to a new sheet and removed subtotals to get a list of students without duplicates and isolated these totals by quarter and account. We used the random number generation formula to randomly select students and ensured we chose a quarter for each randomly selected student that contained charges and that all quarters were represented. Our sample contained 8 students from summer quarter 2022, 11 students from fall quarter 2022, 8 students from winter quarter 2023, and 12 students from Spring quarter 2023, for a total of 39 students.

To ensure the completeness of our population, we tied the GL accounts from our population to the college GL using the ctcLink Query QFS_GL_ACCT_ANALYSIS run for FY23. We identified a variance which was below the floor, and determined our population complete for testing purposes.

Substantive tests performed to meet the Occurrence assertion:
We reviewed the account statement and schedule for each student and noted the quarter and date paid for tuition and fee charges were recorded in the correct period. See ctcLink tuition revenue testing at "FS Substantive Sample" at: [Charges for Services Testing CONFIDENTIAL]. ***No issues noted.***

Substantive tests performed to meet the Valuation assertion:
We recalculated tuition and fee amounts using the published tuition and fee amounts listed on the Bellevue College web site to ensure tuition and fee charges were correctly calculated on student accounts. Some charges did not immediately tie out, and we had to request more information from the College. These were due to the student being a running start student where the tuition was covered by a running start waiver up to a certain amount of credits or the student dropping a course during the 50% refund period. The college provided additional support as requested and all students tied out with no variances noted. See ctcLink at "Confidential - IT Control" tab at: [Charges for Services Testing CONFIDENTIAL].

I.4.PRG - Community & Technical Colleges Testing - Bellevue

Procedure Step: Education Expenses_Controls
Prepared By: BFW, 10/20/2023
Reviewed By: RKM, 10/30/2023

Record of Work Done:

Material Balances and Assertions:

Internal controls in the Community and Technical College System address the following balances:
Governmental Activities- Education- Higher Education Expenses- Occurrence, Classification
Higher Education Special Revenue- Charges for Expenses - Occurrence, Classification

State of Washington

See lead sheet at: [Lead Sheet]

1. Gain an Understanding of Internal Controls

Payroll

We spoke with Olga Krichevskaya, Payroll Manager, on September 25, 2023 to gain an understanding of internal controls over Payroll at Bellevue College.

New Hires

HR and Payroll are in separate buildings and all official employee files are kept by the HR department. Payroll processing goes into a payroll personnel file. HR creates a copy of the employee's forms (such as their approved employee contract or personnel action reports (PAR)), and then forwards these copies to the Payroll Department. The Payroll Coordinator receives the official forms electronically from the HR department. The Payroll Coordinator will then process the request. Prior to payments being made, payroll staff must receive the appropriate signed documentation for the employee from HR **(Key Control 1 - Occurrence)**.
.

Required documents/signatures for payroll processing:

- **Full-Time Faculty and Administrative Personnel:** Payroll must receive a supporting PAR which is signed by Provost
- **Classified Employees:** Payroll must receive a supporting PAR which is also signed by Provost
- **Part-time Faculty:** Payroll must receive a PAR with the temporary contract details signed by the Division Chair prior to the first payment being made on the contract.

Once authorized, payroll staff processes the employee payments and double checks for any keying errors made when employee amounts were input in the system. Payroll enters only payroll and tax related information in system (general deductions, garnishments, direct deposit, and W4 form). Any personal employee's data is entered by HR. Staff initials and dates their extra copy of the PAR or contract that is kept in their file. Payroll staff are not responsible for handling employee onboarding or paperwork. HR enters personal information such as the employee's name, job position, and address into the system. The Dean from each department works with new employees to finalize and approve contracts. Once a contract is approved, HR enters employee data into the system based on their hiring paperwork. The system bills contracts and automatically comes up with the payment amount based on the employee's rate of pay. HR does not have access to modify payroll data and Payroll does not have access to modify HR data. All data entered into the system is secondarily reviewed and approved for accuracy within ctcLink. There are automated approval levels and authorizations hard coded in ctcLink to help ensure system accuracy. Based on the contracts in Faculty Workload, a file is created each pay cycle to load to payroll for payment.

Timesheets, Overtime, and Leave

Hourly and overtime eligible employees are responsible for filling out daily timesheets and submitting them to their supervisor. This is done in the Employee Self-Service-Time Module. Overtime is tracked in the ctcLink system automatically, when an employee is hired, their overtime eligibility is entered into ctcLink and is calculated each pay period based on their hours worked. When an employee completes their timesheet, time worked over 40 hours is reviewed and approved by the employee's supervisor before being routed to payroll.

Leave requests must be submitted in advance and approved by a supervisor before being entered on a timesheet. Employees cannot edit their timesheets after submitting them. At the end of a pay period timesheets are locked and no changes can be made by anyone.

Processing Payroll (For Payments)

All timesheets and leave are entered by the employee into the system and the system automatically calculates pay based on the data that has been entered by HR and Payroll upon hire or position change. The data needed to run payroll is stored within the ctcLink system. SBCTC provides the College with cut-off dates for each step of the payroll process. SBCTC also provides the College with a multi-step payroll checklist that must be completed before payroll is processed. SBCTC processes absences, time, and labor and generates a report showing any errors. Payroll at Bellevue College reviews this report and makes any necessary adjustments.

After any corrections are made, SBCTC creates the entries to the GL and notifies Payroll to run the following reports in the HCM Pillar:

- QHC_PY_PAY_CHECK_DED: Paycheck deductions by pay period
- QHC_CTC_EPREPAY_BAL: Pre-pay deduction and payment detail
- CTC_AP_EXTRACT_SUMMARY: Summary of vouchers sent to accounts payable

The total of the paycheck deductions (Query 1) plus the prepayments sent to AP (Query 2) should equal the voucher amounts (Query 3). QHC_PY_VENDOR_PAYMENTS_SUMMARY is useful in identifying negative amounts. Pre-calculations of the payroll are run every pay cycle multiple times until errors are resolved. Payroll is distributed to the College's funds based on the fund and account coding assigned to the employees **(Key Control 2 - Classification)**. Once payroll is processed, if there were any issues, changes cannot be made to payee or amount fields after the employee was paid. Payroll would create a retroactive payroll adjustment, typically rolling it into the next pay period.

Summary of Key Controls:

- **Key Control 1 (Occurrence):** Prior to payments being made, payroll must receive the appropriate signed documentation for the employee from HR.
- **Key Control 2 (Classification)** Payroll is distributed to the Colleges funds based on the fund and account coding assigned to the employees.

2. Confirm Understanding

Key Control 1 (Occurrence) - Prior to payments being made, payroll must receive the appropriate signed documentation for the employee from HR.

We obtained the Payroll Action Report (PAR) for Aasha Venkatesan. We noted Venkatesan's PAR detailed the following:

- Effective Date: 4/16/2023
- Department: Welcome Center

Job title: Student Assistant II
Hourly Rate: $16.00 per hour
We noted the PAR was signed by Budget Authority Micalah Pieper on 4/11/2023. We located Venkatesan, Aasha on the Employee Gross Pay trend in FAP and confirmed that she had been paid proper amounts based on provided timesheets and PAR hourly rate for FY23. *No issues noted.*

Key Control 2 (Classification) - Payroll is distributed to the Colleges funds based on the fund and account coding assigned to the employees.
We obtained the Student Temporary Employment Authorization form for Aasha Venkatesan from Olga Krichevskaya, Payroll Manager. We noted the form detailed employee's department, position, job group, effective dates, budgetary coding, and pay rate. We also noted the form was signed by Micalah Pieper, Welcome Center Director.

Appointment to the position of Student Assistant II
Job Group: Welcome Center
Effective: 4/16/2023 to 6/30/2023
Hourly rate: $16 per hour
Acct: 5000130
Fund: 149
Class: 061
Dept: 22370
Op Unit 7080

We noted Venkatesan's pay coding tied to payroll documentation without exception. *No issues noted.*

Noted Weaknesses are as follows:
None.

Accounts Payable
To gain an understanding of internal control over Accounts Payable (AP) we spoke with Jennifer McMillan, Finance Manager, and Roselle Hay, Accounting Manager, on September 26, 2023. The Finance Department processes all payments for the College. This includes A-19s, purchase orders, travel requests, and employee reimbursements. Purchase card payments are also reviewed for completion and supporting documents and processed for payment though accounts payable. Separation of duties is maintained by security roles and access levels granted to staff within the ctcLink system.

Purchasing
Employees making purchases on behalf of Bellevue College are responsible for completing appropriate state training and ensuring they have authority to act on behalf of the college. They must exercise that authority in compliance with applicable laws, conditions, restrictions, and guidelines. Employees authorized to make purchases using purchase orders or procurement cards are expected to follow all purchasing guidelines

and observe the established limits outlined in College policy, regardless of purchase method.

Roselle let us know that most purchases require a purchase requisition (PR), which becomes a purchase order (PO) after getting all the necessary approvals through the ctcLink approval workflow engine (AWE). The AWE sends/routes automatic approvals to department heads and managers based on the department listed in the purchase's budget account coding or "chartstring". Purchase requisitions are required to have the budget chart string/account code filled out completely **(Key Control 1 - Classification)** and have various documents attached in the system. Purchase orders require budget checking in the system before they can be approved, which creates an encumbrance for the purchase.

Suppliers/Vendors

The PR must designate an active approved supplier before it can be processed into an approved purchase order. If the supplier is not already in the system, then the supplier must be set up in the ctcLink system and approved by SBCTC before the purchase order can be processed. The supplier/vendor lists in ctcLink are maintained by the SBCTC and each individual college. They all share this list and can enter vendors and college location updates. Once a supplier is entered or updated, it is automatically set to "unapproved" and it goes through an approval process by a system support person at SBCTC. W-9s are required to be attached and TINs must match the W-9 from the vendor. The purchasing team at Bellevue College enters suppliers into the system and SBCTC approves them before they can be used or paid by the accounts payable team.

Invoices are matched to a PO along with a packing slip. If there is no packing slip, Elmira Yusupova, Fiscal Analyst, scans and sends the invoice to the budget approver for the "Ok to Pay" signature. Once the invoice has been approved and is ready for payment, the invoice and supporting documentation is sent to Accounts Payable for payment processing. Elmira reviews, confirms the goods were received or services were rendered, and approves the invoice prior to processing the payment. The purchasing department is responsible to ensure that POs are used only for authorized purchases. Elmira also verifies whether the vendor is set up in the system and has completed a W-9.

Payment Processing

Vouchers are created in the ctcLink AP module using approved original invoices which are "matched" or linked to the PO in the system. The budget account coding or chartstring information automatically populates the voucher when it is linked in the system to a PO. Vouchers must be budget checked again and must be approved by the appropriate budget authority for the department if not matched in the system with a PO. Vouchers created in AP from invoices that do not originate from POs flow to the budget manager approved to process them (as set up in the ctcLink AWE) and also must be paid to an approved vendor in the system. The Fiscal Analyst reviews the invoice, confirms the goods were received or services were rendered, and approves the invoice prior to processing the payment. Original invoices and other supporting documents are scanned and uploaded into the system and attached to each voucher as backup documentation **(Key Control 2 - Occurrence)**.

Duplicate payments are automatically prevented by the system based on invoice numbers. A box will pop up to alert the enterer if the invoice number already exists in the system. However, the invoice number can be overridden, which is sometimes necessary since the invoice was being paid in partial amounts, or a credit needs to be entered for it.

ctcLink Paycycle

Vouchers that are approved and ready for payment go through a "paycycle" that will only pick up payments in approved and/or matched with PO and receipt if required status. AP cannot process a voucher without system approvals based on the AWE or the required budget check. In addition, a final approval of vouchers is performed by Elmira Yusupova, Roselle Hay, or Jennifer McMillan before the pay cycle is run and checks are printed.

Electronic Funds Transfers/Wires/ACH

The process to set these up in ctcLink is outlined on the ctcLink reference center as an option to add the EFT/ACH information via supplier setup or "maintain an existing supplier". Only staff with specific security role access can create or modify suppliers in the system. Any changes to a supplier triggers it to set the supplier to unapproved, and then it must be reviewed and approved at SBCTC before any college could utilize the supplier for an EFT or payment. Then, when setting up the voucher, the accounts payable person would have the option to select "ACH" as the payment method on the "payment tab" since it was previously set up on the supplier. The banking information/request for ACH is attached to the voucher by the person entering the voucher and marking the payment method as "ACH".

Year end Expense Accrual process:

The College cuts off purchasing for staff beginning in June to prepare for year end. Roselle maintains a log of year-end outstanding PO's waiting for payment or receiving information, in order to keep track of necessary accruals in the fiscal year to ensure that expenses are coded to the proper budget account coded and period **(Key Control 3 - Classification)**. The Accounts payable module closes on June 30th, so any unprocessed expenditures for services provided prior to June 30 must be accrued and posted within the general ledger accounts during adjustment periods 13, 131, or 132.

Summary of Key Controls:

- **Key Control 1 (Classification):** Purchase requisitions are required to be approved by the appropriate budget authority, and have the budget chart string/account code filled out completely.
- **Key Control 2 (Occurrence):** Invoices are matched to a PO along with a packing slip. The Fiscal Analyst reviews the invoice, confirms the goods were received or services were rendered, and approves the invoice prior to processing the payment. Original invoices and other supporting documents are scanned and uploaded into the system and attached to each voucher as backup documentation**.**
- **Key Control 3 (Classification):** The Accounting Manager maintains a log of year end outstanding POs waiting for payment or receiving information, in order to keep track of necessary accruals in the fiscal year to ensure that expenses are coded to the proper account code and period.

2. Confirm Understanding

Key Control 1 (Classification): Purchase requisitions are required to be approved by the appropriate budget authority, and have the budget chart string/account code filled out completely.

We reviewed purchase requisition (PR) #2859 - LNS AA Spring Colloqium, entered on 6/23/2023 by Nataliya Matkivska. The budget status was "valid". The PR was for $600 and the item description was "Captioned Services for the Hearing Impaired". We reviewed the AWE approval information for the PR. It was approved at the Dept Manager line level by Robert Viens at 8:36am on 6/26/2023, and approved by Kelly Paustain at 9 am on 6/26/2023 at the Purchasing Department Level. The line information included the supplier #V000002038 LNS Captioning, and the account coding was fund 149 Department 2100 account 5081260. We determined that the College is determining and approving the account coding before the purchase is made to ensure expenses are properly classified in the system. *No issues noted.*

Key Control 2 (Occurrence): Invoices are matched to a PO along with a packing slip. The Fiscal Analyst reviews the invoice, confirms the goods were received or services were rendered, and approves the invoice prior to processing the payment. Original invoices and other supporting documents are scanned and uploaded into the system and attached to each voucher as backup documentation.
We reviewed voucher #4235 dated 7/20/2022 in the amount of $269.78 payable to Uline, supplier #V000028491. The voucher was matched to PO# 1211. We reviewed the original invoice attached in the system, which was numbered 148340762 for $269.78 for a 25# box of white terry cloth towels. The order was placed by Ed Biggers. There was a comment attached to the voucher in the ctclink system that indicated the invoice was "ok to pay" posted by Tali Yehuda user ID 10140872. We also reviewed the voucher approval from the AWE in the system and identified the voucher was approved to pay by Elmira Yusupova on 7/25/2022 at 5:36pm. We reviewed the payment date in the system for the associated payment (check #3472), which was 7/26/2022 after the approvals were in place. We determined that the College is creating vouchers from approved purchase requisitions/orders, matching them in the system to ensure proper coding, and attaching original invoices in the system to support the expense occurrence. *No issues noted.*

Key Control 3 (Classification): The Accounting Manager maintains a log of year end outstanding POs waiting for payment or receiving information, in order to keep track of necessary accruals in the fiscal year to ensure that expenses are coded to the proper account code and period.
We reviewed the FY23 YE AP Accruals Log provided to us by Jennifer McMillan, Finance Manager. It was an excel sheet with 3 tabs: AP vouchers FY23, Deadline Dates, and Accrual Instructions. The first tab had several columns identifying Vouchers by number and associated information for them such as Date posted by AP, Supplier, Amount, Approval By Roselle (accounting manager) to accrue 13th month, state agency designation, reversal needed, subsidiary information if applicable, and budget account coding (ctclink chartstrings). There were 127 vouchers from the month of July on the list for potential accruals. The second tab outlined rules for accruing expenses such as: Goods must be received by June 30 to be charged to FY23, reach out to vendors to get the invoices before June 30th if possible, and that finance approval is required before invoices can be accrued. The last tab provided the accrual account chartstring information for expense accruals in AP to be moved by journals during the adjustment period. This process is due to the AP module closing for the year in early July. The general ledger is open during July for the previous year so the expenses must be accrued by journal entry. We determined that the College is monitoring potential expense accruals in order to ensure expenses are posted to the proper account code and period. *No issues noted.*

Noted Weaknesses are as follows:

None.

3. Preliminary Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

4. Control Risk at LOW - Test Key Controls

Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

5. Final Control Risk Assessment

MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

I.4.PRG - Community & Technical Colleges Testing - Bellevue

Procedure Step: Education Expenses_Testing
Prepared By: BFW, 10/20/2023
Reviewed By: RKM, 10/30/2023

Record of Work Done:

Material Balances and Assertions:

Governmental Activities- Education- Higher Education Expenses - Occurrence, Classification
Higher Education Special Revenue- Charges for Expenses - Occurrence, Classification

Controls are documented in the Education Expenses_Controls step. [Education Expenses_Controls]

Auditor Procedures:

We performed an analysis of expenditures by subobject for Bellevue College form the College General Ledger using the QFS_GL_ACCT_ANALYSIS query run for FY23 from ctclink on tab "Subobject Summary" of [Education Expenses Testing - AP]. We determined that Salaries and Wages (Object A) made up 49% of expenses for FY23, and other expenses made up 44% of the total balance.

We obtained the ctcLink chart of accounts crosswalk to AFRS from the SBCTC website and used Vlookups to identify expenses in the college GL by subobject. See "COA Crosswalk" tab at [Education Expenses Testing - AP]. We compared the subobject totals to the Community College ACFR database which identifies AFRS expenses by college. We identified that the college GL included revolving funds amounts which are not reported to AFRS at the college level. See revolving funds Journal detail from College GL in column P of the subobject summary tab. These are expenses that the SBCTC pays for the colleges and requests that they enter them into ctclink. No actual expense is paid by the college; only recorded. These expenses are reported to AFRS by SBCTC for all the colleges. We subtracted the revolving fund expenses from the college GL and noted a variance still existed; however it was below the floor.

A/P Testing Population:
We obtained a transaction level listing of vouchers input to pay operating expenses that occurred during FY23 from the ctclink system by running the QFS_AP_VCHR_PYMT_WIP query for FY2023, which contains payroll and operating expenses paid in FY23. We tied this to the College GL, the Community College ACFR Database, and to FAP (with a small variance below the floor) to ensure our population was complete. We stratified the population and removed the payroll vouchers (voucher IDs starting with "H" and student refunds (voucher IDs starting with "SF") to ensure our selection would only include vouchers for A/P expenses. We randomly selected 39 payments using the large population substantive sampling spreadsheet. See "Voucher Selection Completeness" tab here: [Education Expenses Testing - AP]

Substantive tests performed to meet the Occurrence assertion:
Payroll: See testing of payroll at: [Education Expenses - Payroll **]**
We randomly selected 39 employees' annual pay for FY23, using the substantive sampling spreadsheet. We obtained supporting documentation of any applicable contracts (regular, moonlight, stipends, etc.), timesheets, payroll action forms, and payroll processing reports. We tested to see that the expenses were supported by a contract or PAR and the amount paid to the employee per the payroll report agrees to the supported amount. We determined the amounts paid to employees real and supported. **No issues noted.**

Accounts Payable: See testing of accounts payable on the "FS Substantive Sample" tab at: [Education Expenses Testing - AP]
We randomly selected 39 payment vouchers and one individually significant item we identified from the population using the substantive sampling spreadsheet as detailed above. We looked up each selected voucher in the ctcLink system to view the attached supporting documents original invoices to ensure they matched what was input into the system, and that the expense occurred during the period. We determined all selected expenses except one had the original invoice invoice attached in the system. We requested the support for the one that did not have the original invoice attached, and it was provided to us immediately. We also tested that the expenses occurred during the period, and determined that all selected expenses occurred in FY23. **No issues noted.**

Substantive tests performed to meet the Classification assertion:
Payroll: See testing of payroll at: [Education Expenses - Payroll]
Using the same sample of employees as mentioned above, we reviewed the contracts and/or PARs for each employee as well as payroll reports and verified the payroll expense was allocated to the correct fund and period. We confirmed all payroll expenses were properly classified. **No issues noted.**

Accounts Payable: See testing of accounts payable at: [Education Expenses Testing - AP]
Using the same individually significant items and sample of vouchers as mentioned above, we looked up each selected voucher in the ctcLink system and identified the ctclink expense account used by the College to classify the expense on the "invoice Information" tab of the voucher in the ctcLink Accounts Payable System. We noted which expense account was input by the college in column M of the testing spreadsheet. Using the COA crosswalk, we noted the ctcLink expense account description in Column N and converted this to the corresponding AFRS subobject in Column O. We noted from the original invoice attached in the system what the purchase was for and determined if the expense was properly classified. We determined that the College is properly classifying expenses in the CtcLink system by account and by the appropriate AFRS subobject. **No issues noted.**

I.4.PRG - Community & Technical Colleges Testing - Bellevue

Procedure Step:	Federal Grants in-Aid_Controls
Prepared By:	MEC, 10/20/2023
Reviewed By:	RKM, 10/28/2023

Record of Work Done:

Material Balances and Assertions:

Internal controls in the Community and Technical College System address the following balances:
Governmental Activities - Education - Higher Education Operating Grants and Contributions - Occurrence
Higher Education Special Revenue - Federal Grants-In-Aid - Occurrence

See lead sheet here: [Lead Sheet]

1. Gain an Understanding of Internal Controls

State of Washington

On September 25, 2023 we met with Jennifer McMillan, Finance Manager and Sung Moon, Grant and Contract Accountant, to gain an understanding of internal controls over Grant revenue and expense as it relates to material balances reported to AFRS by SBCTC on behalf of the College. We identified that we would be focusing on AFRS sources 03xx - Federal Revenues and 05xx - Local Grants & Contracts for our testing and controls.

Grants, Contracts, and Student Aid (such as Federal Pell Grant revenue) are received from many sources which can be handled differently based on the source of funding. We analyzed the GL accounts containing Grant revenue to determine our focus for ACFR work. We decided to focus on Source 0541 which which was mostly Local Grants and Contracts and Running Start, and Source 0384 - Department of Education (mostly Pell Grants/Student Aid). See "Completeness" tab here: [Grants Testing].

Running Start & CEO Programs

Roselle Hay, Accounting Manager, and Agnieszka Skoczylas, Travel Coordinator/Student Accounts, handle the billing and receipting of the Running Start & Continuing Education Opportunity (CEO) program revenues. Invoices for the Running Start & CEO programs are generated in the High School Programs (HSP) office and are sent out to the school districts participating in the Running Start and/or CEO programs. A copy of the invoice is emailed to Agnieszka; she prints out each of the districts quarterly (Fall, Winter and Spring) Running Start and/or CEO program invoices and sets up a receivable for each school district in the ctcLink system. An A/R code is generated and Agnieszka writes the code on the corresponding invoice. If an invoice has been corrected, the HSP office will provide Agnieszka with an updated copy of the invoice and she will make the update to the system to reflect the new invoice amount.

The school districts send running start payments via a physical check, which includes the program name, invoice amount, and the school's quarter term. When the checks arrive in the Finance office, a **"Daily Check Log"** is passed around for staff to initial the receipt of the (two) check copies. Agnieszka writes the A/R code (RS-abbreviated school district) on both copies; she retains one copy and attaches it to the corresponding invoice. She passes the other copy on to Vicky Kazachenko, Fiscal Analyst, who posts the payment into the ctcLink system under the customer account previously set up by Agnieszka **(Key Control #1 - Occurrence)**

If there is an outstanding payment, Agnieszka emails the HSP office on a monthly basis and includes the Director and Program Specialist. A list of outstanding invoices is provided to HSP to follow up with the school districts requesting payment for past due. On a quarterly basis, Roselle Hay, Accounting Manager, reviews the accounts receivable subledger to ensure the Running Start and/or CEO payments are current. Roselle's subledger takes in data from all third-party payees; she can see the customer, the amount paid for the "year-qtr", and whether the invoice has been paid. She pulls in current data from the PeopleSoft system into her receivable subledger to scan for any outstanding payments, including Running Start and/or CEO. From her knowledge of the coding for year-qtr, Roselle can identify whether an invoice has been paid out and if there are any outstanding payments. Roselle checks in with Agnieszka on invoices outstanding for more than 90 days.

Washington College Grants

The Fiscal Analyst 5 (FA5) (vacant) compares the expense data from ctcLink with the award data from the WSAC website, to ensure the amounts match, prior to making a draw-down from WSAC. After the draw-down has occurred, FA5 creates billing (new: requests billing to Billing dept) for actual revenue drawn and submits for approval. Within a week after funds are requested, WSAC sends an email confirmation to Jennifer McMillan and the FA5, notifying them the money has been wired directly to the College's bank. The FA5 then forwards this email to relevant Accounting staff (i.e. Roselle, Sung and Vicky) for processing with appropriate Billing info. Vicky Kazachenko, Fiscal Analyst, posts the revenue receipted in the ctcLink system.

Local Grants & Contracts

The College has a local grant committee that reviews potential grants submitted by the College's various departments. After the grant has been applied for and approved, Sung sets up the grant in the system with the budgeted amount. She reviews the proposal, award letter, the amount of award, and the contract to ensure the information in the system is input correctly.

On a monthly basis, Sung performs a reconciliation for each grant and sends an email notification to the department that received the grant indicating if the funds are not being used or if they are over spending. She will meet with departments as needed to discuss the grant, funding, and/or review the remaining balance. The department responsible for the grant creates the invoice for reimbursement and submits it to the grantor. Sung is responsible for creating some of the grant invoices. Sung receives a copy of the invoice from the department and enters the invoice into the College’s receivables system. She then enters the grantor's information and invoice amount into her "Grant Accounts Receivables" tracking spreadsheet. To ensure she has received all related grant invoices, she utilizes the OBIS website on a monthly basis and reconciles to her tracking spreadsheet. As the funds are received (either EFT or physical check) they are included in the Financial Daily check/bank log that goes around the finance office each day **(Key Control #1 - Occurrence)**.

Sung receives two copies of the checks (or print out of EFT received), and notes the receivable information on each copy. She retains one for her grant folder, and passes along the second copy to Vicky Kazachenko, Accounts Receivable Accountant, to enter as a receivable in the system. Sung makes a note on the Grant Accounts Receivable spreadsheet with the check number, or the EFT date. At the end of each month, Sung uses a grant report to show all grants to reconcile the grant money received against what was budgeted.

The local contracts specify when payments are to be made to the College (monthly, quarterly, etc). Sung noted some of the payments related to local contracts have invoices, and some do not as the payment is based on the agreement. For local contracts with invoices, the same process as described above is followed. Payments related to local contracts without invoices are received at the College and entered into PeopleSoft by Vicky Kazachenko, Accounts Receivable Accountant.

Department of Education- Pell Grants

Students apply for Federal Pell grants using the free application for federal student aid (FAFSA), and they are awarded aid based on their need and responses to the questions on the form. The student award information is sent to the financial aid (FA) department at the college where FA staff award students in the ctclink system so it can be applied to tuition & fees. Amounts in excess of this can be refunded to the student.

When tuition is due, the student financials (SF) staff run a "group post" to post the Pell award amounts to student accounts. FA Disbursements occur every Thursday - beginning the Thursday before the Quarter starts (only applies for the FAFSA year of application). The FA Disbursement pays off the student's eligible charges - what is left over of the FA is now a credit on the student's account. The financial Aid department reconciles the Federal Pell grant awards as applied to student accounts to ensure that all eligible students awards paid out or refunded properly.

<u>Posting to the GL</u>

Financial aid is posted to the GL via a "second journal set" which posts the financial aid item types to the correct expense accounts to ensure the expense and revenue match up in the general ledger. Every Monday, SBCTC will run the process for the 2nd Journal Set (Monday – Sunday) - as an excel file Summary to the item type, put on or coming off the student's account (only activity during that time frame is captured). This makes it easier to do weekly reconciliations of the revenue and expense posted by FA item types. The Finance team will post this second Journal Set to the General Ledger on the same day (Monday) so that FA team is able to see GL expenses and post them properly using an offset with the internal cash account.

Draw downs of federal grant funds from the Department of Education (DoE): The college takes total Pell expenses posted for the time period, less total revenue posted to ascertain the amount to be drawn down. This ensures they only draw down the appropriate amount. They then receive the funds through an EFT to the bank. They post the DoE revenue to the same chartstring or budget account code (department, fund, and class) as the expenses are reported to ensure that the amounts remain equal and balanced **(Key Control 2 - Occurrence).**

<u>Summary of Key Control(s):</u>

Key Control #1: The school districts send running start payments via a physical check, which includes the program name, invoice amount, and the school's quarter term. When the checks arrive in the Finance office, they are entered into the "Daily Check Log". Vicky Kazachenko, Fiscal Analyst, posts the payment into the ctcLink system under the customer account previously set up by Agnieszka Skoczylas, Travel Coordinator/Student Accounts. (Occurrence)

Key Control #2: Draw downs of federal grant funds from the Department of Education (DoE): The college takes total Pell expenses posted for the time period, less total revenue posted to ascertain the amount to be drawn down. The DoE Revenue to the same chart string or budget account code (department, fund, and class) as the expenses are reported to ensure that the amounts remain equal and balanced for the period. (Occurrence)

Noted Weaknesses are as follows:

None.

2. Confirm Understanding

<u>Key Control #1</u>: The school districts send running start payments via a physical check, which includes the program name, invoice amount, and the school's quarter term. When the checks arrive in the Finance office, they are entered into the "Daily Check Log". Vicky Kazachenko, Fiscal Analyst, posts the payment into the ctcLink system under the customer account previously set up by Agnieszka Skoczylas, Travel Coordinator/Student Accounts. (Occurrence)
We reviewed the daily check log for 4/6/2023 created by Vicky Kazachenko. The deposit ID was listed as b0a3a76b-eb34-4a91-a4b9-50da5f532c4a, and the total amount was $64,528.95. It listed seven checks and their serial numbers from Bellevue College, Shoreline School District, City of Bellevue, Enumclaw school district, Bellevue College Foundation, Everett Community College, and Suginoko school with their amounts, which totaled to $64,528.95. We reviewed one of the checks listed on the check log from Enumclaw school district # 476252 payable to Bellevue College in the amount of $6,747.69 which matched the amount on the check log. We reviewed the associated invoice #MSC-0000014591 generated for Enumclaw school district (Customer ID# RS1000161) for $6,747.69, dated 12/20/2022, Net 30. The invoice indicated it was for "FALL 2022 RUNNING START". The college also provided us the account screen shot of the applied payment to Enumclaw School District account. The customer ID was RS1000161, and it showed the 4/6/2023 payment for invoice #MSC-0000014591 entered on 12/20/2022 as paid on 4/6/2023. *No issues noted.*

<u>Key Control #2</u>: Draw downs of federal grant funds from the Department of Education (DoE): The college takes total Pell expenses posted for the time period, less total revenue posted to ascertain the amount to be drawn down. The DoE Revenue to the same chart string or budget account code (department, fund, and class) as the expenses are reported to ensure that the amounts remain equal and balanced for the period. (Occurrence)
We reviewed the ctcLink revenue account in the College general ledger used to account for Department of Education revenue: 4022280. We identified that the department used for Pell Grant revenue was 82601, fund 846, class 271, and the amount of revenue posted for FY23 was $(5,130,696.65). We also reviewed the expense account 5020030 "Pell", used the same account coding: department was 82601, fund 846, class 271, and the amount of expense posted to the account was $5,130,696.65. We determined that the college uses specific revenue and expense accounts, with the same account coding to monitor Pell amounts to ensure that the amounts are drawn down from the Department of Education and posted to the correct fiscal year.

We also reviewed the support for the Draw down and ACH deposit to the bellevue bank account ending in *2980 that occurred on 1/6/2023 in the amount of $436,816.59. The recipient reference was PELL 22-23 for award No. P063P222396 which was authorized in an amount up to $5,129,178.14 on the screen shot from the DoE website. The college provided us an excel sheet which had a pivot table showing the pell item type by quarter. Next to this was 3 columns that calculated the amount to draw or return funds based on whether the amount calculated was a debit or credit. We identified that this amount matched the draw down request from DOE. *No issues noted.*

3. Preliminary Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

4. Control Risk at LOW - Test Key Controls
Not applicable - we are not planning on relying on controls and therefore do not need to test controls; control risk will be assessed at maximum.

5. Final Control Risk Assessment
MAX - We noted no matters involving internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. However, we have assessed control risk at max because we have determined that substantive procedures alone will be effective to reduce detection risk to an acceptable level.

I.4.PRG - Community & Technical Colleges Testing - Bellevue

Procedure Step: Federal Grants in-Aid_Testing

Prepared By: MEC, 10/20/2023

Reviewed By: RKM, 10/28/2023

Record of Work Done:

Material Balances and Assertions:
Governmental Activities - Education - Higher Education Operating Grants and Contributions - Occurrence
Higher Education Special Revenue - Federal Grants-In-Aid - Occurrence

Controls are documented in the Federal Grants-In-Aid_Controls step. [Federal Grants in-Aid_Controls]

Substantive tests performed to meet the Occurrence assertion:

See testing here [Grants Testing]

State of Washington

Population
We analyzed grant revenue recorded in FY23 for Bellevue College using the College QFS_GL_ACCT_ANALYSIS Query run for FY23 from the ctcLink system. We ran a pivot table by GL account with account descriptions and amounts. We filtered the pivot table to ensure we omitted period 999 and 133 to see the revenue accounts with amounts before they closed to fund balance and omitted agency funds 840, 790, and 841 which are not reported to AFRS for revenue and expense. Using the account numbers, we used Vlookups to convert the accounts to AFRS GLs and sources of revenue from the SBCTC Chart of accounts crosswalk (documented on the testing spreadsheet). This gave us ctcLink information as reported in AFRS for all sources of revenue. We filtered for the "05" and "03" AFRS revenue sources and determined that 0541 and 0384 made up 73% of the balance, so we selected those for our testing. See completeness tab of the testing spreadsheet for detail: [Grants Testing]

Using the College QFS_GL_ACCT_ANALYSIS Query for the selected GL accounts containing those sources of revenue, we added information by department and department description to the pivot table. We found that Career Education Options, department 22361, made up 71% of the Local Grants and Contracts revenue account 4021020, Running start made up 98% of the GL revenue account 4021067, and Pell made up 82% of the GL revenue account 4022280 Department of Education. The total amount of revenue selected from these accounts was $23,290,207.85.

Next we added journal entries from these departments to our pivot table only which gave us 59 journals to select from for testing for occurrence. We used the small population substantive sampling spreadsheet from the team store to determine our sample size. We identified that 3 journals that were individually significant and selected a sample of 12 revenue journals to test for occurrence. We requested support for these journals: Invoices, approvals, draw down support if applicable, and other information as follow-up was needed.

Substantive tests performed to meet the Occurrence assertion:
For each selected journal, we tested that the recorded revenue occurred during the period, and that the related support provided by the college tied to the recorded amount of revenue. We noted and logged the batch date, number of invoices in the batch, invoice descriptions, the approval status of the batch, and the ctcLink account the revenue was posted to with the corresponding AFRS revenue source.

We determined that reported revenue occurred during the period and was supported by adequate documentation to support its occurrence. *No issues noted.*