



OFFICE OF
FINANCIAL MANAGEMENT

SAAM CHAPTER 20 REVISION FOR JANUARY 2017

FMAC

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What and why?

- » SAAM Chapter 20 Internal Control Sections.
 - › The last major update occurred in the 1990's.
- » Section 20.30 Suspected Losses of Public Funds or Property has been moved to Section 70.75 (agency written procedures)
- » Section 20.40 Internal Auditing will be changed pursuant to RCW 43.88.160(4)(a)

What and why?

- » RCW 43.88.160(4)(a) The director of financial management, as agent of the governor, shall:
 - › Develop and maintain a system of internal control to be adopted by each agency to:
 - Safeguard assets
 - Check accuracy and reliability of accounting data
 - Promote operational efficiency
 - Encourage adherence to managerial policies for accounting and financial controls.

What and why?

» RCW 43.88.160(4)(a) (cont.)

- › Determine which agencies internal audit is required
- › Agency head is assigned the responsibility and authority to:
 - Establish and maintain internal audits that follow professional audit standards including:
 - GAGAS, or
 - IIA standards, or
 - Both

What and why?

- » RCW 43.88.160(4)(a) (cont.)
 - › For agencies not required to have internal audit
 - › The Agency head may establish and maintain internal audits that follow professional standards
 - › At a minimum must comply with policies as established by the director to assess the effectiveness of the agency's systems of internal controls and risk management processes.

When?

- » Getting the internal control part ready took longer than expected.
- » We are planning on issuing revised SAAM 20 In January of 2017
- » Watch the *Connection* for more information.

How are internal control changes being made?

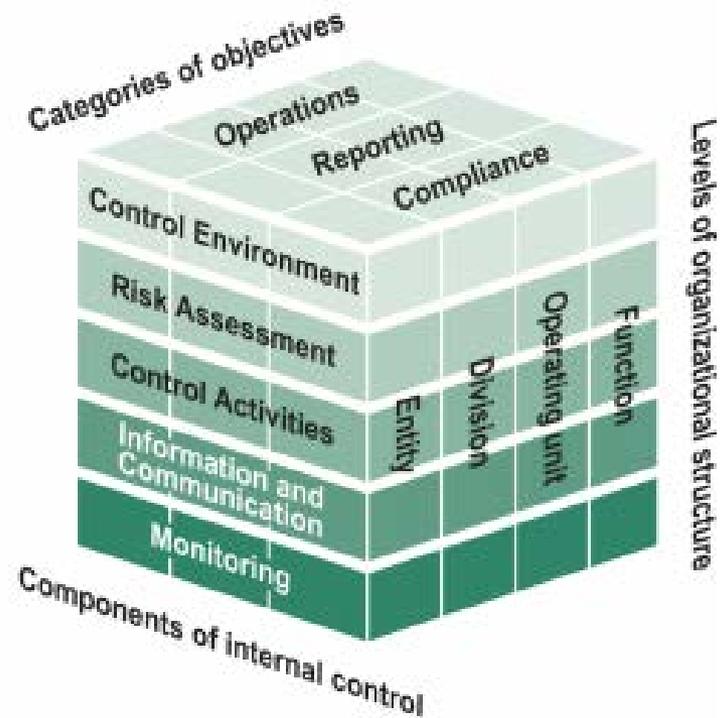
- » COSO and the Green Book (GB)
 - › GB Issued by the GAO Comptroller General for the federal government community
 - › Used COSO as their starting point
 - › More plain talk than COSO
 - › Designed for Government
 - › Available electronically at no charge
<http://www.gao.gov/greenbook/overview>

How are internal control changes being made?

» Statewide Accounting

- › Prepared a draft
- › We have received feedback from
 - Stakeholder group
 - FMAC Executive Committee
 - Internal Control Professionals Group.
 - SAO
- › We would like feedback from you
- › The draft is available on the FMAC web (OFM, Accounting, FMAC)

The "COSO Cube"



Sources: COSO and GAO. | GAO-14-704G

Categories of Objectives

› Operations

» Effectiveness and efficiency of operations

› Reporting

» Reliability of financial reporting

› Compliance

» Applicable laws and regulations

Components of Internal Control

› Control Environment

- » Foundation of standards, processes, and structures for carrying out internal control

› Risk Assessment

- » Process for identifying and analyzing risks to achieving agency objectives

› Control Activities

- » Policies, procedures, techniques, and mechanisms to mitigate risks to objectives

Components of Internal Control

› Monitoring Activities

- » Evaluation of the quality of internal control performance over time

› Information and Communication

- » Sharing information and communicating internally and externally regarding matters that affect internal controls

Principles of effective internal control

Control Environment

1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability

Risk Assessment

6. Specifies suitable objectives
7. Identifies and analyzes risk
8. Assesses fraud risk
9. Identifies and analyzes significant change

Control Activities

10. Selects and develops control activities
11. Selects and develops general controls over technology
12. Deploys through policies and procedures

Information & Communication

13. Uses relevant information
14. Communicates internally
15. Communicates externally

Monitoring Activities

16. Conducts ongoing and/or separate evaluations
17. Evaluates and communicates deficiencies

What do the changes mean for agencies?

- » It will take a lot of thought and work to implement
- » There is no one-size-fits-all checklist
- » It is an on-going process that
 - › Is tailored to your size
 - › Takes into account changes
- » Consider this a major refresh
- » Use it to enhance your internal policies and approach
- » Strive to incorporate the principles and points of focus in all aspects of your agency's internal controls.

What is OFM's on-going emphasis?

There are 5 points that are not new but need emphasis

1. Every agency needs an Internal Control Officer who
 - › Provides written assurance at least annually to the agency head that the agency has performed the required risk assessments and the associated internal control monitoring processes.

2. Risk assessment is one of the components of the framework and therefore needs to be done by every agency.

What is OFM's on-going emphasis?

Required risk assessments:

- » Should address financial reporting and federal program compliance objectives.
- » They can be done agency-wide at one time or by sections of the agency over a period of time.
- » The agency should
 - › Consider significance when planning the assessment and monitoring.
 - › Strive to address high risk areas at least once a biennium.

What is OFM's on-going emphasis?

Risk assessment and internal control monitoring process:

- » Designed to provide management with reasonable assurance that controls are operating as expected.
- » Used to determine if internal control modifications are needed by considering various changes.
- » Any internal control weaknesses should be documented and addressed in a timely manner.

What is OFM's on-going emphasis?

3. SAAM Chapter 20 is referenced in item 7 on the annual Financial Disclosure Certification
 - › We are responsible for and have established and maintained an effective system of internal controls as prescribed by SAAM Chapter 20.
 - › Our agency's system of internal controls incorporates adequate procedures and controls to
 - safeguard our assets,
 - check the accuracy and reliability of our accounting data,
 - promote operational efficiency, and
 - encourage adherence to policies for accounting and financial controls.
 - › If there are significant deficiencies in internal control, a summary of the deficiencies and corrective action is attached to this certification.

What is OFM's on-going emphasis?

4. Internal controls related to fraud are referenced in item 8 on the annual Financial Disclosure Certification.
 - › We are responsible for designing and implementing programs and controls to prevent and detect fraud.
 - › We have disclosed to the auditors all known instances and allegations of fraud or suspected fraud involving management and employees who have significant roles in internal control.
 - › We have also disclosed known instances and allegations of fraud or suspected fraud involving others where the fraud could have a material effect on the financial statements.

What is OFM's on-going emphasis?

5. SAAM 20 has no materiality
 - › SAAM 20 applies to the agency operations regardless of the materiality of the financial transaction.
 - Seems to be perception that this chapter only applies to material CAFR items
 - The 4 stated objectives of the RCW must be addressed regardless of materiality

What's next?

» In addition to the policy update, we plan to update the internal control resource website to include various helps.

<http://www.ofm.wa.gov/resources/internal.asp>

» Questions?

› Contact Don or your accounting consultant.