



State Audit Update, Spring 2014

CAFR, Single Audit, Accountability & Whistleblower

Financial Management Advisory Council

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WASHINGTON
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Topics for Discussion

- Vision for the future and organizational changes
- Comprehensive Annual Financial Report (CAFR)
- Statewide Single Audit (SWSA) Statewide
- Technology Audit Team (STAT) and Statewide IT Risk Assessment
- Accountability Audits
- Whistleblower Program
- Strategic audit planning with Performance Audit



Troy Kelley, State Auditor



- Three term legislator
- Chaired Joint Legislative Audit and Review Committee
- Led audit teams at SEC
- Worked on white collar crime in federal prosecutor's office
- Now State Auditor for over a year



Vision for the future

- Creating a culture of continuous improvement.
- Enhancing the value of audit.
- Clear, fair and effective communication of audit results.
- Extending the reach of the Local Government Performance Center.

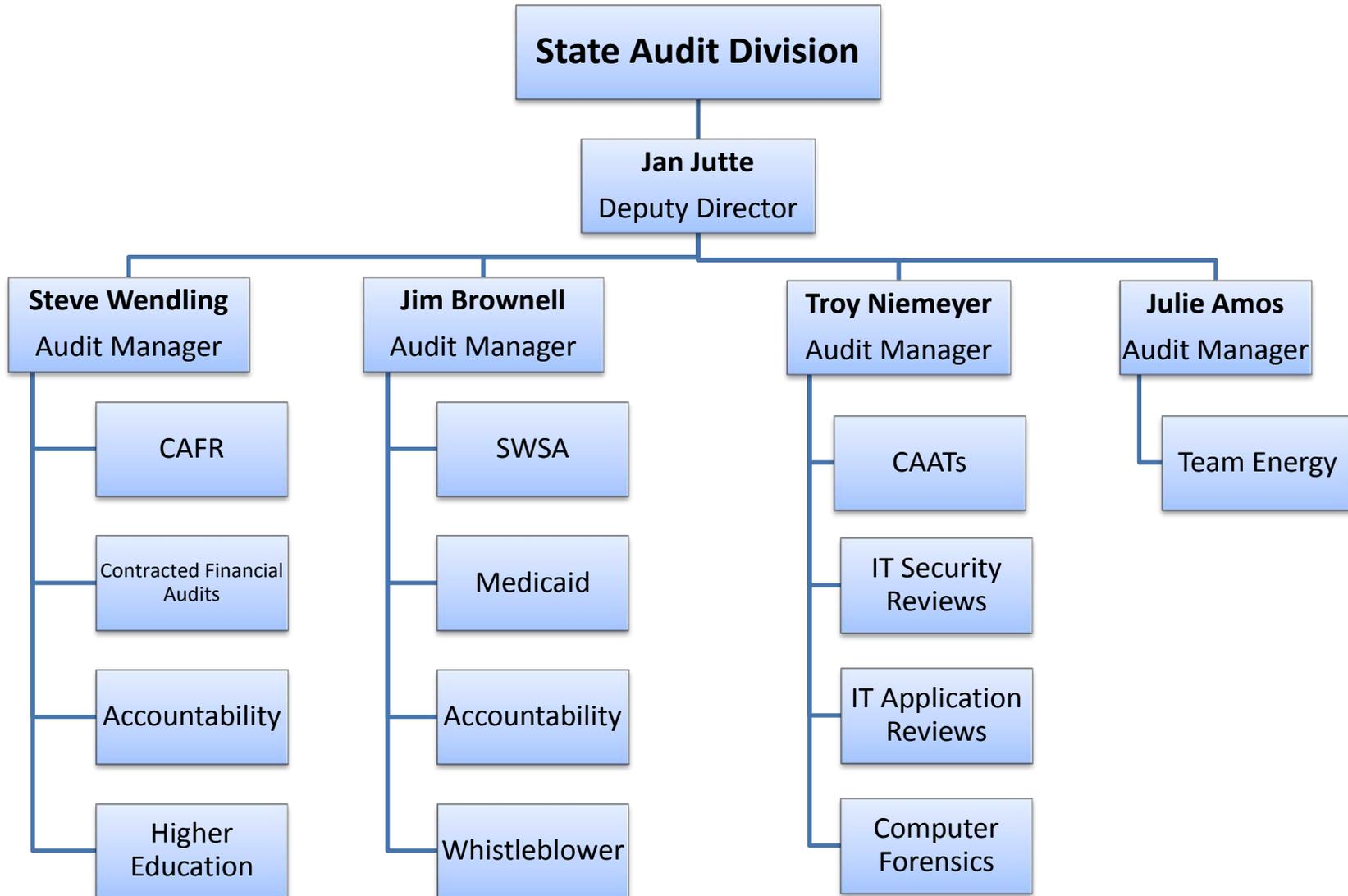


Organizational Changes

- Reorganization of State Audit Division.
- Shift back to individual agency audits.
- Reinstatement of multiple levels of audit issues (i.e. findings, management letters, exit items).



Organizational Changes



Organizational Changes

Beginning in fiscal year 2014, the State Auditor's Office began to shift back to the model of individual agency accountability audits.

- Decision to move away from this model was due to budget cuts during the economic downturn.
- Most agency audits will be cycled and narrower in scope.
- We are developing a schedule that will help us inform OFM and agencies of our work plan and how funding needs to be appropriated.



Organizational Changes

- The past few years our accountability audit reports have been written in a more narrative form.
 - Similar to Performance Audits.
 - Audit exceptions reported as “issues”.
- We are reinstating the following levels of how accountability audit issues are reported:
 - Finding
 - Management letter
 - Exit items
- We believe this approach allows us to better work with state agencies and OFM to strengthen internal controls and compliance with laws and rules.



- The Office of Financial Management prepares the CAFR in accordance with Generally Accepted Accounting Principles.
- We perform an independent audit of the CAFR in accordance with Generally Accepted Governmental Auditing Standards.



- Significant Risks for FY13:
 - Internal Controls related to ProviderOne.
 - Implementation of GASB 63 and 65 (new statement of Net Position and reporting deferred inflows and outflows).
 - Management Override of Controls.
- 13 agencies had account balances material to state's basic financial statements.



- Our 2013 audit resulted in a clean audit opinion.
- We identified one significant deficiency in internal control over financial reporting that we reported as a finding. We found internal controls over payroll payments processed by Human Resources Management System and Medicaid payments processed by ProviderOne are inadequate to ensure those payments are properly processed and recorded.
- Issued CAFR Summary
<http://www.sao.wa.gov/generalinfo/Pages/AnnualReports.aspx>



SWSA 2013

- The Single Audit is an independent audit of systems and internal controls over federally funded programs the state has designed to ensure compliance with federal regulations.
- The audit is conducted in accordance with the provisions of the federal Office of Management and Budget's Circular A-133 and U.S. Government Auditing Standards.
- The state received nearly \$14.9 billion in cash and other federal assistance in fiscal year 2013.



- Audited 31 major programs covering \$8.7 billion.
- Work done at 19 agencies, which includes 2 universities and 3 community colleges.
- 45 federal findings
 - 29 compliance/questioned cost findings, question costs \$4.2 million.
 - 35 internal control findings with 10 material weaknesses.



Audit findings decreased in FY13 after steadily increasing over the past 5 years. The decrease can be attributed to:

- Decreased federal assistance.
- Agencies implementing corrective action to resolve findings that have been repeated for several years.

\$ 4.3 million in questioned costs.



- Qualified Opinion on the Homeland Security Grant at the Military Department.
- Majority of ARRA funding has been phased out, only \$229 million was spent in fiscal year 2013.
- Issued SWSA summary
<http://www.sao.wa.gov/generalinfo/Pages/AnnualReports.aspx>



Statewide Technology Audit Team (STAT)

STAT is a team of 11 IT Auditors whose primary role at SAO is to provide technology services and expertise to the audit teams at SAO.

- Computer Assisted Audit Techniques (CAATS).
- IT automated and general controls.
- Application reviews.
- Security reviews (OCIO compliance).
- Computer forensic investigations.



Statewide IT Risk Assessment

SAO is partnering with OCIO, CTS, DES and in independent IT expert firm to perform the following:

- Develop an inventory of the state's IT universe.
- Identify which areas are highest risk to the state.
- Make recommendations on the role of SAO in auditing these systems.
- Make recommendations on how SAO can best be organized to effectively audit state systems.



Statewide IT Risk Assessment

Potential outcomes:

- A regular cycle of IT Audits at state agencies that could be performed by SAO.
- A pre-determined audit plan, scope and methodology.
- A more robust, specialized training program for IT Auditors.
- Continue to grow and develop the IT Audit team to meet growing IT Audit needs.
- Periodic review and refresh of IT Audit plans to ensure SAO stays on the cutting edge of IT Audit risks and methods.
- Continued partnership with OCIO, CTS & DES to address state IT Audit needs into the future.



Accountability Audits

- In fiscal year 2014, our Office emphasized audits of state agency local funds.
 - Every two years we are required to issue a capstone report to the Governor's Office and Legislature.
- We identified agencies that have local funds using AFRS.
- Current local fund audit work is being done as separate audits and we are issuing individual agency reports.
- In the future, this work will likely be included in the scope of individual agency accountability audits.



Accountability Audits

- Local fund audits for the following agencies have been completed or are underway:
 - Gambling Commission
 - Fish and Wildlife
 - Attorney General
 - Washington's Lottery
 - Dept. of Early Learning
 - Ecology
 - Dept. of Transportation
 - School for the Blind
 - Historical Society
 - Dept. of Corrections
- These audits have identified issues significant enough for us to report as findings and management letters.



Accountability Audits

- During the 2014 Legislative session, we worked with OFM through the supplemental budget process to fund audit work at small agencies.
- Audits are currently underway at a number of agencies.
- In the future, agency accountability audits will be cycled based on factors such as:
 - Prior audit issues.
 - Financial activity (revenues and expenditures).
 - Risk assessment through strategic audit planning.
- These audits will be conducted by both of the state teams.



Accountability Audits

- Other accountability audit work currently in progress includes:
 - Travel
 - Incarcerated individuals receiving state benefits



Whistleblower Program

- Our Office is responsible for investigating reports of improper governmental actions made by state employees.
- The following must be true in order for us to open an investigation:
 - The whistleblower must be a current state employee.
 - The complaint must include a specific subject or subjects.
 - The asserted improper action must be a violation of state law or rule.
 - The asserted improper action must have occurred within the past year.
- Complaints can be submitted anonymously.
 - When we open these cases, we are required to consult with a three-person panel after our preliminary investigation to determine whether to proceed.



Whistleblower Program

- Current team of two full-time investigators and another in-training.
- An emphasis has been placed on the process improvement of investigations and monitoring to ensure our Office is in compliance with state law (RCW 42.40).
 - Our investigative manual and procedures have been updated.
 - More standardized materials (entrance, exit documents).
- Our Office has established a Committee that determines whether to open new WB referrals.
- Common complaints continue to be violations of Ethics Laws, such as the personal use of state resources.



Strategic Planning with Performance Audit

- Our Office has instituted a strategic planning process that involves both our State and Performance Audit Divisions.
 - This process is continuing to evolve.
- State government has been broken into policy areas (transportation, education, health, etc.).
- Policy area specialists meet quarterly to discuss high-risk topics and maintain a list of potential audits.
- This information is used by both Divisions to assist in developing their work plans.



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