

SAO Hot Topics



May 25, 2023

Erika Davies
Subject Matter Expert

Mary Coleman
Subject Matter Expert

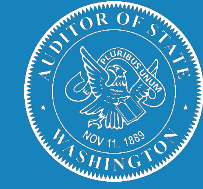
Scott Bills
Program Manager for Universities and Community Colleges

Sadie Armijo, CFE
Director of State Audit and Special Investigations



Agenda

- Common Accountability Audit Recommendations
- Trends in Financial Audit Recommendations
- GASB 96
- Federal Single Audit Update
- Fraud Investigation Program



College Accountability Audits



An accountability audit evaluates whether a state agency has adhered to applicable federal or state laws, rules, and its own policies and procedures.

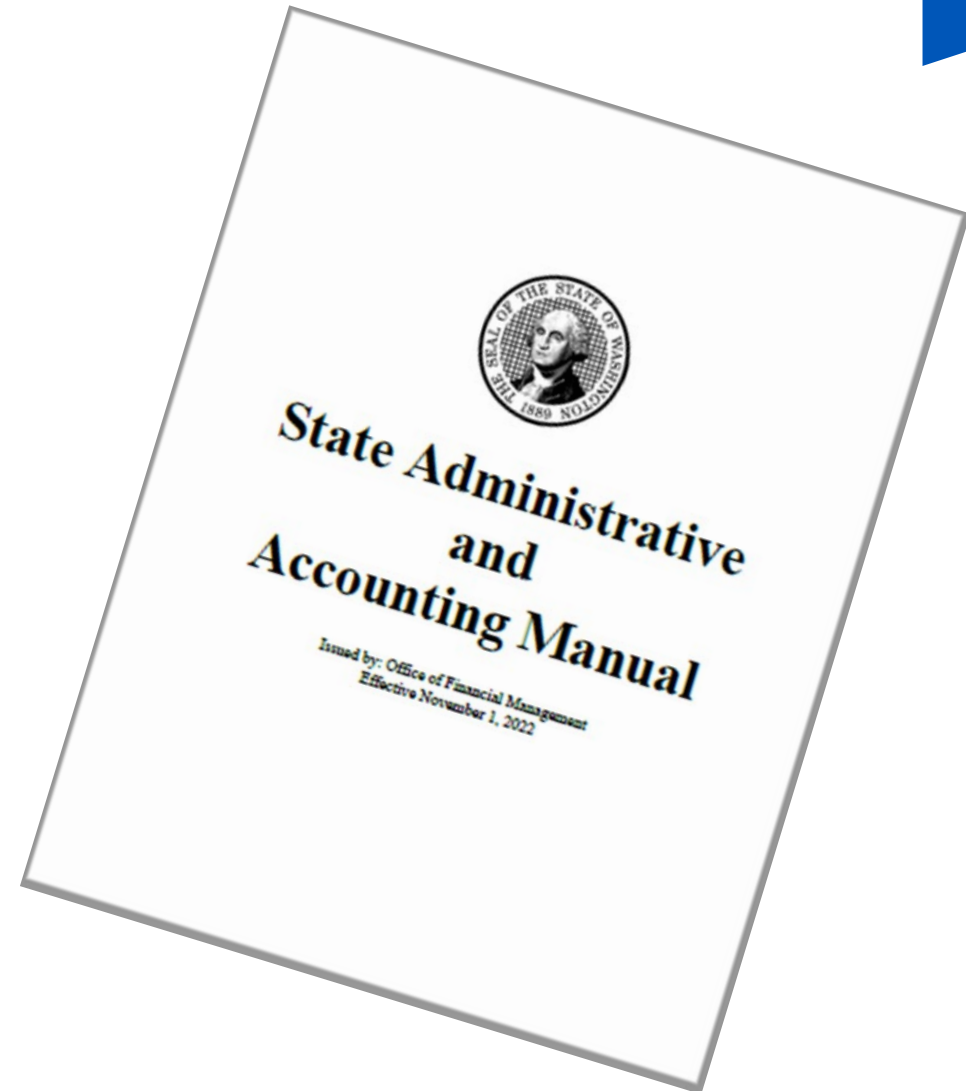
The process includes auditing records to ensure public funds are accounted for and internal controls are in place to protect public resources from misappropriation and misuse.

College Accountability Audits



Annual Risk Assessment

SAAM 20.15.20.c requires all colleges to designate an internal controls officer who is responsible for ensuring the agency performs an annual risk assessment and periodic review of internal controls. SAAM 20.15.30.b describes requirements for the risk assessment.



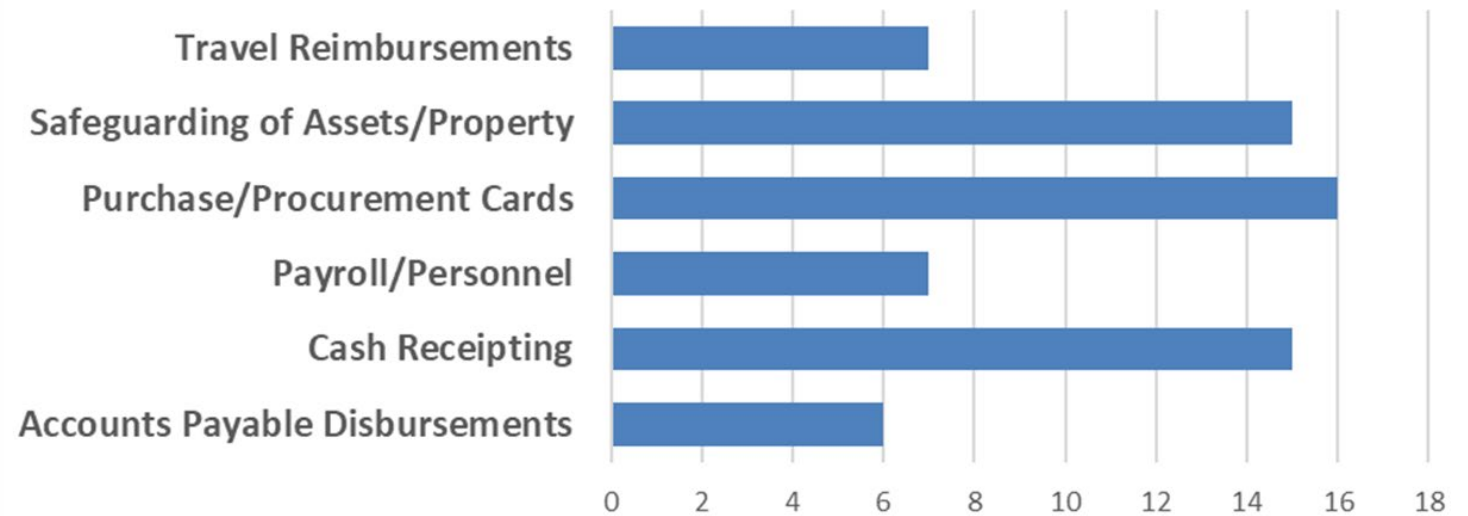
College Accountability Audits



Common Issues Identified Since 2018

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

Exit Items





College Accountability Audits

SAO has issued 8 **Management Letters** to Colleges since 2018 related to:

- Cash Receipting
- Payroll/Personnel
- Procurement/Bids/Prevailing Wage
- Travel/Employee Reimbursements
- Accounting/Financial Reporting

Management letters communicate control deficiencies, non-compliance, misappropriation, or abuse that are less significant than a finding, but still important enough to be formally communicated to the governing body. Management letters are referenced, but not included, in the audit report.



College Accountability Audits

SAO has issued 3 **Findings** to Colleges since 2018

related to:

- Payroll/Personnel
- Purchase/Procurement Cards
- Safeguarding of Assets/Property

Findings formally address issues in an audit report. Findings report significant results of the audit, such as significant deficiencies and material weaknesses in internal controls; misappropriation; and material abuse or non-compliance with laws, regulations or policies.

Agencies are given the opportunity to respond to a finding and this response will be published in the audit report.

Within 30 days of the issue of an accountability audit finding, SAAM 55.10 requires state agencies to provide a corrective action plan to the OFM Accounting Division. Upon completion of corrective action related to a finding, state agencies are required to submit a certification, signed by the agency head or designee, that the audit resolution process is complete. It is recommended that agencies discuss the completion of corrective action with their assigned OFM Accounting Consultant prior to submitting the certification.

College Accountability Audits



Finding Recommendations: Payroll/Personnel

- Strengthen internal controls over payroll disbursements to ensure payments to employees are valid, supported, and in compliance with state law
- Ensure adequate documentation is retained
- Ensure payments to employees are valid and accurately calculated in accordance with employment contracts and collective bargaining agreements
- Ensure that leave policies are followed and leave hours appropriately removed from employee balances when leave buyouts occur



College Accountability Audits

Finding Recommendations: Purchase/Procurement Cards

- Ensure that purchases are reconciled monthly and purchases are approved by supervisors
- Ensure that supervisors understand the allowable uses of purchase cards and the documentation required to support purchases
- Ensure that receipts for purchases are obtained by card custodians in a timely manner
- Ensure that department card logs and receipts for purchases are retained
- Ensure that card users and custodians have signed a card user agreement and have completed required trainings before using purchase cards

Refer to SAAM 40.30.40 on Purchase Cards. For further guidance, see the Department of Enterprise Services website.

College Accountability Audits

Finding Recommendations: Safeguarding of Assets/Property



- Segregate duties and strengthen monitoring of small and attractive assets to reduce the risk of loss or misappropriation
- Update small and attractive asset policy to include information required by SAAM
- Limit access to the inventory list to prevent unauthorized individuals from making changes
- Retain the required documentation for bi-annual inventory counts and maintain a complete and accurate master asset list in accordance with SAAM 30.40.30
- Correctly tag and track assets with complete information to comply with SAAM 30.40.30
- Update the small and attractive asset list to reflect the addition, transfer, and deletion of assets
- Keep adequate documentation to support removal of assets from College records
- Ensure most recent risk assessment identifies assets that are particularly at risk or vulnerable to loss, as required by SAAM 30.40.20

Trends in financial statement recommendations



Financial
statement
preparation

Capital assets

Certificates of
participation

Implementation
of new GASB's

College
Foundations



Financial statement preparation

- Importance of a detailed secondary review of the financial statement package by someone knowledgeable of financial reporting
- Avoid reliance on the SBCTC
- Controls over journal entries are critical for ensuring data in the general ledger is accurate and complete.
 - Additionally, lack of controls allow for the potential of management's override of different functions that integrate into the general ledger (ability to post adjustments without going through the different functions like disbursements or cash receipting)



Capital assets

- Check that Construction in Progress (CIP) is properly moved to a depreciable asset balance when projects are substantially complete
- Reconcile Capital Asset amounts throughout the year
 - Investigate differences and make appropriate adjustments
 - Retain support of your reconciliation and adjustments for the auditors
- Physical inventories help catch additions and deletions that were not entered or removed from the financial system



Certificates of Participation

- In the year of issuance, determine if timing of the funds will have impact on the following two balances:
 - Receivables: analyze and determine if the receivable related to the COP should be reported and classified as current or non-current
 - Net investment in capital asset: if COP funds were not spent on related capital asset activity in the reporting year, they should not be included in the net investment in capital asset calculation
- Incorrect inclusion of COP funds in this balance could lead overstatement in net investment in capital asset balance and understatement of restricted net position



College Foundations

- For most Colleges, we issue two opinions: one for the College as a whole and one for the related Foundation (discretely presented component unit)
 - Timing of Foundation audit performed by CPA firm is important
 - Communicate early and often
 - Include review of the foundation as part of financial statement preparation process



Common errors in the SBCTC financial template

- MD&A
 - Condensed Operating Statement – The condensed operating data should group the operating and nonoperating revenues first and then, operating and nonoperating expenses.
- Statement of Net Position
 - Current net pension liability – If the State Board Retirement Plan is still paying benefits from the old plan and not the trust.
 - Summer school pre paid registration being an account receivable – This should be an unearned revenue



Common errors in the SBCTC financial template

- Statement of Cash Flows
 - Not including non-cash transactions
- Notes
 - Note 1 – There is no need to list old GASB statements (14,39,61)
 - Note 2 – Reporting new statements that are not material to the College.
 - Note 13 – Reporting all deferred outflows as an expense instead of just contributions subsequent to the measurement date.
- RSI
 - Missing or part of the Notes to RSI – Schedule of Employer Contributions for the State Board Supplemental Retirement Plan.



Introduction to SBITAs – GASB 96

GASB 96, paragraph 62

- **When is it applicable?** Fiscal years beginning after June 15, 2022

Fiscal Year-End	SBITA Reporting Applicable
6/30	7/1/22 - 6/30/2023



What is a SBITA?

GASB 96, paragraph 6:

“A contract that conveys control of the right to use another party’s (a SBITA vendor’s) IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.”



What is included?

- Cloud computing arrangements
 - Software as a Service (SaaS)
 - Platform as a Service (PaaS)
 - Infrastructure as a Service (IaaS)
- Cloud-based Enterprise Resource Planning (ERP) systems
- Online conferencing
- Email, calendar, office tools
- Online payment tools



Examples

- Capital asset software
- Budgeting software
- 911 and emergency dispatch
- Metering for water and electric utilities
- Remote learning platforms in schools
- Data backup and storage for tax and appraisal records
- DocuSign
- Laserfiche
- Open Gov
- Zoom
- Microsoft Office 365



What is not included?

- Short-term SBITAs (paragraph 13)
 - Have a maximum possible term of 12 months or less, including any options to extend, regardless of the probability of being exercised
- IT software is insignificant to the tangible IT asset
- IT support services
- Software acquired through perpetual licensing agreements



What do we do with it – GAAP?

Regular SBITA

- Record a subscription liability
 - Measured at PV of subscription payments
 - Liability reduced as government makes payments
- Record a right-to-use subscription asset
 - Measured at liability + payments to vendor + capitalizable costs - incentives
 - Amortized over subscription term

Short-term SBITA

- Record an expense as payments are due



How do I get started?

- Read GASB Statement 96
- Inventory all SBITA contracts
 - Include other departments
- Evaluate each contract
 - Document your evaluation
 - Document important terms of SBITA contracts
- Start testing

Federal Single Audit Update – FY 2022

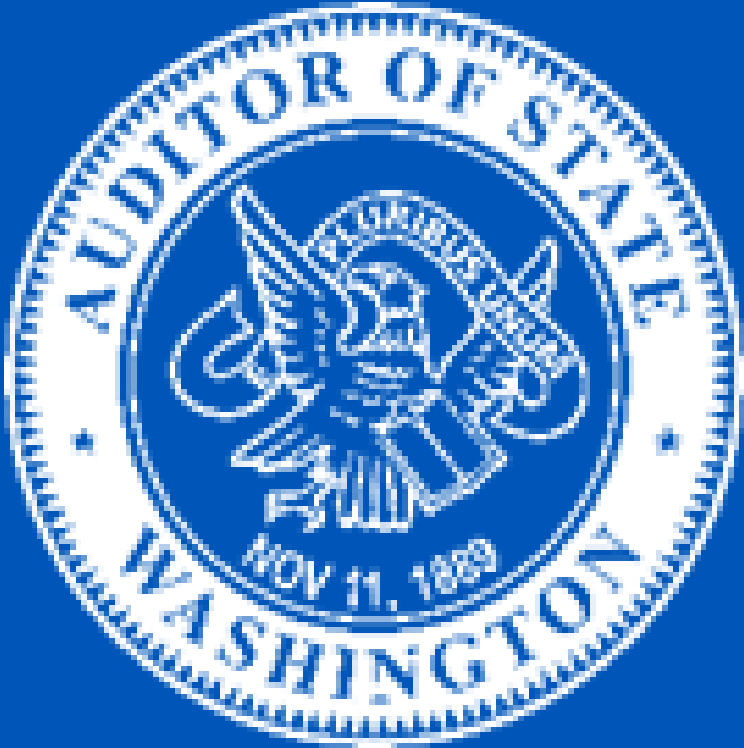
Washington State federal audit covers all state agencies including Universities and Colleges

- Federal deadline was March 31, 2023
- Report is expected out in June of 2023
- SAO is willing to help or explain why deadline was not met to granting agencies - contact:

Sadie Armijo, Director of State Audit and

sadiearmijo@sao.wa.gov

(564)999-0808





SAO



Fraud Investigations Program

Reporting Losses to SAO

“State agencies and local governments shall immediately report to the state auditor's office known or suspected loss of public funds or assets or other illegal activity. The state auditor must adopt policies as necessary to implement this section.”

RCW 43.09.185



Reporting Losses to SAO



The Audit Connection Blog Coronavirus Public Records Client Login

Office of the Washington State Auditor
Pat McCarthy

Search SAO SEARCH

Reports & Data Performance Audits About Audits **Improving Government** BARS & Annual Filing Report a Concern About SAO

SAO HOME / IMPROVING GOVERNMENT / Preventing Fraud

Preventing Fraud

The Center for Government Innovation
Lean Services
Teambuilding Workshops
#BeCyberSmart
Financial Intelligence Tool
Resource Library
Technical Advice
#Gov101
Improvement Training Videos
Preventing Fraud

Our goal at the State Auditor's Office (SAO) is to help you prevent, detect and report fraud in your government.

What to do if you suspect fraud

- Visit our reporting fraud in government page to learn more
- Report the loss using our online reporting form**
- Read about how and when to seek SAO approval for a restitution agreement

Fraud Resources
Fraud is costly to Washington governments.

- Remember to report any known or suspected instances of fraud or loss to SAO
- Easiest to do this through SAO's website: www.sao.wa.gov



What you don't report

- Normal and reasonable “over and short” situations from cash receipting operations
- Reasonable inventory shortages identified during a physical count.
- Unauthorized credit card attempts and/or transactions determined fraudulent by the bank and refunded.
- Breaking and entering or vandalism of property, including assets stolen from government vehicles





What you don't report

- Loss of cellphones, tablets valued under \$1,000 and not containing confidential data.
- For schools and libraries, laptops or tablets checked out by students or patrons, but not returned.
- Non-sufficient funds (NSF) checks
- counterfeit currency accepted by government (please contact the FBI)



General Loss Policy – Work in Process



- Continue to refine this policy as it relates to client eligibility and losses or illegal activity by external parties.
- Once finalized we will reach out and share then.





Additional Considerations for losses exempt from reporting:

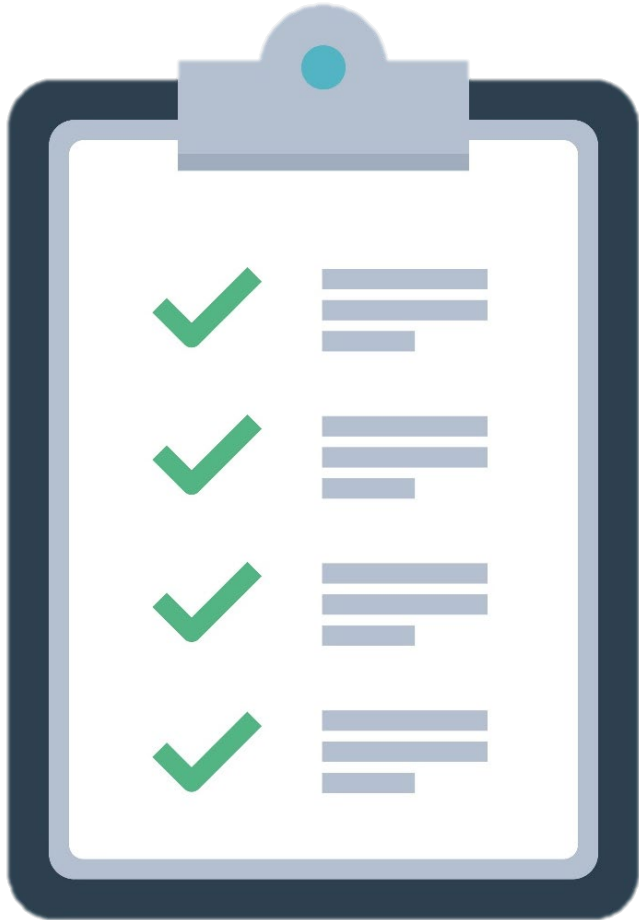
If employee involvement cannot be ruled out—report it to SAO

Governments should have policies, procedures to prevent, detect and respond to fraud.

If the loss involves federal funds, contact the granting agency for next steps



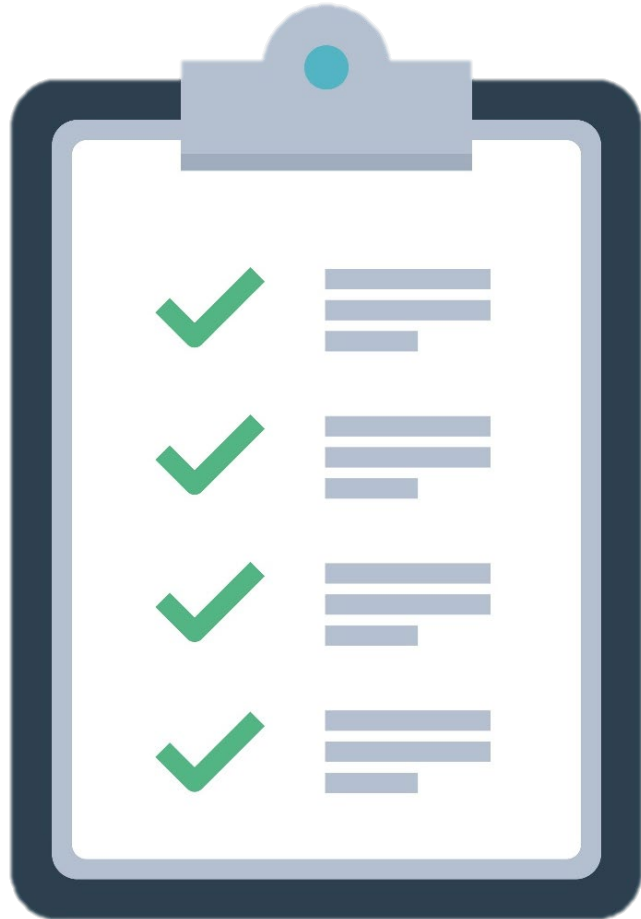
What you do report



- **Cash receipting:** missing deposits, unexpected shortages, adjustments, unusual variances
- **Payroll:** employees paid for time not worked, using leave not earned, cash outs not allowed, unauthorized extra compensation



What you do report



- **Disbursements:** altered checks, ACH or EFT activity
- **Credit, procurement and fuel cards:** personal purchases, unauthorized charges not determined fraudulent by the bank or refunded.
- **Assets/Inventory:** personal use, position advantage



What you do report

Cyberattack concerns:

- Ransomware attack and payment is made to regain access to your data
- Computer financial records system is hacked
 - Security incident that might have affected your financial records or systems
 - Fraudulent email requesting bank account changes, and if any ACH payment is paid out to a bad actor



Not sure if you should report it?



Contact Special Investigations at fraud@sao.wa.gov





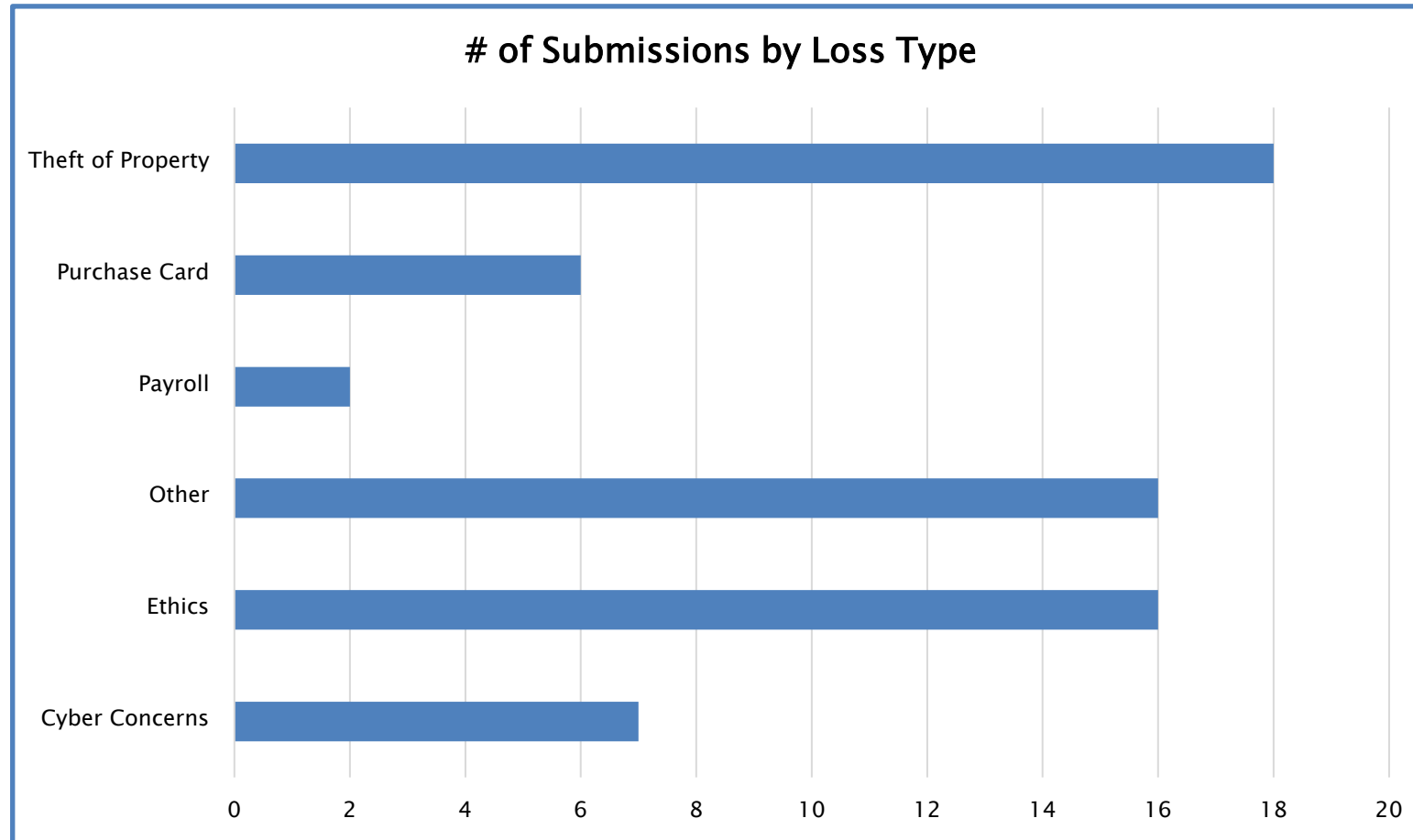
SAO



Fraud Trends & Risks

Fraud Statistics

For period of July 1, 2021 – March 30, 2023
Community and Technical Colleges



Top Fraud Risks



Payroll

- Not using leave for time not worked
- Working multiple jobs concurrently

Disbursements

- Financial Aid payments
- Procurement card misuse

Cyber

- EFT payments
- Direct Deposit
- Ransomware Attacks



A new look for SAO's Resource Library



The screenshot shows the SAO Resource Library website. The navigation bar includes 'Reports & Data', 'Performance Audits', 'About Audits', 'Improving Government' (circled in red), 'ARS & Annual Filing', 'Report a Concern', and 'About SAO'. The main content area is titled 'Resource Library' and features a grid of topic buttons: Internal Controls (Accounts Payable, Accounts Receivable, Cash Receipting, Assets), Compliance (Procurement, Federal Funds), Financial Reporting (GAAP Basis, Cash Basis), Government Operations (Operations, Lean Services, Revenues, Expenditures), and Organizational Safeguards (Cybersecurity, Technology). A featured resource section highlights the 'Accounts Receivable Guide' with a red arrow pointing to it.

- Streamlined navigation
- A cleaner interface
- A better user experience
- Browse by topics
- Visit: <https://sao.wa.gov/improving-government/resources-database/>, or scan the QR code with your phone:





Fraud-prevention resource for elected officials and appointed board members

The guide is organized into three sections:

- **Preventing fraud:** Includes tips to consider when establishing a fraud policy and assessing your risk
- **Detecting fraud:** Offers tips for improving your fraud-detection abilities, including a list of three review strategies
- **Responding to fraud:** Provides guidance on developing a fraud response plan, communicating to the media and public, and reporting known and suspected losses to SAO



SAO Resources



New blog articles and resources:

- Best Practices for Sending Wire Transfers
- Best Practices for ACH Electronic Payments



SAO Resources



Bank statements

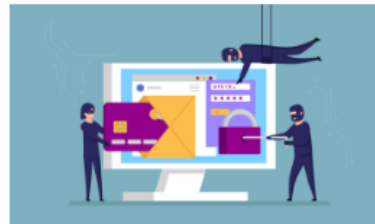
- Periodically assess bank reconciliation procedures to ensure the process is up to date and effective.



Bank statements deserve your attention

NOVEMBER 18, 2020

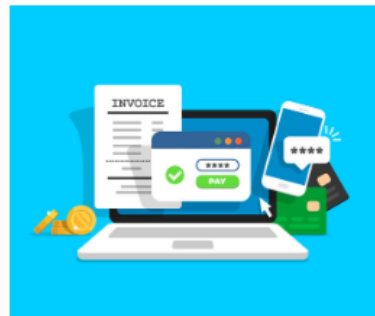
Failure to perform bank statement reviews might seem like a small oversight, but it could have drastic consequences. Read more to find out some best practices for your review. ... [CONTINUE READING](#) →



How to prevent ACH and bank fraud

NOVEMBER 18, 2021

Automated Clearing House (ACH) frauds have been on the rise for years. Read more to tell you some simple steps you can take to properly verify ACH account changes before making changes. ... [CONTINUE READING](#) →



Beware of employee fraud in the digital payment age

NOVEMBER 17, 2021

Local governments are moving away from traditional paper checks to lower-cost digital payments, like direct deposit, automated clearing house payments, electronic funds transfers (EFT), and wire payments. Read more to learn how to stay clear: You can pay a variety of vendors seamlessly, process payments, and easily transfer funds between multiple bank accounts. ... [CONTINUE READING](#) →



SAO Resources



New blog articles and resources:

- Best Practices for Sending Wire Transfers
- Best Practices for ACH Electronic Payments



Questions?



Presenter Information



Erika Davies, Assistant Audit Manager
Community College Subject Matter Expert
Erika.Davies@sao.wa.gov
(425) 510-0476

Mary Coleman, Assistant State Auditor
Community College Subject Matter Expert
Mary.Coleman@sao.wa.gov
(564) 201-2939

Sadie Armijo, CFE
Director of State Audit and Special Investigations
Sadie.Armijo@sao.wa.gov
(564) 999-0808

Scott Bills, Financial Audit Manager
Program Manager for Universities & Community Colleges
Scott.Bills@sao.wa.gov
(564) 999-0887

Website: www.sao.wa.gov

Twitter: www.twitter.com/WaStateAuditor

Facebook: www.facebook.com/WaStateAuditorsOffice

LinkedIn: Washington State Auditor's Office