Washington State Auditor's Office

The Audit *Connection*

Independence • Respect • Integrity

Have you checked out the new BARS web features?

Individual BARS Manuals (such as Fire Districts, Libraries or Cities and Counties GAAP) are reached from the BARS Manual main web page. Once you've chosen the manual you need, you'll find several features that will make working with it even easier.

Search: At the top of the left-hand navigation bars, in gold letters, you'll see **BARS Manual Search**. Clicking on them takes you to a page where you can type key words relating to the topic you need to find. Click the blue **Search** button to see a complete list of every reference to your search item, with the option to view or print the resulting PDFs.

View a chapter: Clicking on any topic in light-blue text opens a PDF document in a new browser tab.

National award for LGPC

The National State Auditors Association (NSAA) selected our **Local Government Performance Center (LGPC)** to receive one of four Excellence in Accountability Awards for 2014, in the Special Project category. The awards recognize outstanding work conducted in the previous two years; it acknowledges the Center's goal: better results for citizens and customers at lower cost to government and taxpayer.

Sheri Sawyer, left, Assistant Director LGPC, accepts the award from Rebecca Otto, President of NSAA.

NSAA strives to encourage and provide opportunities for the exchange of information and ideas between auditors on the federal, state and local levels.

The Center within the State Auditor's Office offers tools and training to help local leaders who want their governments to work better, cost less, and improve the value of their services to citizens.

• An online resource center with tools and examples
• Training on how to improve government services
• Customized on-site training sessions (on request and within available resources)

See page 7 for information on upcoming trainings.

Keep in touch with us! Visit the website and create an account to receive email about audit reports, BARS, job openings and more.

State Auditor's Office gives local governments a 'heads up' on audit focus areas

Local governments have asked the State Auditor's Office for to let them know in advance the areas they can expect auditors to emphasize in upcoming audits. To help them be proactive in preparing for their audits, we have provided this list of areas for focused assessment during the next series of county and city audits. The level of focus on the areas may vary, depending on the applicability and significance to the county or city.

County Treasurer investing activities

The County Treasurer is responsible for investment of county funds as well as funds of numerous special purpose districts in an agency capacity. In times of economic difficulty and low interest rates, there may be pressure to engage in risky transactions or strategies to achieve higher returns. As a result, auditors will be reviewing the county's investment policy and practices, investment oversight and any reporting to investment pool members, if applicable.

Using on-call contracts for public works

On-call contracts are not specifically authorized in state law. These contracts can result in noncompliance with statutes concerning public works contracting and prevailing wages. Auditors will be evaluating county and city use of these contracts to determine if there are established policies, procedures and internal controls to ensure their contracting process is in compliance with public works contracting statutes (Chapters 39.04, 39.06, 39.08, and 60.28 RCW) as well as prevailing wage statutes (Chapter 39.12 RCW).

Using third-party cash receipting

Many people enjoy the convenience of using the Internet to pay bills, and have come expect this service for every payment they make. As a result, counties and cities are engaging in third-party cash receipting. These payments include those made online, in person, by mail, or phone using E-check/ACH, debit cards or credit cards. The use of a third-party vendor in the county receipting process introduces potential risks including timely deposits and protection of public funds.

To address these risks, auditors will identify any revenue sources where receipt payments are collected through a third-party vendor. For the identified revenue sources, the auditor will review the contract the county has with the vendor. The auditor will be looking for some specific information, such as depositing processes to ensure timely deposits into a qualified public depository, settlement procedures, safeguards, and withholding or reserve accounts.

We are developing a tool with leading practices for third-party cash receipting which will be available on our website later this summer.

Assessing financial condition

Many local governments are at risk of serious financial distress due to factors such as declining sales taxes, property values, construction activity, and real property sales. As a result, auditors will evaluate if there is financial deterioration during county and city audits.

To assess financial deterioration, auditors will look for changes in fund balance, need for short-term borrowing to meet cash needs, inappropriate use of restricted funds, loss of a major revenue source, operation being sustained by one-time or infrequent revenue sources, and significant political, regulatory, contractual or other uncertainties.

The Local Government Performance Center has many resources available to help local governments assess their financial condition, internal control structure, and financial management. Visit the website at **www.sao.wa.gov/local/Pages/LGPC/** and explore the Resources library, to find tools, templates, and recommended best practices for cities and counties to use.

The Center is also developing an online financial health assessment tool that is both dependable and easy to use, plus training and technical assistance to help local governments remain financially healthy. Contact the Center at 360-725-5552 for more information.

Cyber-security: Where should local governments begin?

It is becoming increasingly common to see news reports about computer and Internet security breaches that exposed social security numbers, credit card numbers and other confidential information to misuse or theft. How well is your agency or local government organization addressing these risks? In this article, we will discuss a few areas to help you get you started.

Where's the risk?

The first step is to determine what aspects of your data and resources are at risk. In addition to the system(s) you use for banking, you may maintain records containing confidential information that requires special handling, such as: documents protected by the Health Information Portability and Accountability Act (HIPAA), Payment Card Industry (PCI) security standards for credit cards, and data covered by the Criminal Justice Information System (CJIS). These areas have very specific rules related to security. Failure to comply with those rules, or a security incident in these areas, may result in fines, legal sanctions, operational challenges and the loss of public trust.

Each of these organizations publishes excellent online resources about the requirements associated with confidential information:

HIPAA (health): **www.hhs.gov/ocr/privacy/hipaa/understanding/summary**

PCI (credit cards): **www.pcisecuritystandards.org**

CJIS (criminal justice) **www.fbi.gov/about-us/cjis/cjis-security-policy-resource-center/view**

An effective data security policy will help your staff identify where sensitive or confidential information is stored, what security requirements apply to it, and what your expectations are for secure data handling. For an example of a general data security policy used in our state, refer to the Washington OCIO standards, section 4, Data Security; start at the main Policies webpage online at: **www.ocio.wa.gov/policies.**

Once you know where the most risky data is held, you can focus on protecting it.

Know the risks

To protect your data, you need to understand what can happen. The problem is, risks to confidential data are a moving target: we secure one risk and a new one pops up. It is critical that your organization has a process that supports ongoing awareness related to security risk. The good news: there are resources aplenty to help.

You might start with the Multi-State Information Sharing & Analysis Center (MS-ISAC). Their advisory emails identify software or system weaknesses, which groups of users could be affected, a brief description of the risk, and what an attacker could do if the problem is not fixed, usually by the software developer. They also include suggestions on how you might minimize the risk until a fix or patch is issued. These recommendations range from technical guidance for IT departments to actions users can take on their own. You can view these advisories online at **www.msisac.cisecurity.org**.

Another great resource is Verizon's Annual Data Breach Investigation Report. It analyzes thousands of security incidents and summarizes them into categories with recommendations on how to address the risks. While it contains technical terminology and topics, the descriptions and recommendations are written in general reader-friendly terms. View the 2014 report online at **www.verizonenterprise.com/DBIR/2014**.

Control the risk

Many of the control recommendations are very similar: update and patch your systems promptly, educate users, and limit administrative or high level privileges.

The Council on CyberSecurity website offers a great technical resource on recommended IT security controls. It identifies 20 key security controls developed and prioritized based on international input as to importance and effectiveness. It explains why the control is important, how to implement it, and how to determine if the control is effective. View it online at **www.counciloncybersecurity.org/practice-areas/technology**.

In summary

Security should be a consideration to every user, manager, administrator and legislative body. It's not just an IT Department responsibility. Who in your agency leads the way in identifying and communicating your confidential data requirements?

Security risks change and so do security needs. Communication, training and resources are needed at all levels of your agency to ensure employees remain current on existing risks and to keep security a priority. Make sure your agency knows who is responsible for giving staff has the information, resources, and tools they need to maintain a strong security environment.

Safe data disposal: Making surplus PCs safe for sale

In April 2014, we conducted a performance audit of state agencies' surplus computer equipment to determine if all confidential data has been removed before the computers were resold to the public. Such data may include information about private individuals, government employees, or information regarding the security of agency computer systems.

The audit found that 9 percent of the surplus computers still contained confidential information and identified three main causes for the oversight: human error, technological failures and incomplete processes. Our recommendation was that agencies establish documented data disposal procedures, and add a step in those procedures to verify that confidential data is properly erased before surplusing the machines.

Does your organization meet national best practices for proper data disposal? A handout with additional information about safe data removal is available on our website, in the Local Government Performance Center resources toolbox. Talk to your IT professional about your organization's procedures and check that they follow best practices. Make sure the process is written down so anyone handling your surplused computers can follow the instructions.

Free tools are available to help any agency or individual safely and permanently erase confidential data.

DBAN (Darik's Boot and Nuke)
http://www.dban.org/

Eraser Portable
http://portableapps.com/apps/security/eraser-portable

Microsoft's SDelete
http://technet.microsoft.com/en-us/sysinternals/bb897443.aspx

Freeraser
http://download.cnet.com/Freeraser/3000-2144_4-10909403.html

Read the full report online: **www.sao.wa.gov/state/Documents/PA_Safe_Data_Disposal_ar1011501.pdf**

Small Water System workshops strike a business-like note

This spring, the State Auditor's Office joined the State Department of Commerce and key associations from across the state for a series of Small Water Systems Workshops. The workshops were designed to help small water systems, with fewer than 500 connections, learn how to manage their system like a business. More than 160 water system owners, managers, board members, and operators attended.

Decision-makers were the target audience for the workshops, and they formed close to half of the participants at the three statewide workshops. "This would be a good place for new board members to come as it answered a lot of my questions," commented one participant. Another described the workshop as "Overall, the best, most informative class ever!"

The morning session started with information sharing and questions around:
- Why is it worth my time to be here today?
- What do I need to know about today's regulatory environment?
- What kind of help is available to me and my water system?
- What are some of my options for doing business differently?

After lunch, an "information marketplace" gave participants an opportunity to ask subject experts their most pressing questions. "It was wonderful having all these folks available in one room," said one participant. Each workshop included local presenters and experts.

Also in the afternoon, a mock board meeting was an interactive way to find out, "what do I need to know to avoid legal hot water?" One participant says it was a "very fun way to find out how not to run a water district meeting" and another decision-maker said it was a "great presentation with real life scenarios."

In the final part of the workshop, participants broke into small groups to discuss and report on two topics:
- What struck a chord for you today; and what action might you take as a result?
- How can you get people in your community engaged in your issues?

Sharing information with other water system helped the participants realize others have the same problems they do. Many established relationships with neighboring systems and local experts.

Alternative Learning Experience (ALE) audit update

In the 2013 session, the Legislature made significant changes to the classifying and reporting of Alternative Learning Experience (ALE) programs and students to better account for ALE funding. In addition to these changes, ESSB 5946 mandates that the State Auditor's Office conduct biennial measures of student outcomes and financial audit of ALE courses from 2013-14 through 2016-17, and directs school districts to pay the associated cost.

Audit update

In fiscal year 2013, districts reported 359 ALE programs with an annual average enrollment of 21,626 full-time equivalent (FTE) students. We are reviewing all ALE programs with more than 10 annual average FTE.

ALE programs with 10 to 100 annual average FTE will receive a biennial desk audit. A questionnaire was sent to districts with ALE programs in this category with a request for samples of compliance documentation to be reviewed for risk of noncompliance. If risk is identified, we may perform a field audit.

Programs with more than 100 average FTE will have a biennial field audit assessing compliance with state laws and regulations. In fiscal year 2013, 22 districts with a total of 31 programs averaging 11,777 annual FTE were selected for field work. Twelve of these programs have never received an ALE audit.

A lack of documentation to support the ALE funding claimed is the primary reason we question funding. These include the districts not having:

- District release forms, for nonresident students enrolled in an ALE program
- Letter of Attestation, which must be on file within 30 days of enrollment or a student may not be counted for funding
- Written student learning plan and all required components, two of which are:
- Beginning and ending dates
- Average number of hours per week
- Monthly progress reviews conducted by a certificated teacher
- Weekly contact with student by a certificated teacher

The ALE program must also satisfy the Office of Superintendent of Public Instruction's requirements for courses of study and equivalencies leading to a high school diploma.

We plan to issue a report summarizing our ALE work this year in December 2014.

Special recognition for long-serving LGAC members

Washington State Auditor Troy Kelly recognized four long-term members of the **Local Government Advisory Committee (LGAC)** – Jim Chase (City of Arlington), Jerry Pettit (Kittitas County Auditor), and Dean Walz (City of Olympia) and Teresa Camfield (City of Lynden) – at the June 2014 LGAC meeting. Each has served on the committee for six years or longer.

The LGAC takes a lead role in setting statewide financial policies, including input to the accounting, budgeting, and reporting system (BARS). These members were instrumental in LGAC during the major changes to BARS including the restructure in 2013. They provided valuable input during LGAC meetings, coordinated trainings, assisted in encouraging local governments to file annual reports timely and online, and provided analysis during the BARS restructure.

Their contributions will be appreciated for many years by all users of local government financial data.

State Auditor Troy Kelley (second from left) presented letters of appreciation to long-serving committee members (from left) Jim Chase (City of Arlington), Jerry Pettit (Kittitas County Auditor), Teresa Camfield (City of Lynden), and Dean Walz (City of Olympia).

New GASB pension standards coming soon

There are two new GASB pension standards on financial reporting for pension plans that will soon take effect:

- GASB Statement No. 67 – Financial Reporting for Pension Plans – establishes standards of financial reporting for pension plans that issue their own financial reports, as well as for plans that are reported as a fiduciary fund by a government. It replaces Statement No. 25 and is effective for the year ended December 31, 2014.

- GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – establishes standards of financial reporting for governments that provide pension benefits. It replaces Statement No. 27 and is effective for the year ended December 31, 2015.

These standards will significantly change the way pension liabilities are calculated and reported. The most significant change is that the net pension liability (formerly the UAAL) will move from a note disclosure to being reported in the employer's financial statements. Cost-sharing employers will report their proportionate share of the plan's net pension liability and pension expense in their financial statements.

What do local governments need to do?

Most local governments that sponsor their own pension plans do not issue a separate financial report. However, GASB 67 still applies. The fiduciary fund financial statements remain unchanged from the prior standards, but there are some changes to note disclosures and RSI. Governments should implement these reporting changes in their notes and RSI, even though GASB 68 won't be implemented until the following year. Local governments who sponsor their own plans should get an actuarial valuation performed under the new standards.

GASB 68 will significantly affect employer reporting information. The net pension liability will move from a note disclosure to being reported in the financial statements. Local governments who participate in the State's cost-sharing, multi-employer plans will report their proportionate share of the net pension liability and pension expense in their financial statements. Those who report on the cash-basis will report the liability on Schedule 9 (Schedule of Liabilities). There will be significant changes to note disclosures and RSI.

There is no practical way for employer members in the State's pension plans to independently determine their proportional share of the net pension liability; this information must come from DRS.

How is the State preparing for the implementation of these new standards?

The Department of Retirement Systems (DRS), the Office of the State Actuary (OSA), the Office of Financial Management (OFM), the State Treasurer's Office (OST), the State Auditor's Office (SAO), and the Department of Enterprise Services DES) have formed a workgroup to collaborate on implementing the new standards. The Department of Retirement Systems has an implementation page on their website, www.drs.wa.gov and is working to provide member employers in the State's plans with the information they will need. The BARS Manual will be updated to include guidance and suggested disclosures for local governments who sponsor their own plans and those who participate in the State's cost-sharing plans.

Will this new liability affect my statutory debt limit?

No. A pension liability does not meet the definition of "debt" under state law.

Will local governments have to pay more each year because of these new standards?

The new standards affect only the accounting and reporting for pension plans. Funding is a public policy decision that is beyond the scope of the GASB.

What about OPEB?

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

- **Financial Reporting for Postemployment Benefit Plans Other than Pension Plans** – This is the proposed reporting guidance for OPEB plans that administer those benefits. It is comparable to GASB 67 for pension plans. Comments are due by August 29, 2014.

- **Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions** – This is the proposed guidance for OPEB reporting by employers. It is comparable to GASB 68 for pension plans. Comments are due by August 29, 2014.

Save or print any chapter: Using your browser's **File** function at top of the screen, choose "save as" to save the chapter to your own computer or "print" to print it. Mousing over the lower edge of the browser window will also offer you the "save a copy" and "print" icons. We encourage you to use the online manual because it will always have up-to-date information – print only the sections you need often, such as the chart of accounts.

The File Online web page also has great features

Automated cash-basis financial statements: When you file online, the system will automatically create C-4s and C-5s. You will no longer need to prepare these financial statements! They will be created along with your Schedules 09, 16 State and 16 Federal.

Coming soon to BARS

The Local Government Support team has several improvements and changes in the works. They include:

- Videos on how to use the BARS manual
- Improved descriptions of changes to BARS
- Elimination of year-specific manuals, which means you no longer have to decide which BARS manual year you should be using.
- Possible new formats for the BARS Chart of Accounts.

If you want us to come to your local government or conference to provide in person training on how to use the online BARS, please call Christy Raske at 360-725-5593, or email **Christy.Raske@sao.wa.gov**

Staff changes at our Office

Effective June 16:
Angela Folkers, new Program Manager for Conservation Districts, Fire Districts, and Trauma Care Councils. Angela's wealth of experience auditing conservation districts and fire districts includes the fire chiefs association.

Tina Watkins, new Program Manager for Ports. Tina brings a lot of port experience and has recently been working on several unique and interesting port issues.

Effective June 1:
Brandi Pritchard, new acting Audit Manager for Team Wenatchee. In Brandi's 10 years working on Team Wenatchee she has demonstrated her dedication to fostering team work and cohesiveness in order to achieve the mission of our Office.

Effective May 16:
Jon'ese Pearson, new acting Audit Manager for Team

Training courses offered in summer and fall

From the Local Government Performance Center
We have currently scheduled classes for the following topics. Presenter for these trainings will be Brian Willett of the State Auditor's Office.

September 25, 2014 - Logic Models
Host: City of Tukwila
Location: Tukwila Community Center

October 2, 2014 - Introduction to Performance Management
Host: City of Tukwila
Location: Tukwila Community Center

Please contact Sheri Sawyer at 360-725-5552 or email **Sheri.Sawyer@sao.wa.gov** to request information about these and other courses offered by the LGPC.

From WFOA in partnership with the State Auditor's Office
The State Auditor's Office partners with the Washington Finance Officers Association to provide professional training for budget and finance professionals on a wide variety of topics. Upcoming programs include:

Budgeting, Accounting & Reporting System (BARS)
August 7, 2014 - Vancouver, WA

October 23, 2014 - Olympia WA

Federal Grant Requirements & Management
If you accept federal funding in your organization, you could benefit from the upcoming "Federal Grants Requirements & Management" class.

October 9, 2014 - Kennewick, WA

October 16, 2014 - Spokane, WA

You can register for these courses on WFOA's website at: **www.mrsc.org/associations/wfoa/register/training**

LISA. Jon'ese's outstanding leadership, proficient technical skills and out-of-the box thinking have contributed to many advances in our Local IS audit work.

Effective April 28:
Jim Brownell's responsibilities now include Single Audit as well as Whistleblower, in the new Team SAW.

Steve Wendling leads the new Team Financial Audit.