



Office of the Washington State Auditor

Pat McCarthy

Successful Audits

Presented to WPPA Finance & Administration
Seminar

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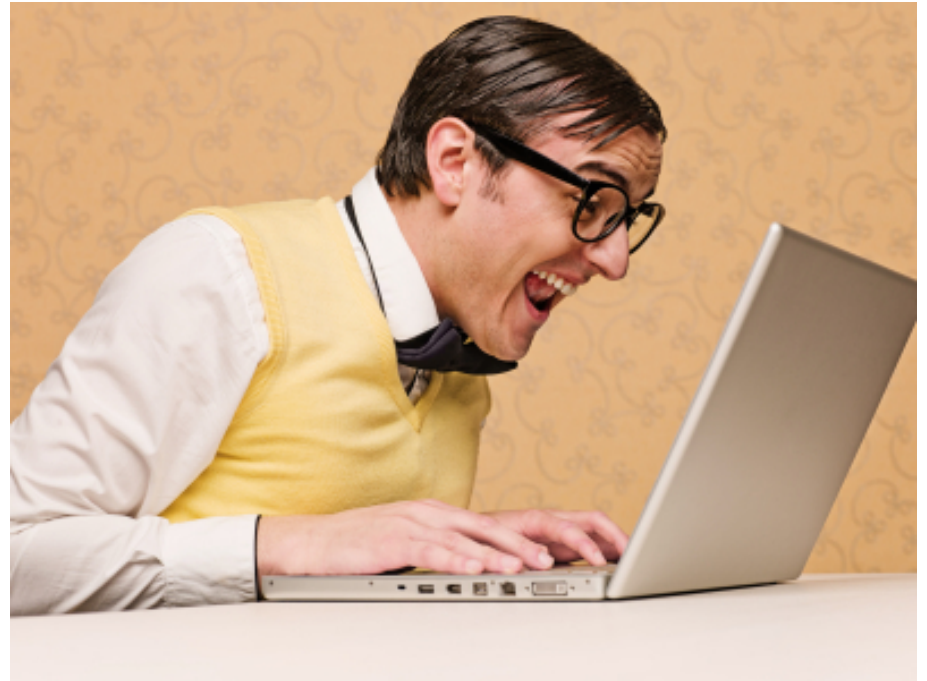
Topics for discussion

- Common audit exceptions
- Areas of audit focus and trends
- Capital assets accounting risks
- IT security risks
- SAO useful resources
- What can I do for you?



Get to know Scott

- 6th year with the office
- Assistant State Auditor 4
- Statewide specialist



What's in it for you?

- We have a mutual goal: Do the right thing for your constituents.
- Our role is to show the public what you're doing with their money.
- Some of these ideas could make your audit easier.

AUDIT EXCEPTIONS & TRENDS

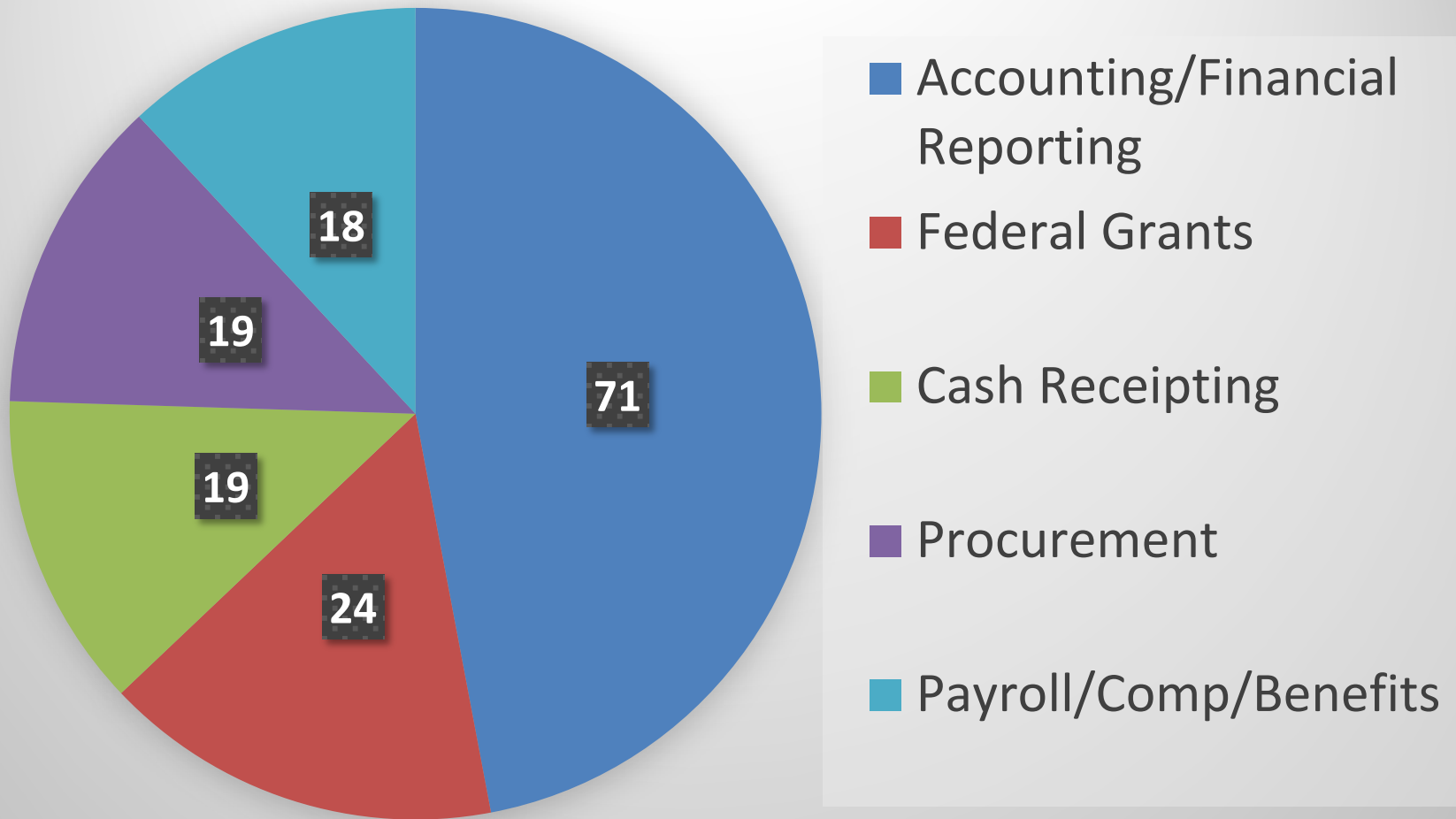


Common Audit Exceptions

- In a survey of audits since the start of 2016, these were the most common **findings** and **management letters** (175 audit reports)
 1. Financial Reporting (most often it was capital assets)
 2. Payroll/Compensation/Benefits
 3. Cash Receipting
 4. Procurement was close to moving up the list

Most common exit items

Exit Items



Areas of audit focus

- Additional Compensation/Bonuses/Extra pay/Incentive programs
- Leasing activities
- Charges for services and billing
- Cash receipting
- Safeguarding of property such as small and attractive assets
- IT risks such as user access and data backup and recovery
- Capital asset accounting

CAPITAL ASSETS



Capital assets – Biggest areas for improvement

- Poor asset records
- Don't move CIP to depreciable when placed into service
- Capitalize instead of expense
- Complicated non-routine capital items
- Don't remove assets when replaced
- Operational information doesn't align with financial records
- Policies lacking adequate detail relating to all of the above

Poor asset records

- Weak asset descriptions and records.
- No excuses for your predecessors
- If you have a hard time explaining what an asset is, auditors will have a hard time making conclusions
- Improving asset records should include project managers/engineers if possible
- If it's reasonable, just document conclusions reached
- You can't do nothing

Placing CIP into service

- Refer to BARS 3.3.10.90
- Place into service when *substantially complete*.
- Substantially complete is when the asset can at least partially perform its intended function. (The reference gives examples)



Don't remove assets when replaced

- Replacement of infrastructure is the most common
 - Pilings
 - Docks
 - Parking lots
- Remodel to extend useful life
- Reroofing a facility
- BARS 3.3.10.80 gives some really good guidance and examples.
- You can't do nothing

Operational information doesn't match financial records

- Useful lives don't match replacement schedules
- Capital budgeting decisions made without reconciling operational to financial
- Improve communication with operational staff about capitalizing assets
- Re-evaluate capital asset policies for adequate detail and completeness

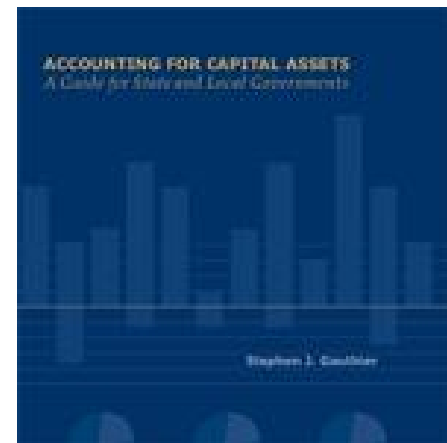
Complicated case by case scenarios for ports

- Jointly owned assets
- Large development projects
- Environmental mitigation sites
- Dredging
- Capitalization decisions should consider what qualifies as assets
- Identify assets, not projects
- Document decisions for complicated items



Possible solutions

- Make policies more complete and specific
 - MRSC has examples for capital asset policies
- Reconcile asset records periodically
 - Make sure everything's there
 - Make sure you still own the asset
 - Look for possible duplicates
- Review GFOA Accounting for Capital Assets book
- Submit a Helpdesk to our office or to GASB



Auditor secrets revealed

- Existence / Rights and Obligations: Confirm the assets reported on the capital asset list existed (or were owned by the government) at year end.
 - Test: Select assets from their list and physically verify assets reported as owned were indeed owned at year-end.
- Completeness: Confirm all capital assets owned by the entity are included on the asset list.
 - Test: Select assets from the field or expenditures to trace back to list.



Auditor secrets revealed

- Classification: Confirm the asset is classified in the correct balance and/or opinion unit.
 - Test: Verify that CIP is not substantially completed. Or verify that depreciable assets are being depreciated and non-depreciable assets are not being depreciated.
- Valuation: Confirm the asset or depreciation was accurately valued at year end.
 - Test: Recalculate depreciation to make sure assets are not overdepreciated, depreciated on a basis different from policy, or depreciated on a 'creative' basis.

IT SECURITY



Biggest causes of security breaches (Verizon Report)

- Phishing and pretexting represent 93% of breaches
 - ▣ Email continues to be most common vector (96%)
 - ▣ Could stop about 90% of all breaches if people stopped clicking on the wrong things in emails
- 6% of breaches can be attributed to patchable vulnerabilities
- Privilege misuse/abuse is a leading cause of data breaches
 - ▣ Often due to curiosity
 - ▣ Usually unintentional

IT security risk protection – TOP 5



- #1 Training / awareness**
- #2 Vulnerability management**
- #3 Protect administrative privileges**
- #4 Securely configure systems**
- #5 Incident Response**

Reporting cybersecurity incidents

- Some but not all cybersecurity incidents should be reported to SAO
- For government agencies, report fraud or theft to our Office:
 - ❑ <http://portal.sao.wa.gov/saoportal/public.aspx/LossReport>
- Data breach notification:
 - ❑ www.atg.wa.gov/data-breach-notifications
- File a complaint with the FBI Internet Crime Complaint Center:
 - ❑ www.ic3.gov (regardless of loss size)
 - ❑ <https://BEC.IC3.gov> (business email compromises)

Information coming out from SAO

- New tools coming soon
- Micro IT audits



Useful information

Links to various resources:

- MS-ISAC – Multi-State Information Sharing & Analysis Center - <https://www.cisecurity.org/ms-isac/>
- CIS – Center for Internet Security – [CIS Top 20 Critical Security Controls](#)
- FEDVTE – Federal Virtual Training Environment - <https://fedvte.usalearning.gov/>
- OCIO – Office of the Chief Information Officer – [Standard No.141.10 – Securing Information Technology Assets](#)
- InfraGard – FBI/Private sector partnership for protection of critical infrastructure - <https://www.infragard.org/>
- US-CERT – United State Computer Emergency Readiness Team - <https://www.us-cert.gov/>
- US-CERT ransomware guidance page. <https://www.us-cert.gov/Ransomware>
- Center For Audit Quality – [Risk Management Oversight \(full document\)](#)
- MRSC - [Cybersecurity Resources for Local Governments Page](#)
- MRSC – [Information Security Assessment Tool](#)
- SAO - Audit Connection (occasionally covers current Cybersecurity trends and topics) - <https://auditconnectionwa.org/>
- LGPC – SAO’s Local Government Performance Center - <http://www.sao.wa.gov/local/Pages/LGPC.aspx>

PERFORMANCE CENTER



Performance Center

- Offers training and tools to help local governments improve performance and effectiveness
- Resources and services are free of charge
- Tools can make audits easier if used

The screenshot displays the Performance Center website interface. On the left, a vertical navigation menu contains four items: 'Local Government', 'State Government', 'Investigations', and 'Resources'. The 'Local Government' item is highlighted. The main content area is titled 'Local Government Services' and features five service cards, each with an icon, a title, and a description:

- File Online** (Folder icon): Filing your local government's annual financial data is quick and easy using our online filing system.
- BARS Manual** (Document icon): The current version of the BARS Manual is available on our website.
- Local Financial Data** (Data icon): The newly refreshed Local Government Financial Reporting System (LGFRS) is now even easier to use and contains more useful data on local governments for experts and novices alike.
- Performance Center** (Performance icon): The Performance Center helps local governments solve problems, reduce costs and improve the value of their services to residents by offering resources such as training, tools, technical assistance and an online Resource Center.
- HelpDesk** (Help icon): Help is just a click away once you have signed in to our Online Services portal as a local government.

Performance Center

Internal control checklist for local governments

This self-assessment checklist has been compiled to assist city/county managers, clerks, treasurers, and auditors to assess their own internal control environment for accounting and financial reporting and to provide guidance in placing controls where weaknesses are perceived. Your entity's system of internal controls includes all of the policies and procedures needed to provide reasonable assurance that your financial information is reliable, that operations within your office are effective and secure, and that you are complying with applicable laws and regulations.

Answer each of the questions by circling "Y" (Yes) or "N" (No) in response to each question.

After completing the questionnaire, scan down your answers in the "Response" column, noting whether they are aligned to the left or right side of the column. The questions that you have been able to answer on the left side indicate the internal control is in place. Your answers on the right side indicate an internal control weakness. This checklist should give you a good indicator of the number and type of internal controls that might need attention in your operation. Please give your auditor or the Washington State Auditor's Office (360) 902-0370 a call if you need assistance.

General		Response		Comments
1.	Is management aware that internal control is their responsibility?	Y	N	
2.	Does management show commitment to establishing and maintaining controls?	Y	N	
3.	Does your entity have an organizational chart defining the activities and persons responsible for them?	Y	N	

Performance Center - Financial reporting risk assessment

Brainstorming question	Identified risk or challenge	Planned response	Assigned	Due date	Completion date
Consider external changes					
New GASBs to implement?					
Changes in BARS guidance affecting financial reporting?					
New or significantly modified relationships (component units, joint ventures and related parties)?					
Consider internal changes					
New staff with key roles in financial statement preparation?					

Performance Center – Capital Asset Checklist

Best practice procedure	Completed?	Reviewer notes
<p><u>Objective:</u> Ensure all new additions meet recognition criteria under accounting standards and entity policy.</p> <p>Evaluate the capital asset list additions for items that may not meet capitalization criteria, by looking for additions that:</p> <ul style="list-style-type: none">• Do not meet capitalization criteria, such as feasibility or other studies, or repairs/maintenance items• Duplicate another asset, such as a new roof when the original building and roof are still being depreciated• Are below the capitalization thresholds and should not have been capitalized• Represent costs where a phase was capitalized, but the government has abandoned the full project or placed it on permanent hold• Group purchases that individually would not meet capitalization thresholds and should be expensed		

Performance Center – Federal Grant compliance assessment

Brainstorming question	Identified risk or challenge	Planned response	Assigned	Due date	Completion date
Consider previous experience					
What challenges did we have in managing grants or preparing the Schedule of Expenditures of Federal Awards?					
Were any issues noted by audit?					
Were any issues or concerns expressed by grantors or oversight agencies?					
Were any issues noted by monitoring activities or internal audit?					

Performance Center – Small & Attractive Assets



Office of the Washington State Auditor Performance Center

Best Practices for Internal Controls over Small and Attractive Assets

What are small and attractive assets?

Small and attractive assets are below the government's established capitalization threshold for financial statement reporting purposes, and might be susceptible to loss, theft or misuse. These assets last longer than a year, are mobile and might be easily replaced through a procurement system without raising suspicion. Although they can vary by government, some examples include:

- Computers, laptops, notebooks
- Shop tools, public works power equipment
- Handheld radios, other electronics
- Monitors, tablets, phones, cameras
- Firearms, Tasers and related accessories
- Televisions, video recorders

Are there requirements for state and local governments to follow?

State agencies in Washington must follow the State Administrative and Accounting Manual (SAAM), which establishes guidance over small and attractive assets in section 30.40.20. State governments should perform a risk

How can you make the audit smoother?

- Write out your processes
 - Accounts payable
 - Payroll
 - Billing and receipting
 - Bank reconciliations
 - Year end statement preparation (checklist)
 - Capital assets
- Always sign and date things
- If a financial statement balance is \$1,523,991 please have something you can show the auditor that adds up to that
- Be open with your auditors

How can I help?

- What do you find your auditors are unprepared for when coming to your audit that I could help them with?
- Are there resources you think we could work on to provide?
- Etc?



Contact Information

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