

After nearly 40 years
with the State Auditor's Office,
Mark Rapozo retired April 2022.



2022 State Auditor's Updates

Washington Public Ports Association
June 8, 2022

Wendy Choy, Assistant Director of Local Audit
Niles Kostick, Center for Government Innovation



What's new at the State Auditor's Office

- Updates on Port specific contacts
- Hybrid audits and the changing environment
- Common recommendations around the state and resources available
- The Center for Government Innovation

Program Manager and Subject Matter Expert



Ports always have support when working with SAO...

People you can contact:

- Ports Program Manager and Subject Matter Expert (SME)
- Local audit staff
- Client Helpdesk
- And more...

How we can work with WPPA:

- Attend quarterly meetings
- Presence at conferences

Plus internal guidance:

- Planning guides
- Level of reporting



Audits and findings, by the numbers

Every year, we issue thousands of reports, reflecting the results of many different kinds of audits. Just a small percentage of the audits find a significant problem – in other words, a “finding.” Here’s what we did on the public’s behalf in fiscal year 2021.

“It’s always very helpful to have an outside set of eyes look at what we’re doing, not only to review correctness but also to offer suggestions for improvement.”
– Valley School District No. 70

2,362 audits

July 1, 2020 -
June 30, 2021

Accountability audits

1,090
audits
91 findings

Accountability audits determine whether public funds are accounted for and controls are in place to protect public resources from loss, misappropriation and abuse.

Financial audits

697
audits
61 findings

Financial audits determine whether the financial statements present an accurate picture of a government’s finances.

Federal audits

355
audits
118 findings

Federal audits determine whether federal money is being used properly according to federal regulations.

Whistleblower investigations

7

Whistleblower investigations are the result of state employees sounding the alarm on possible waste, fraud or abuse. Our Office issued seven reports, and five of them revealed improper action by state workers.

Remote Audits and the Changing Audit Environment

Remote Audits

- Can save money and time
- But we lost face-to-face communication
- Had to address challenges in receiving electronic records so we could complete audit work on schedule



Tips for successful & timely audits

Flexibility and communication are key

- Make good use of pre-audit meetings
- Regular audit status meetings keep us both on track
- Review our document requests carefully to ensure you send us all the materials we need to complete audit work

Flexibility and communication are key to performing timely audits



When the Office of the Washington State Auditor moved to remote auditing in March 2020, we were wading into uncharted territory. Luckily, the transition was successful, and we are planning to use remote or hybrid approaches for our future audit work.

While remote auditing can be challenging, we have found flexibility and good communication are key to performing timely audits. This includes coordinating client staff availability, video conferencing, and document sharing. For example, when clients cannot share records electronically, we will coordinate obtaining or viewing physical records, including picking them up or scheduling on-site visits (while respecting all applicable pandemic protocols, of course).

To help remote audits go smoothly, we are prioritizing clear and frequent communication with clients. Though the following strategies are not new, they will help ensure clients are informed during every stage of a remote or hybrid audit.

- **Pre-audit meetings.** These meetings are extremely valuable for ensuring we get off to a good start. Generally, this is when we discuss the timing and logistics of the audit. During this meeting, we also discuss the document request list and how clients will share documents.
- **Document request lists.** Our auditors often compile a list of documents we anticipate we will need in order to complete an audit. Generally, the list starts with items we will need to plan the audit, such as meeting minutes, responses to prior audit recommendations, and answers to some general questions about events that occurred during the audit period. The list also includes other documents that we know we will need later in the audit, such as bank statements, reconciliations, and debt agreements for a financial statement audit. Sometimes these lists can appear overwhelming at first glance, so please work with your auditors to coordinate how to tackle this list.
- **Audit status meetings.** These meetings should be held at least weekly. However, they can occur more frequently if needed to facilitate a successful audit. This is a good time for us to discuss the progress of the audit, any outstanding requests or questions, and any potential areas of concern or recommendations. These meetings are a perfect time for you to ask questions or let us know if something is not working for you so we can make adjustments.

Additionally, we have moved to using video conference applications, such as Microsoft Teams, for meetings. Video conferencing allows auditors and clients to look at documents together and collaborate more effectively. Through strategic use of new technology, as well as clear, consistent communication from SAO, the future of our audit work is bright.

If you have any questions about the remote auditing process, please contact your local audit manager. Need help finding your audit team? Visit <https://sao.wa.gov/about-audits/find-your-audit-team/>.

Tips for successful & timely audits



- Prepare in advance of the audit start date
 - Have planning PBC List request documents available on the first day
 - Work with your auditors to have a plan in place for sharing audit documents
- Open communication with your audit team
 - Regularly scheduled meetings to discuss audit questions

What auditors might emphasize in upcoming Port District audits

Financial
Condition

EFT
Controls

IT Controls

Leases

Common audit recommendations in 2021



Financial Reporting
Procurement & Prevailing Wage
Accounts Payable Disbursements

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Example Government
January 1, 2020 through December 31, 2020

2020-001 The Government lacked adequate internal controls over financial reporting for ensuring compliance with timely annual report submissions.

Background

Federal and state agencies, the Board of Commissioners and the public rely on the information included in financial statements and reports to make decisions. The District is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance that financial reporting is reliable.

State law (RCW 43.09.230) requires the Government to submit an annual financial report to the State Auditor's Office within 150 days after the end of its fiscal year. The annual financial report includes summaries of financial information and supporting schedules.

Description of Condition

The Government did not submit the required annual reports to our Office within 150 days of fiscal year-end for 2017, 2018, 2019 and 2020.

Cause of Condition

The Government did not dedicate the necessary resources for ensuring it submitted annual financial reports on time. Additionally, the Government did not respond to our Office's outreach efforts in years prior.

Effect of Condition

The Government provided its 2017 data 1,095 days late. Additionally, the Government filed its 2018, 2019 and 2020 annual reports 823 days late, 425 days late and 106 days late, respectively. Due to the delinquency of the 2017 data, this financial information cannot be included in compiled Local Government Comparative Statistics (LGCS).

Financial Statement Reporting



Financial Statement preparation checklists for both GAAP and Cash Basis entities can be found in the Resource Database on our website - <https://sao.wa.gov/improving-government/resources-database/>

Resources Database



Template/Tool

Download ▼

[share this link](#) ↗

Checklist for Preparing Financial Statements for Local Governments reporting under GAAP

Using a checklist to prepare your financial statements can help ensure important steps are not missed. This checklist can help local governments improve a pre-existing checklist that is already in use. Alternatively, it can be used as a launching point to help you develop your own checklist. Updated Feb. 2020.

Resources Database



Template/Tool

Download ▼

[share this link](#) ↗

Checklist for Preparing Cash Basis Financial Statements

Local government management responsible for financial reporting can use this internal control checklist as an optional tool to help with its year-end process for reviewing financial statements, notes, and supplemental schedules. This checklist can be used as a baseline to develop policies and procedures that address the most common deficiencies found in financial information prepared using the Budgeting, Accounting and Reporting System (BARS) cash basis accounting method. Updated January 2022.

Financial Statement Reporting



Information about new leases standards can be found in the Resource Database on our website:

<https://sao.wa.gov/bars-annual-filing/leases/>

SAO HOME / BARS & ANNUAL FILING / Leases

Leases

This guidance does not represent legal or investment advice. Please consult with your legal counsel regarding the interpretation of language in leases, contracts, and other agreements.

Quick Links
Preparing for GASB 87 – Leases
Where do I start?
Lease Accounting – LESSEES (GAAP)
Lease Accounting – LESSORS (GAAP)
Lease Notes (GAAP)
Cash Basis
Cash Basis Note
Schedule 09 / Schedule of Liabilities Reporting
GAAP Basis FAQ
Cash Basis FAQ
Resources and Video

Preparing for GASB 87 – Leases

GASB Statement No. 87, *Leases*, is effective for fiscal years ending June 30, 2022 and after. (Note the new

- BARS GAAP Manual
- BARS Cash Manual
- Accounting Delays
- COVID-19 Accounting and Reporting
- Leases**
- BARS Reporting Templates
- BARS & Annual Report Filing FAQs
- Training and Workshops
- Local Government Advisory Committee

Procurement and Prevailing Wage



- Perform public solicitation for bids
- Responsible bidder checks
- Prevailing wage requirements
- Required certificates
- Change orders



Accounts Payable Disbursements



Electronic payments offer many benefits:

- Less paper, lower costs
- Speed and efficiency

But also many opportunities for fraud:

- Changing vendor or employee banking data
- Phishing attacks



Beware of fraud in the digital payment age

Review your electronic payments regularly

Start reviewing vendor bank account records

Review bank statements monthly



Surging federal funds require increased audit support

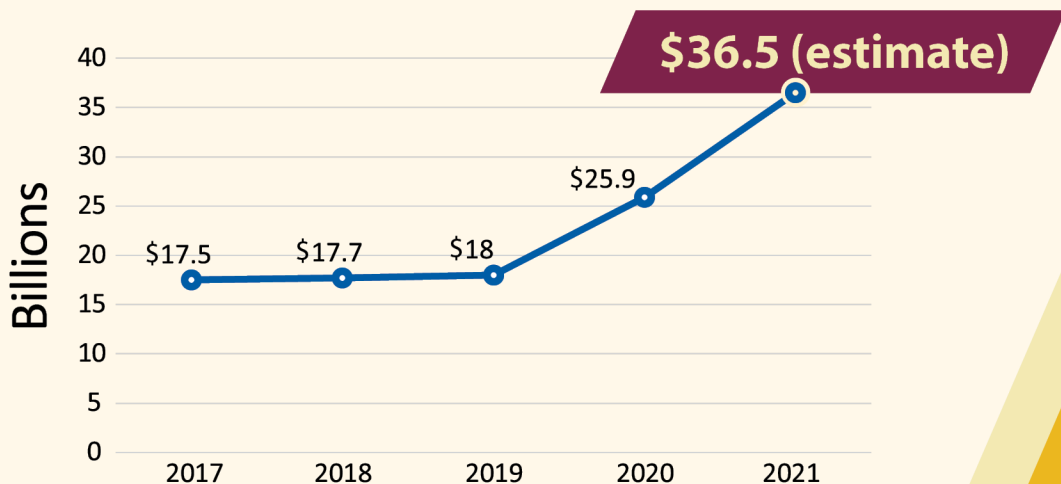
Before the pandemic, Washington spent approximately \$18 billion a year in federal funding. We now estimate that will almost double to about \$36.5 billion in 2021 because of new funding associated with COVID-19 response and relief.

More federal funding means we must do more federal funding audits. The federal government has established new and complex requirements for the pandemic-related programs that recipients must follow. Furthermore, the state will soon receive more money through the federal Infrastructure Investment and Jobs Act – and that will require additional audit effort as well.

Our request:
\$1.4 million
for 12,000 additional
audit hours during the
next two years

To determine whether Washington used federal pandemic-related funds properly and complied with applicable federal requirements, we estimate we'll need 12,000 additional audit hours over the next two years. We've asked the Legislature for \$1.4 million to fund this work – just 0.01 percent of the share of total federal dollars audited.

Total federal assistance



Federal Single Audit Tips

Identify compliance requirements

- Grant agreement
- OMB Compliance supplement



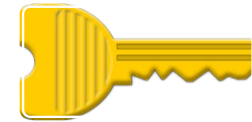
Contact grantor directly

- Best source of information for questions
- Get responses in writing



Identify key internal controls

- Make sure you have a clear process in place
- Make sure it's documented (like signing and dating for review)



Know your resources

- Published guidance, bulletins, handbook, etc.



Have a turnover plan

- Cross-training
- Policies
- Evidence of key controls



Presenter introduction

Niles Kostick

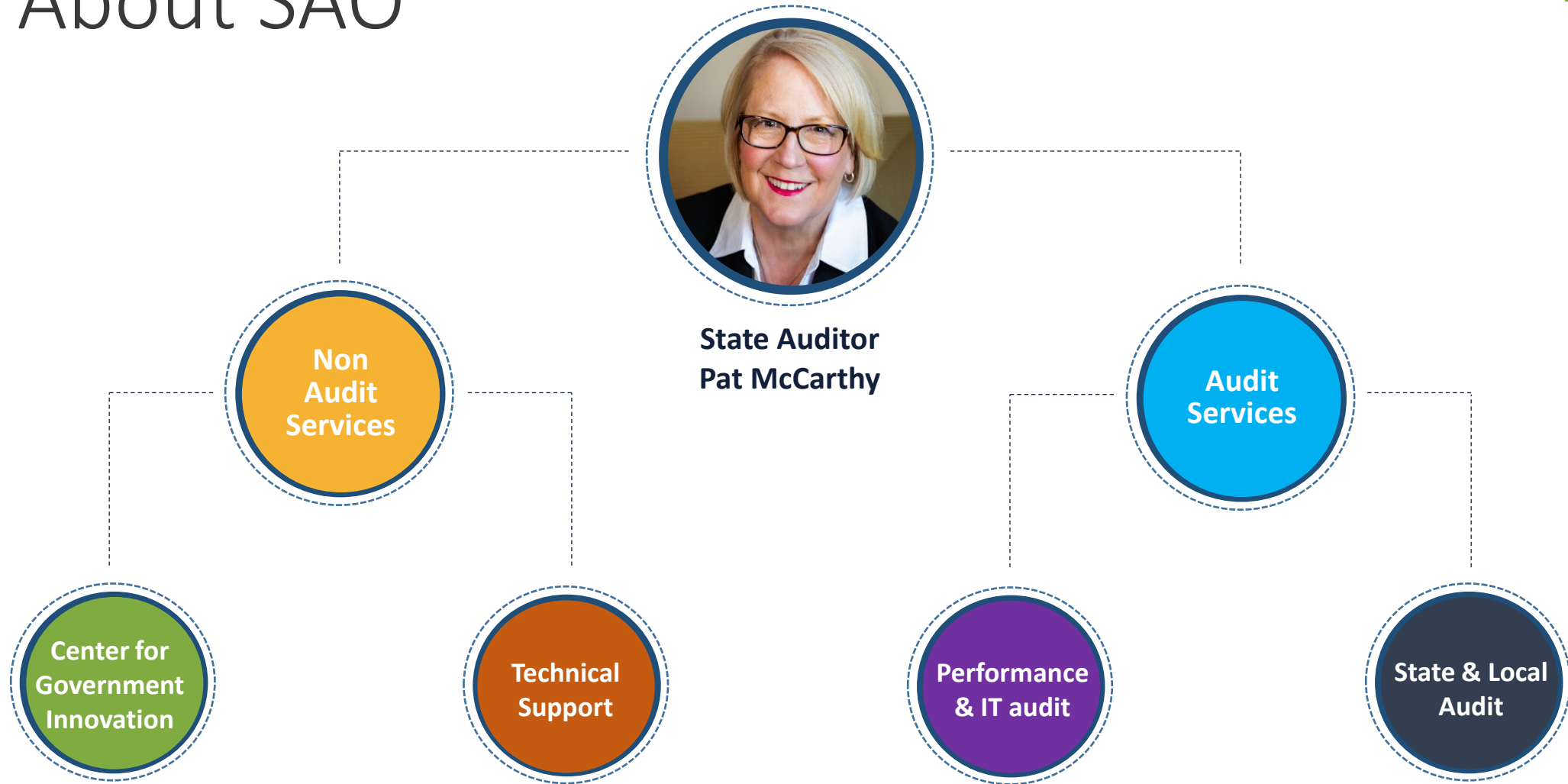
Financial Management Specialist
SAO's Center for Government Innovation



SAO's mission



About SAO



We help local governments



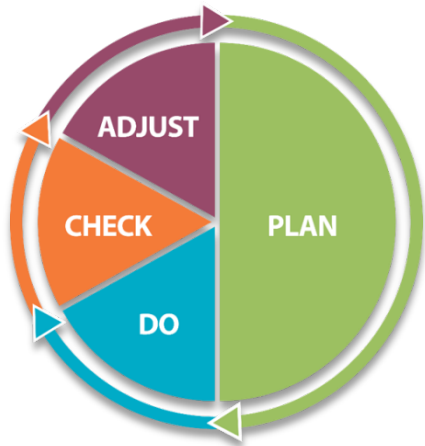
About the Center

We offer tools and services to help local governments solve problems and improve operations



Center services

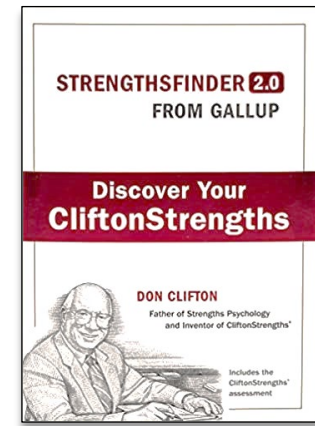
Lean facilitations



Financial Intelligence Tool (FIT)



Team-building workshops



Technical Advice



Congrats Ports!

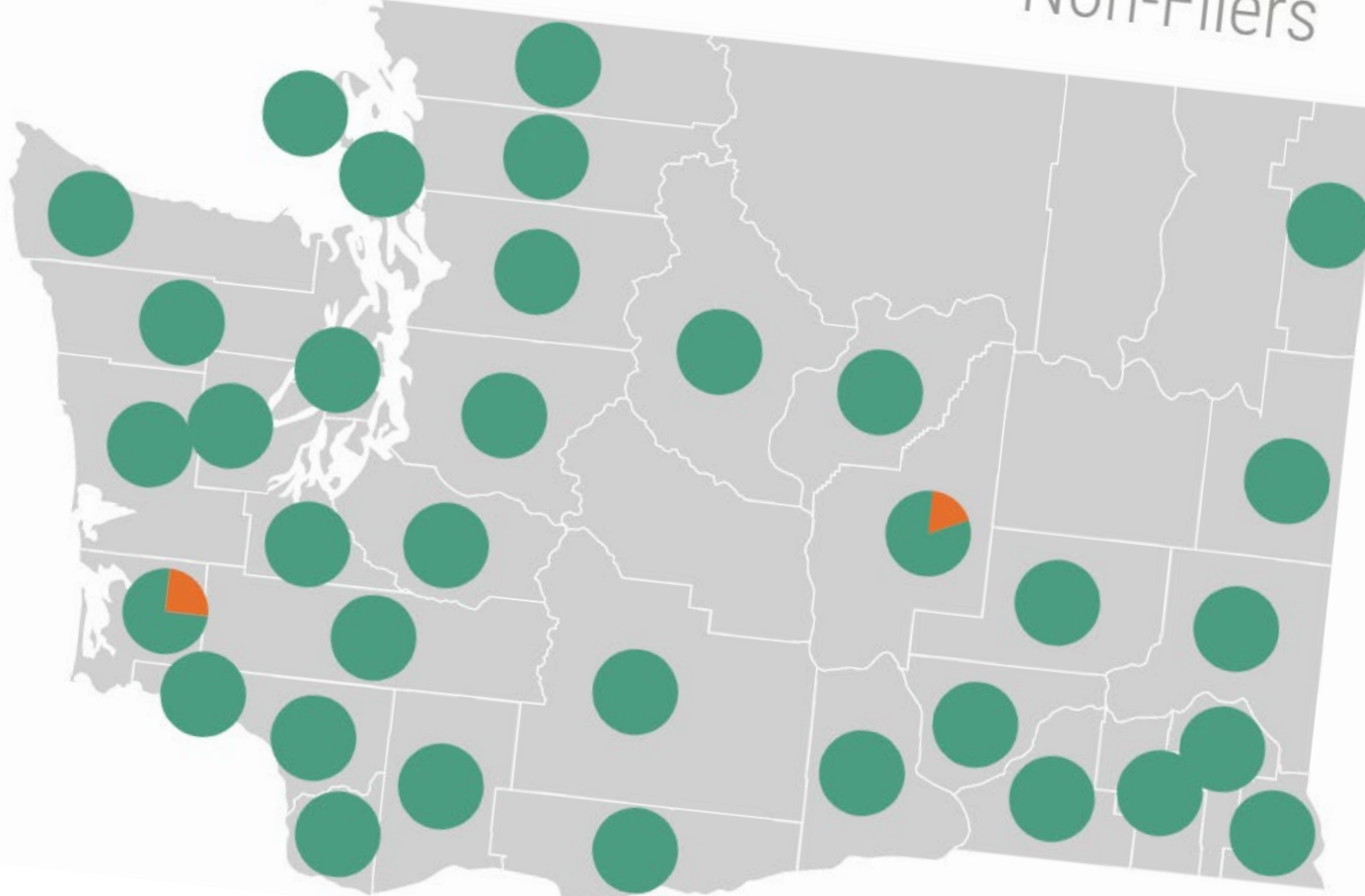
Annual reports by fiscal year
for Port/Airport District governments¹



81
Timely Filers

0
Late Filers

3
Non-Filers



Annual Reporting



- Filing season for 2021 is now over (May 30, 2022)
- Next year, prepare early and reach out for help:
 - Attend a filing prep webinar in March and April 2023
 - Live Chat opens in late April
 - HelpDesk
 - Email: LGCSFeedback@sao.wa.gov
 - SAO website BARS manual

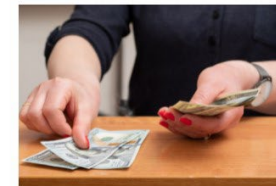


Center resources

Resource Library



Blog Articles



Double count your way to better cash receiving controls

SEPTEMBER 15, 2021

Looking for a way to improve your game when it comes to cash receiving internal controls? Add the double count to your arsenal. The double count is as easy as the name suggests: money should never transfer from one employee to another without being counted and documented first. ... [CONTINUE READING →](#)



Is your contractor banned from receiving federal funds? Don't wait to find out.

AUGUST 24, 2021

Some contractors are banned from doing business with the federal government, and it's your job to know who they are. If you use federal grant money to pay a banned contractor, you risk auditors questioning your spending. Even worse, you might have to repay that money to your federal grantors. ... [CONTINUE READING →](#)



What to do after hitting submit: Steps for increasing data-quality confidence

AUGUST 10, 2021

After hours of time and energy, you've submitted your annual report for fiscal year 2020. Congratulations! Now you may be asking, "Is there anything more I can do?" Our answer is, "Yes!" ... [CONTINUE READING →](#)

Center resources

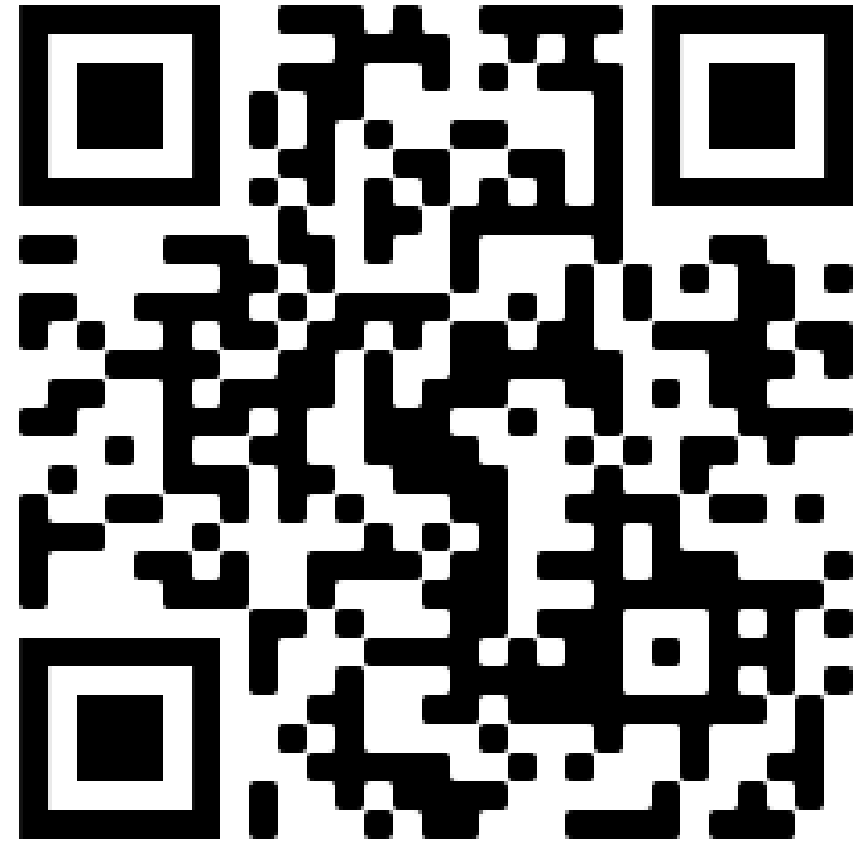
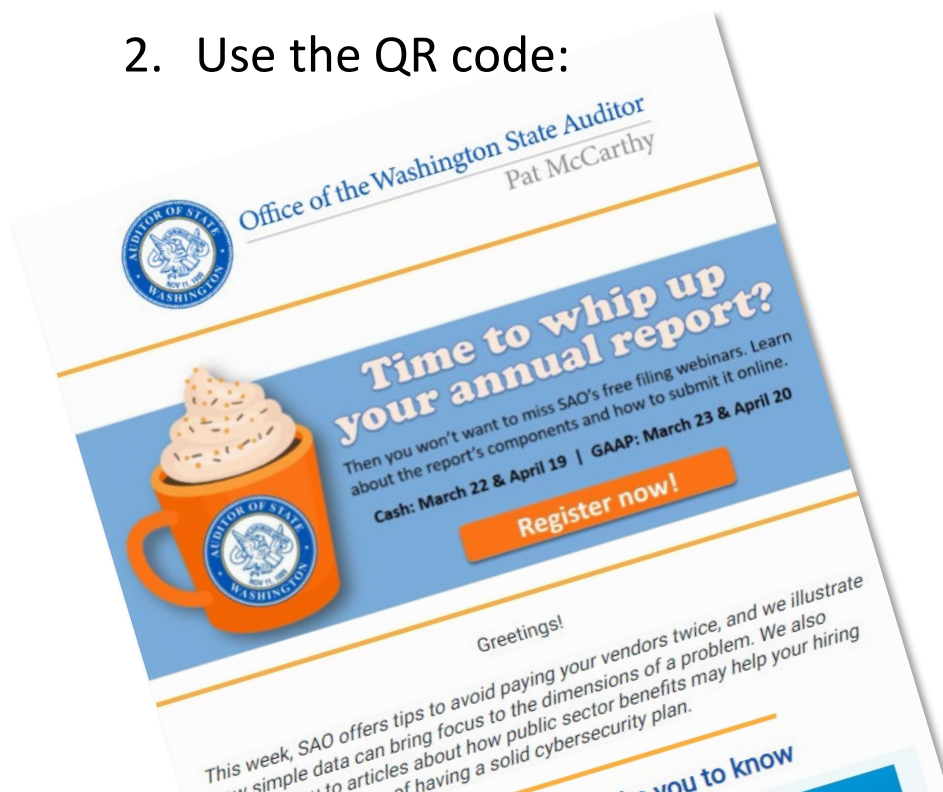
Financial Reporting
Procurement & Prevailing Wage
Accounts Payable Disbursements



Subscribe to SAO's weekly newsletter

Two ways to sign up:

1. Via SAO's website at sao.wa.gov
2. Use the QR code:



Earn CPE with our free on-demand training



What should Ports know about?



Hey! I'm doing a presentation for port districts. What do you think we should share at WPPA?

...

What about capital assets?

Well, the best practice guides for cash receipting, payroll, and accounts payable, and the internal control checklists would be good.

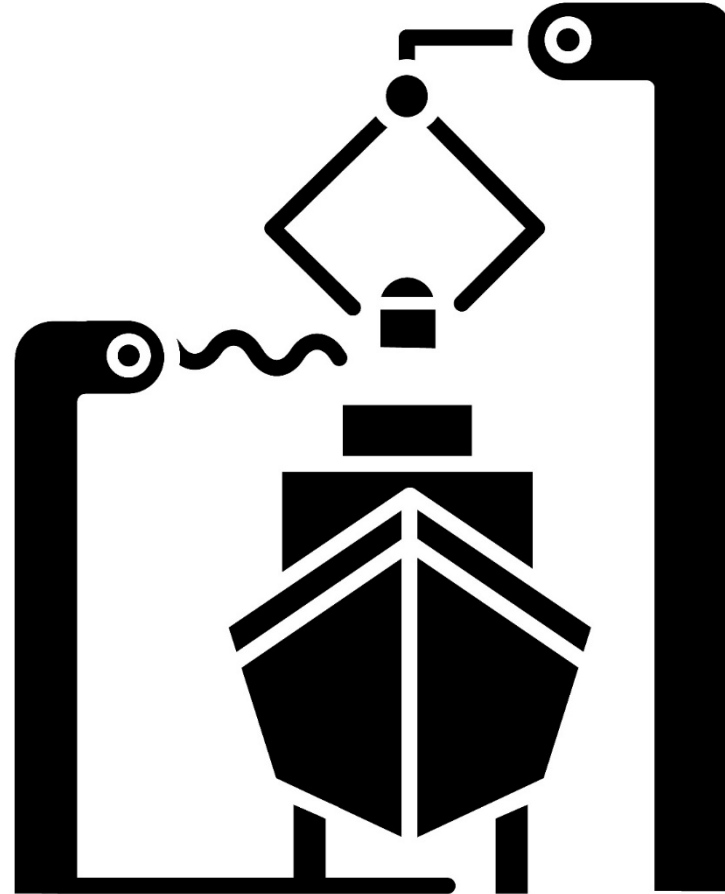
The credit card best practices and the travel guide are still good best practices

Of course the segregation of duties guide. Then there is the whole bidding suite. And the responsible bidder checklist.

We also have the one on electronic transactions, A/R, and fuel controls. All things they should be interested in so they should sign up for alerts!

What's on the dock-et today

- Capital assets
- Small and attractive assets
- Procurement



Capital Assets



Resources

Center for Government Innovation

Best Practices for Tracking Capital Asset Information

Office of the Washington State Auditor
Pat McCarthy

Starting in about 2002, the Governmental Accounting Standards Board required general-purpose governments to start reporting all capital assets, including infrastructure assets such as roads and buildings. Some were able to report prospectively while others had to add retroactive information. Governments have a tremendous amount of assets, and some may have been rushed to record this information. The manner in which these assets were recorded may have caused later challenges as that information needed to be added to, adjusted, or removed. There are ways to design a capital asset tracking system that ease the burden of managing this information in future years. These best practices aim to help describe some of those methods. This resource largely draws from practices used by public utility districts, as well as that of a few others in the government industry. Consider these best practices as you work to improve your capital asset tracking.

September 2018

Center for Government Innovation

Best Practices for Internal Controls Over Small and Attractive Assets

Office of the Washington State Auditor
Pat McCarthy

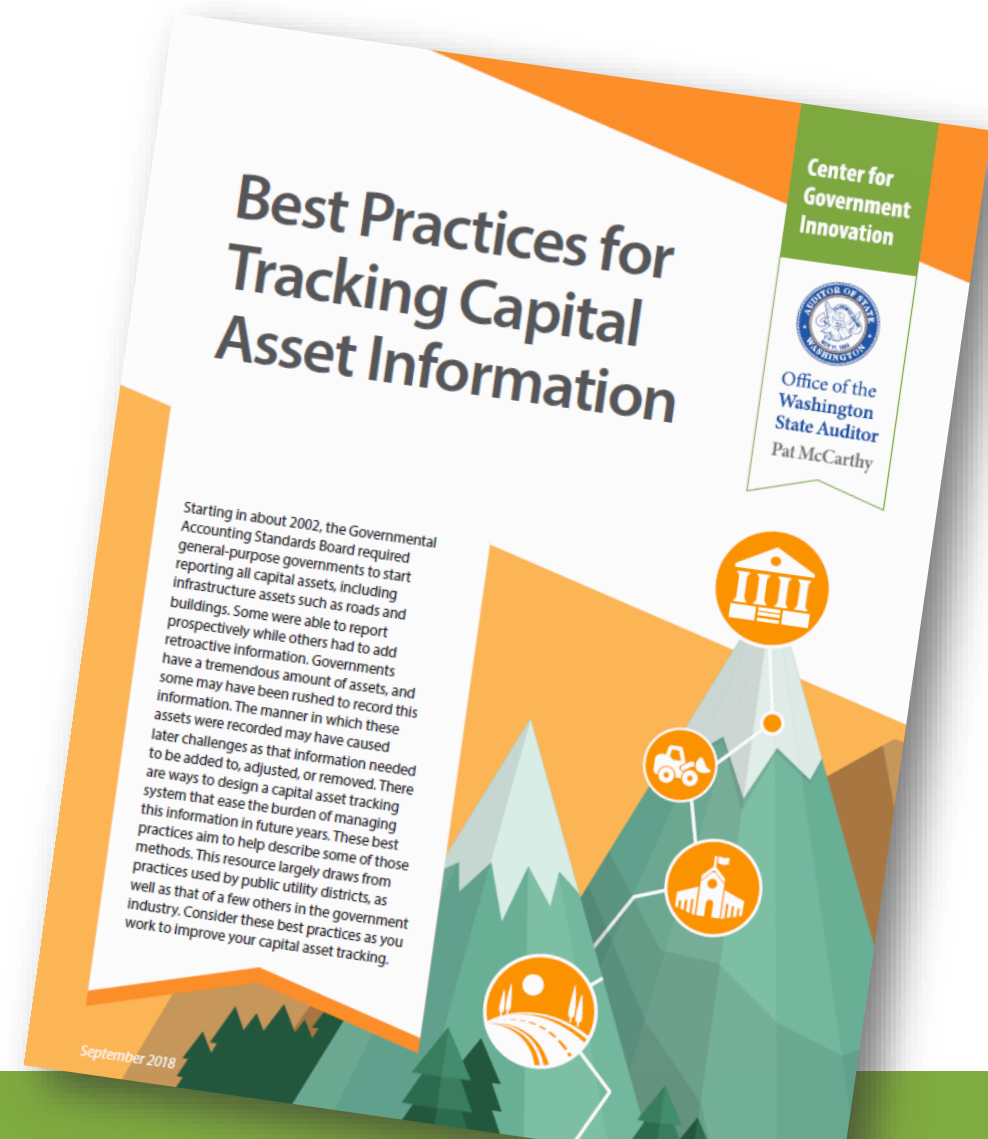
Small and attractive assets are below the government's established capitalization threshold for financial statement reporting purposes, and might be susceptible to loss, theft or misuse. These assets last longer than a year, are typically mobile and might be easily replaced through a procurement system 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 equipment

June 2018

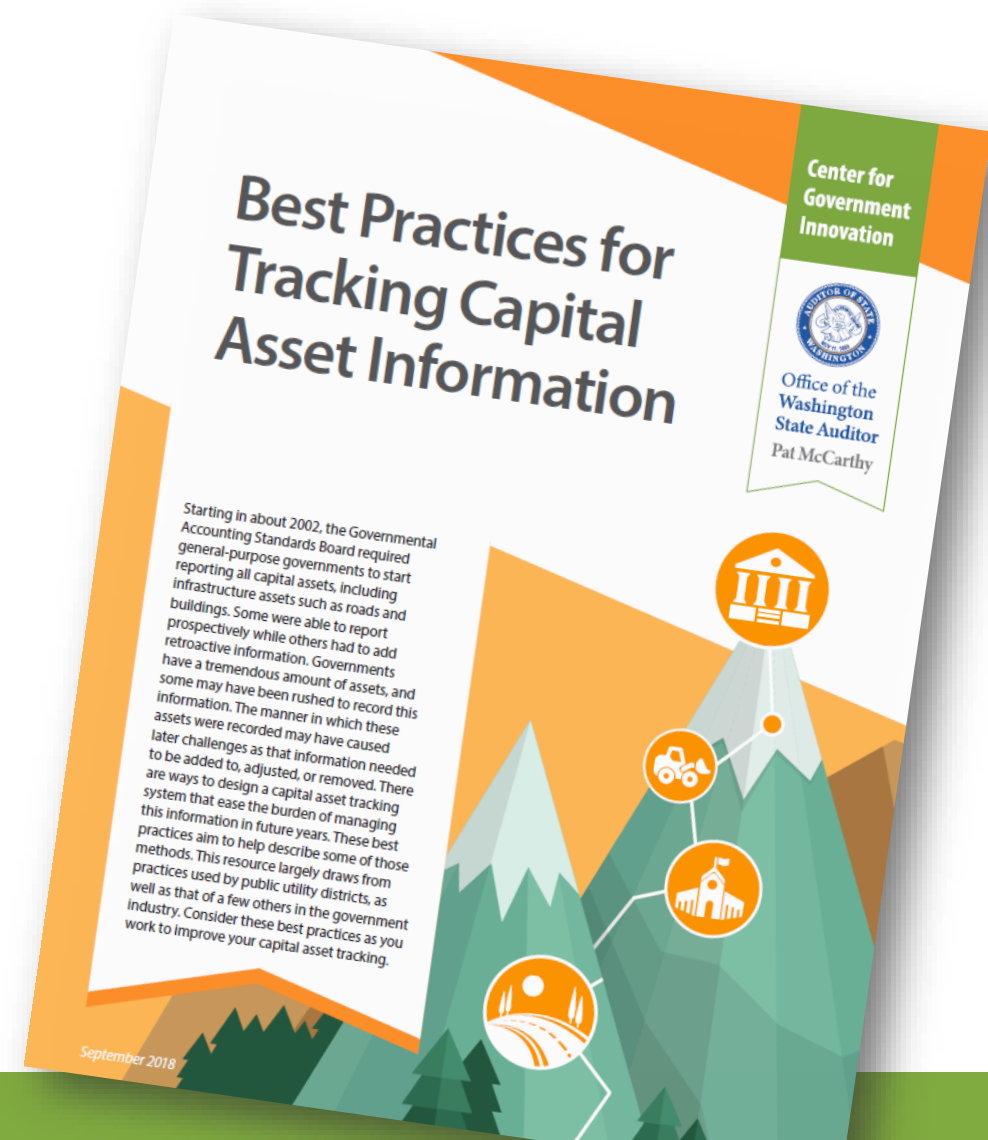
Tracking capital asset information

- Before you track, know how to identify assets
- A project is not an asset



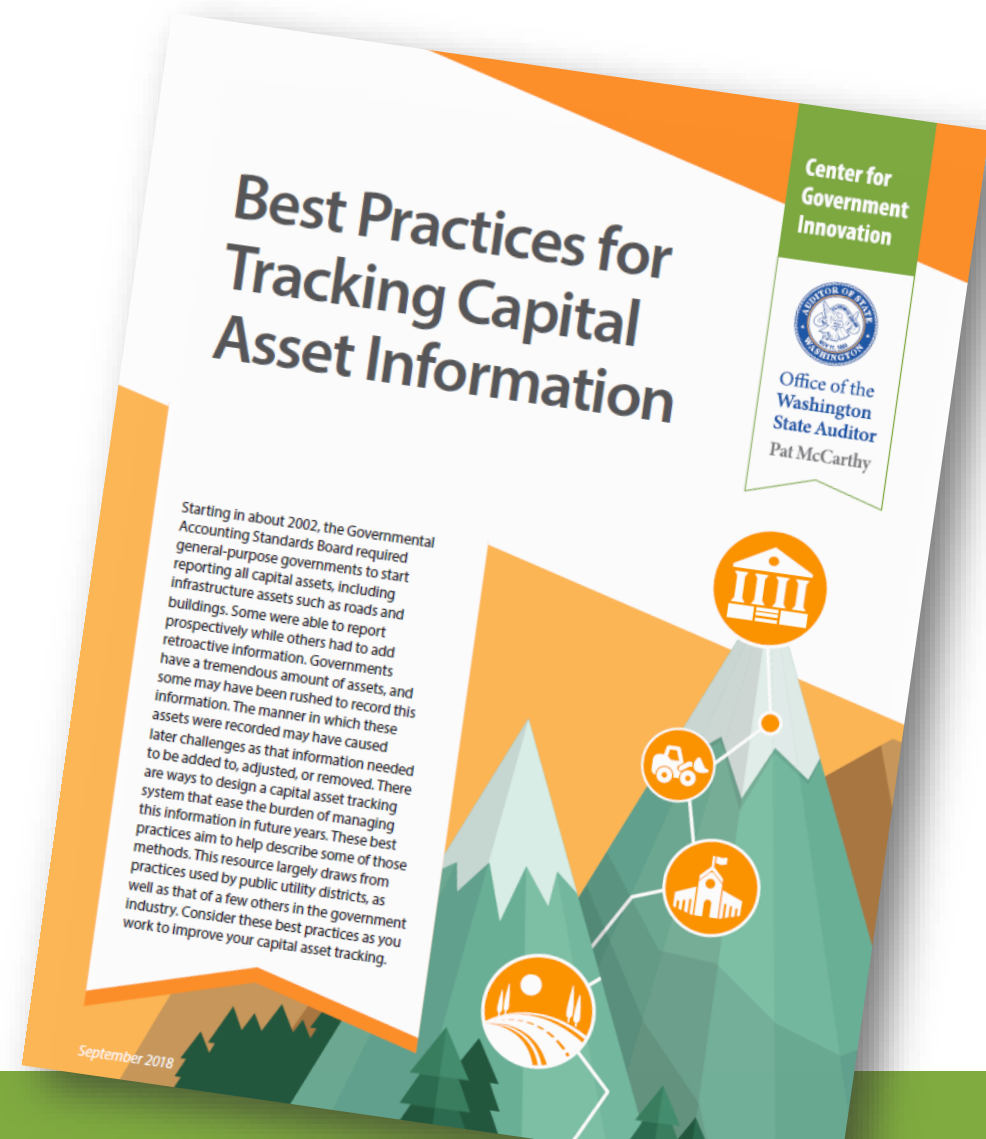
Tracking capital asset information

- Planning for retirement: Let the records do the planning for you

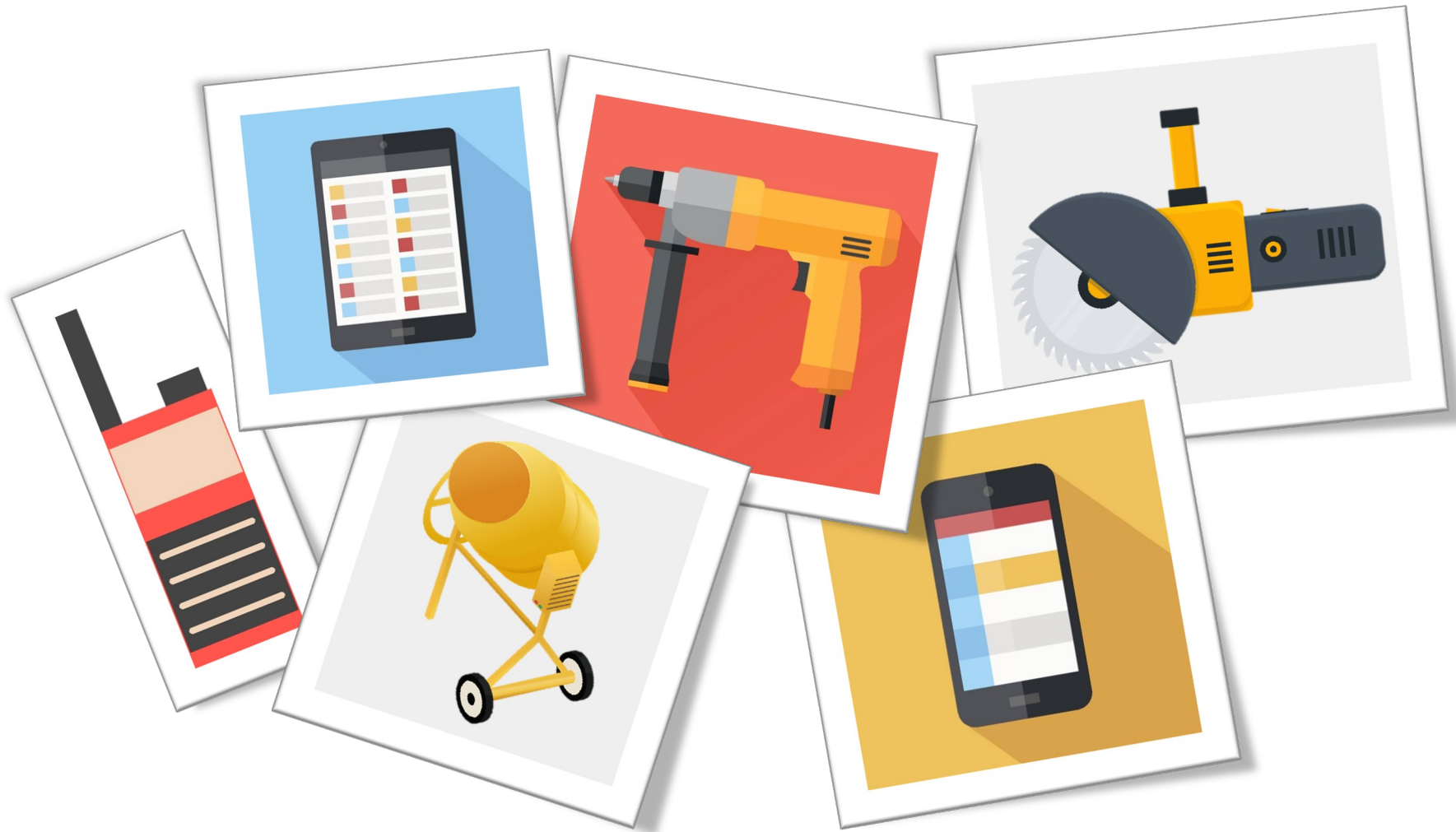


Tracking capital asset information

- Materiality doesn't necessarily define how assets are tracked or controlled

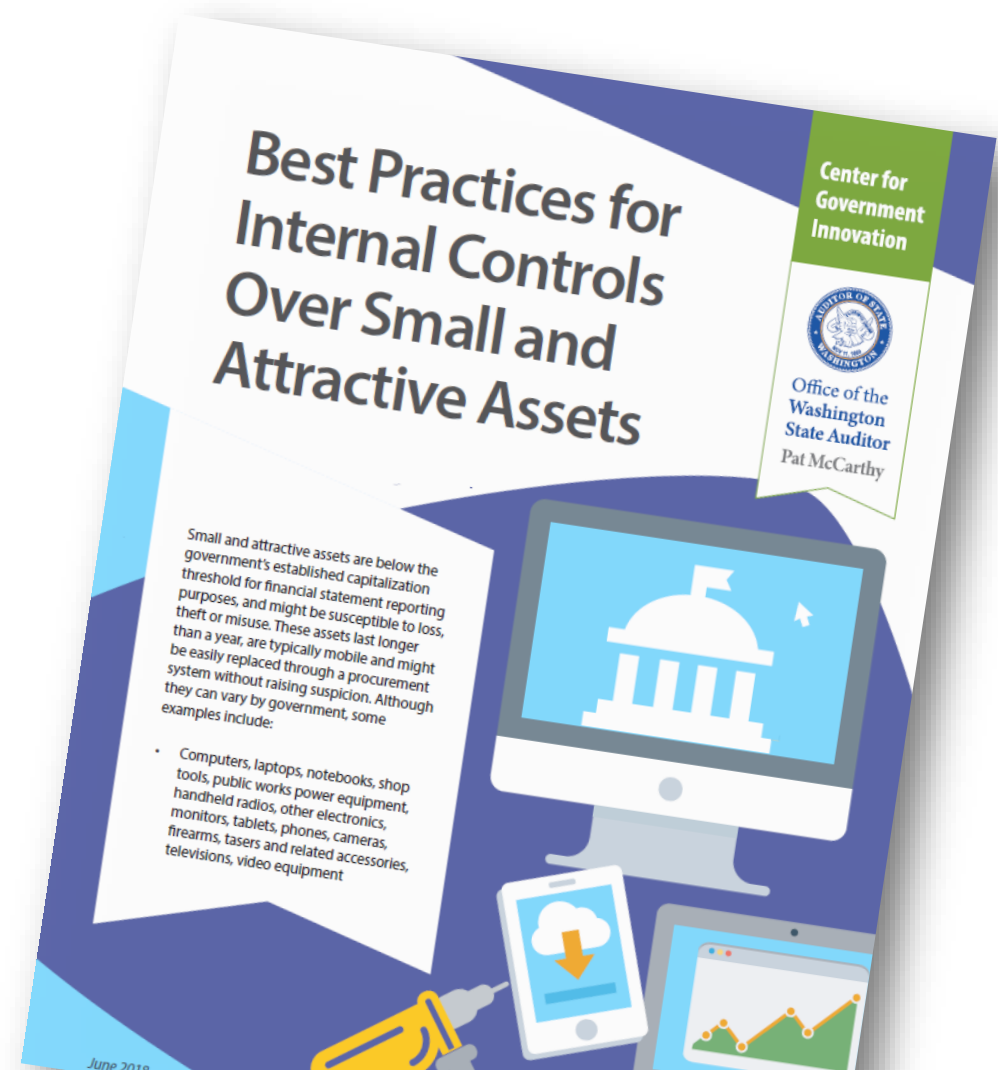


Small and attractive assets



Small and attractive assets

- These still last longer than a year
- These are generally mobile or prone to misuse
- These are likely to be replaced via procurement system without much concern



Small and attractive assets

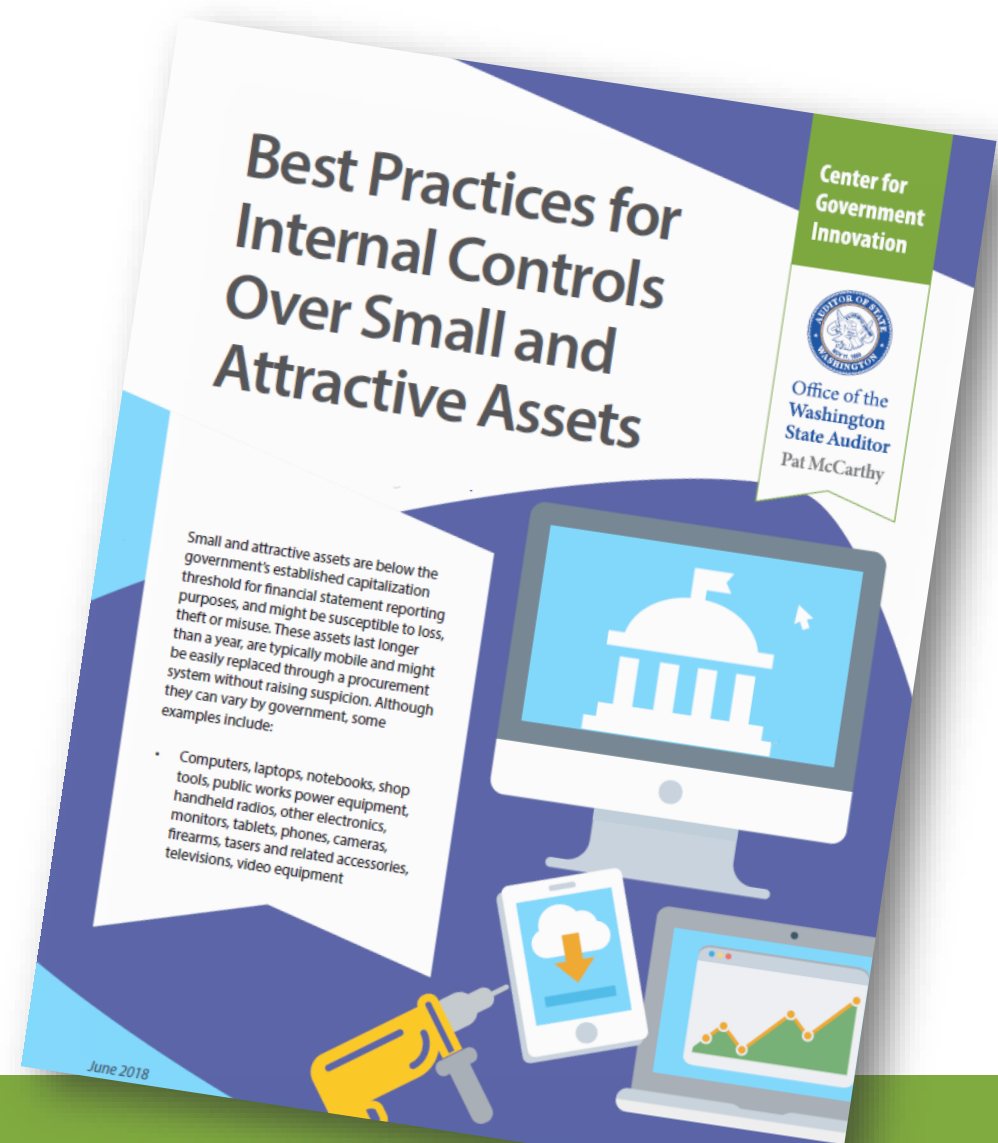
- Be aware of your own requirements (think BARS, think grant and loan agreements, contracts, etc.)
- Be smart about thresholds



Small and attractive assets

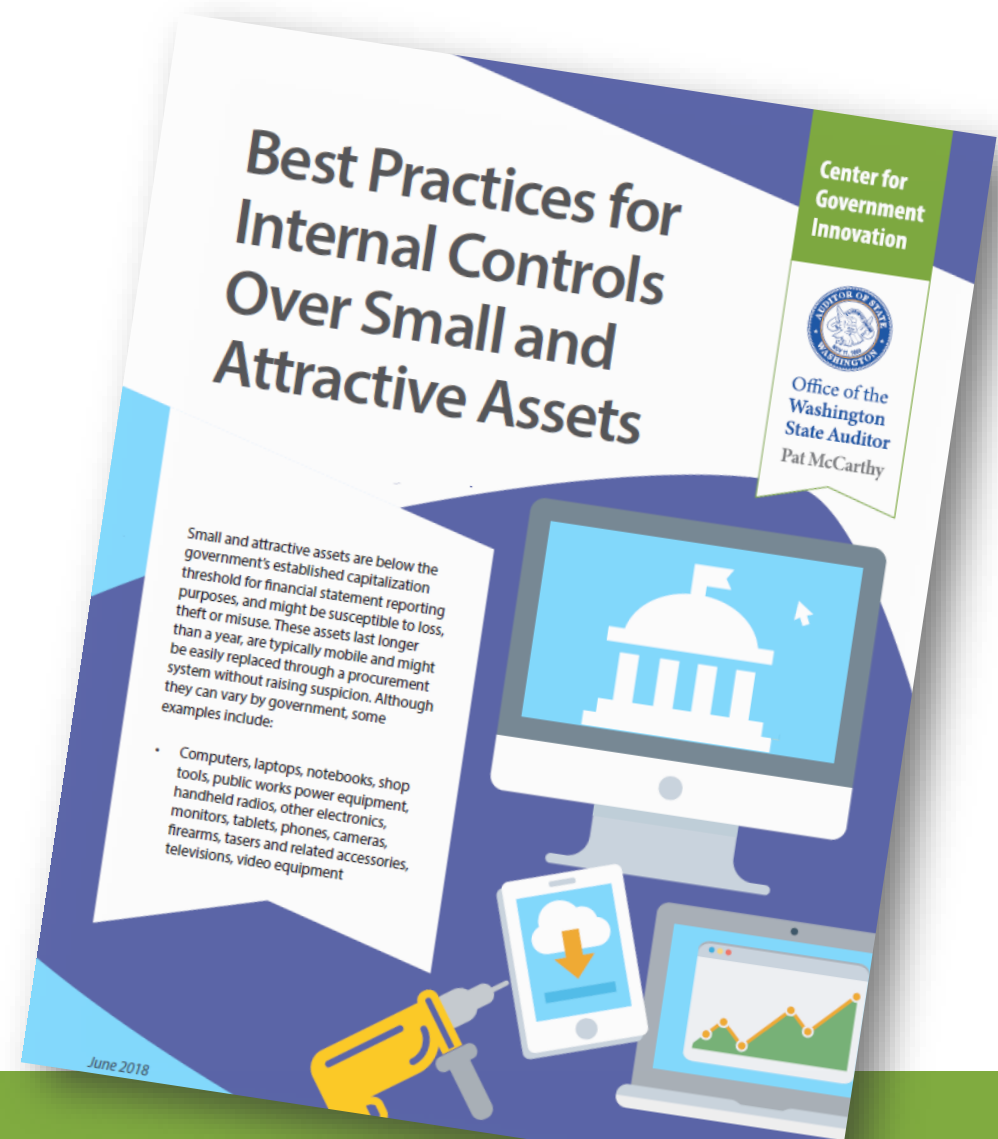
Risky business. Consider:

- Public perception
- Operational risks
- Existing tracking or pre-existing controls
- Recent problems
- Degree of decentralization
- Ease to sell
- Replacement cost vs. the cost to track it

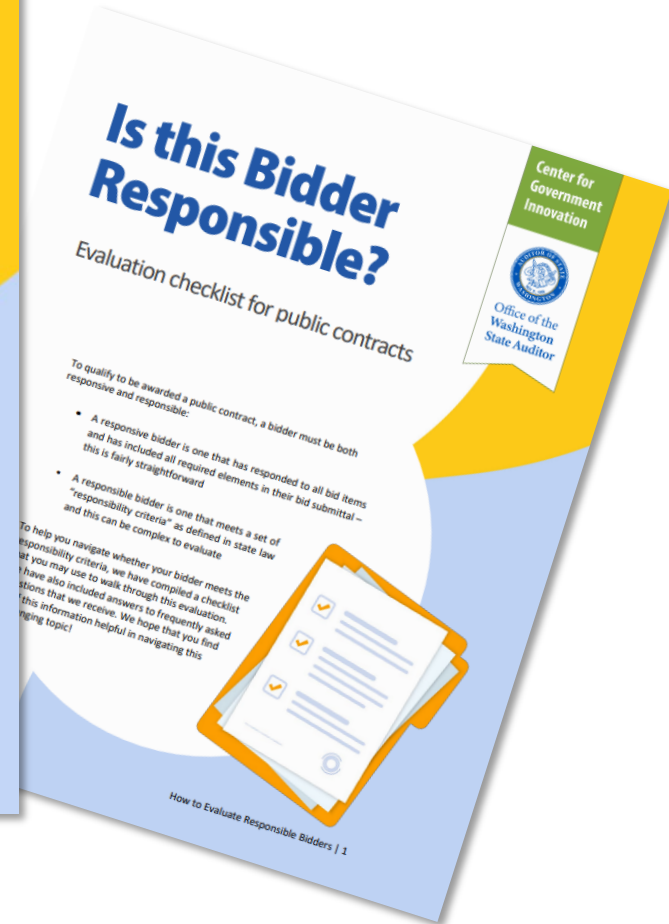
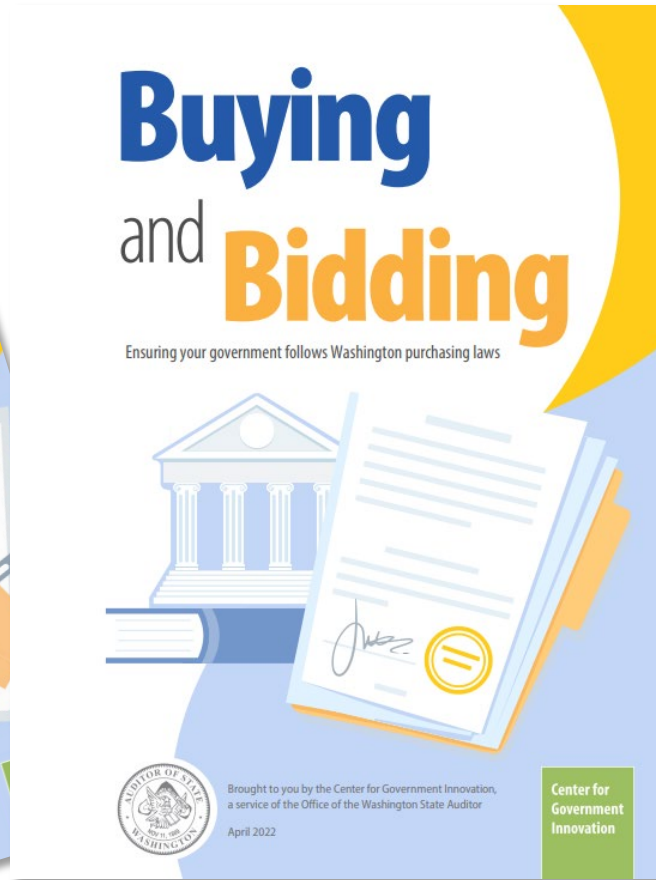
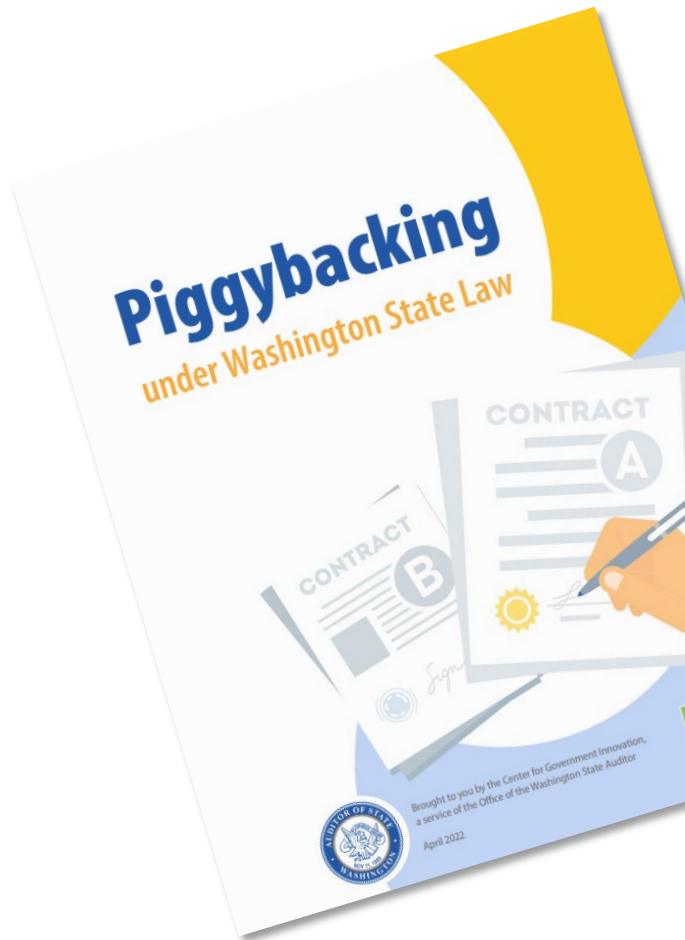


Small and attractive assets

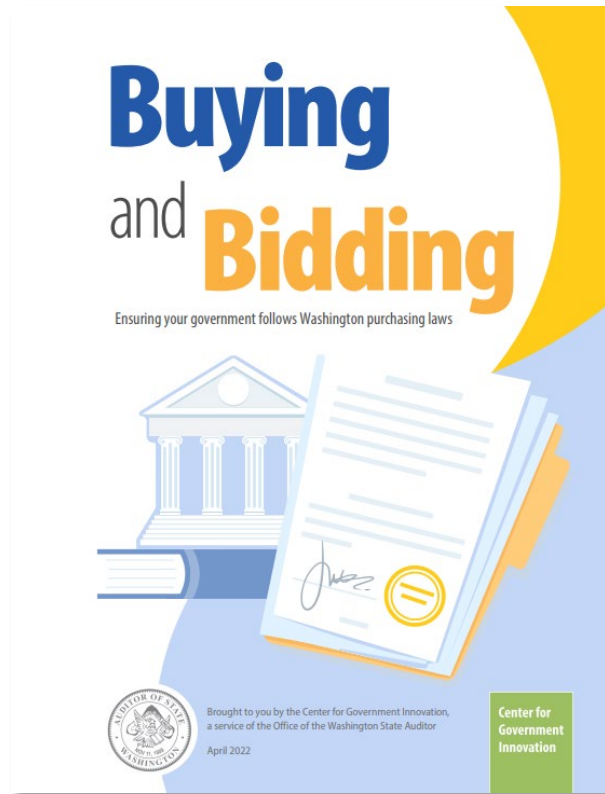
Inventories and policy best practices



Procurement Suite



Washington's procurement laws



I'm about to spend money! How do I know which laws apply?



It's something tangible like a van, but it isn't associated with my public works project or my ordinary maintenance work.

It's a purchase. [See pages 7-12.](#)



It's maintenance work performed by our employees.

It's ordinary maintenance, not addressed by this guide. See [WAC 296-127-010 \(7\)\(b\)\(ii\)](#)



It's a construction project, and we'll hire an outside company to do the work. (And we'll need materials and equipment, too).

It's a public works project. [See pages 13-23 and page 26.](#)



It's construction work (or an alteration, repair or improvement), and our employees will be doing the work.

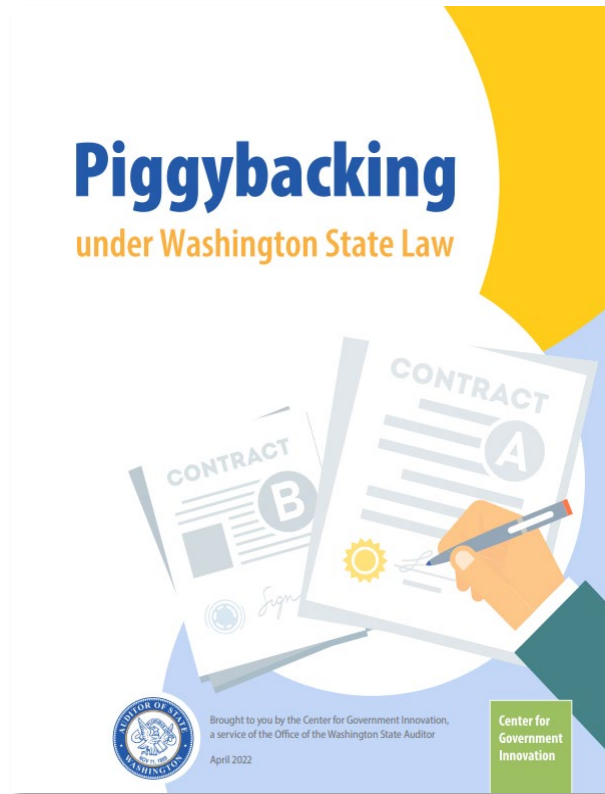
This is a public works project done by in-house staff or day labor. [See page 27.](#)



I need the services of an architect or a consultant. They won't be employees.

They are engaged as service providers. [See pages 24-25.](#)

Washington's procurement laws



- Is piggybacking the right option for you?
- If so, what are the first steps?
- Is the award the right award?
- Does it meet your bidding and notice requirements?
- Finalize the agreement

Washington's procurement laws

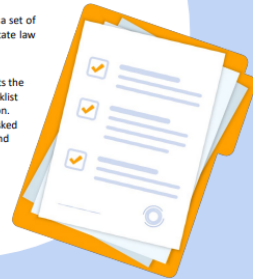
Is this Bidder Responsible?

Evaluation checklist for public contracts

To qualify to be awarded a public contract, a bidder must be both responsive and responsible:

- A responsive bidder is one that has responded to all bid items and has included all required elements in their bid submittal – this is fairly straightforward
- A responsible bidder is one that meets a set of "responsibility criteria" as defined in state law and this can be complex to evaluate

To help you navigate whether your bidder meets the responsibility criteria, we have compiled a checklist that you may use to walk through this evaluation. We have also included answers to frequently asked questions that we receive. We hope that you find all of this information helpful in navigating this challenging topic!



April 2021

How to Evaluate Responsible Bidders | 1



Responsible Bidder Checklist

Local governments must ensure a bidder qualifies as a responsible, under state law, before awarding a public works contract. Use this optional checklist to evaluate whether a bidder meets responsible bidder criteria.

Checklist item	Evaluation (bidders must be all "yes" to qualify as a responsible bidder)
1. Is the vendor a registered contractor at the time of bid submittal, as required by RCW 18.37.030? Or, is the vendor exempt from the registration requirements, such as for a janitorial contract? <i>Note: This can be checked at secure.wa.gov/central. Verify that the status is "Active" that the "effective date" is on or before the bid submittal deadline, and that the "expiration date" is not before the end of the contract period.</i>	<input type="checkbox"/> YES. Continue to next question. <input type="checkbox"/> NO. STOP. Bidder is not responsible.
2. Does the contractor have a current state Unified Business Identifier (UBI) number? <i>Note: You can check this at the Department of Revenue website at dor.wa.gov/ by clicking the "Lookup a Business" link.</i>	<input type="checkbox"/> YES. Continue to next question. <input type="checkbox"/> NO. STOP. Bidder is not responsible.
3. Does the contractor have industrial insurance coverage, as required by RCW 51.02.010, or is it certified to cover its own workers' compensation costs? <i>Note: Workers' compensation premium status can be checked at secure.wa.gov/central/75000/Felink. The status should be "Account is current." Firm has voluntarily registered and paid their premiums" or show the firm is self-insured.</i>	<input type="checkbox"/> YES. Continue to next question. <input type="checkbox"/> NO. STOP. Bidder is not responsible.
4. Does the contractor have an Employment Security Department number, as required by RCW 50.06.030? (This does not apply if the contractor does not have any employees) <i>Note: This information is not available online. The local government should have a process to obtain the information from the contractor. A local practice might be to ask bidders to include this information in their bid submittal.</i>	<input type="checkbox"/> YES. Continue to next question. <input type="checkbox"/> NO. STOP. Bidder is not responsible.
5. Does the contractor have a state excise tax registration number, as required by Title 49 RCW, or meet one of the exceptions in statute? <i>Note: You can check this at the Department of Revenue website at dor.wa.gov/ by clicking the "Lookup a Business" link.</i>	<input type="checkbox"/> YES. Continue to next question. <input type="checkbox"/> NO. STOP. Bidder is not responsible.
6. Is the contractor free of debarment by Washington (it has not been debarred)? <i>Note: Violations can be found at:</i> <ul style="list-style-type: none"> • secure.wa.gov/debarment/contractor/contractorDefault.aspx • State debarment also shows in the Verify a Contractor tool secure.wa.gov/verify/22414/VerifyPage <i>Note: This is for state debarment, not federal. The local government should print the search results to prove the contractor was not debarred at the time of bidding.</i>	<input type="checkbox"/> YES. Continue to next question. <input type="checkbox"/> NO. STOP. Bidder is not responsible.
7. Has the bidder submitted to the contracting agency a signed statement verifying under penalty of perjury that the bidder has no final and binding citation or notice of assessment from Labor & Industries within the three-year period immediately preceding the date of the bid solicitation for: <ul style="list-style-type: none"> • Minimum wage requirements and labor standards (RCW 49.46) • Wages – payment – collection (RCW 49.48) • Wages – deductions – contributions – rebates (RCW 49.57) <i>Note: Local government may award a contract in reasonable reliance on a sworn statement.*</i>	<input type="checkbox"/> YES. Continue to next question. <input type="checkbox"/> NO. STOP. Bidder is not responsible.

How to Evaluate Responsible Bidders | 2

How to Evaluate Responsible Bidders | 3

Questions



Contact Information

Niles Kostick

Financial Management Specialist

For more information:

- Phone: 564-999-0818
- Email: center@sao.wa.gov
- Website: sao.wa.gov

Deena Garza

Program Manager – Public Ports

Deena.Garza@sao.wa.gov

(360) 676-2165

Wendy Choy

Assistant Director of Local Audit

Wendy.Choy@sao.wa.gov

(425) 502-7067

Josh Stohr

Subject Matter Expert – Public Ports

Justin.Stohr@sao.wa.gov

(564) 444-6621

