



State Auditor's Audit Process:
Blue Skies and Full Sails!



Washington State Auditor's Office

Government that works for citizens

The Audit Process Presented to Clark County December 14, 2016

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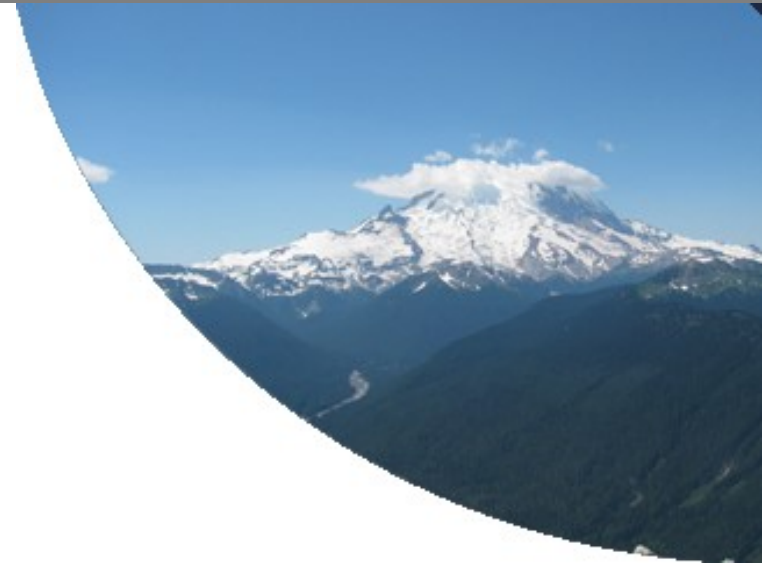
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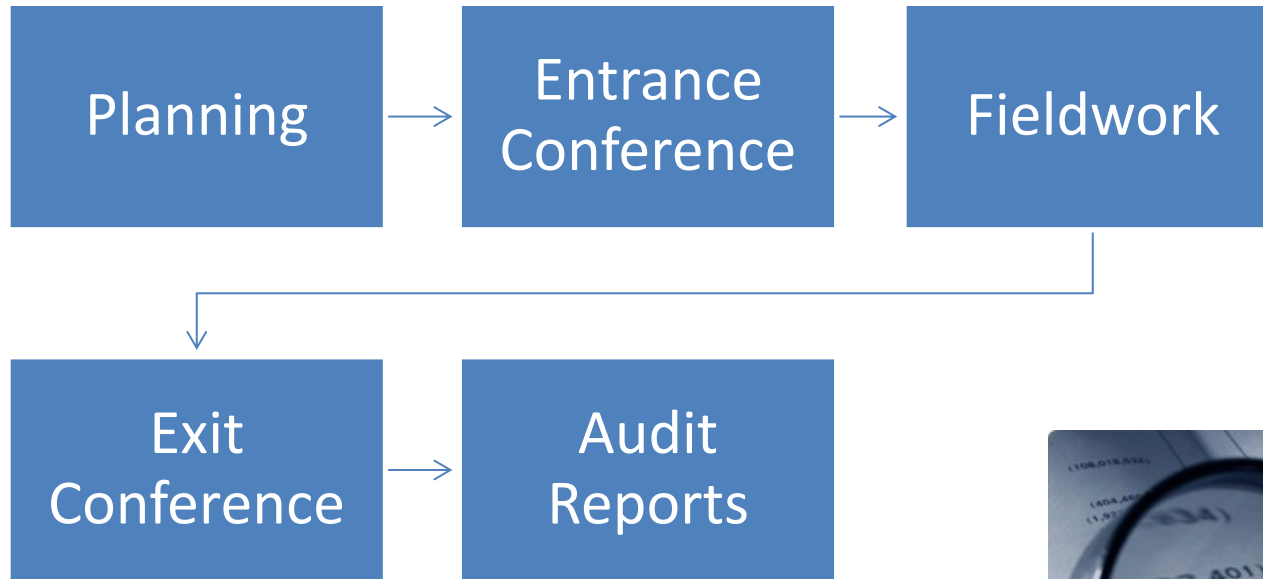
Today's Objectives

- Understanding the various types of audits and the audit process:
 - ❑ Accountability audits
 - ❑ Financial Statement audits
 - ❑ Federal Single audits

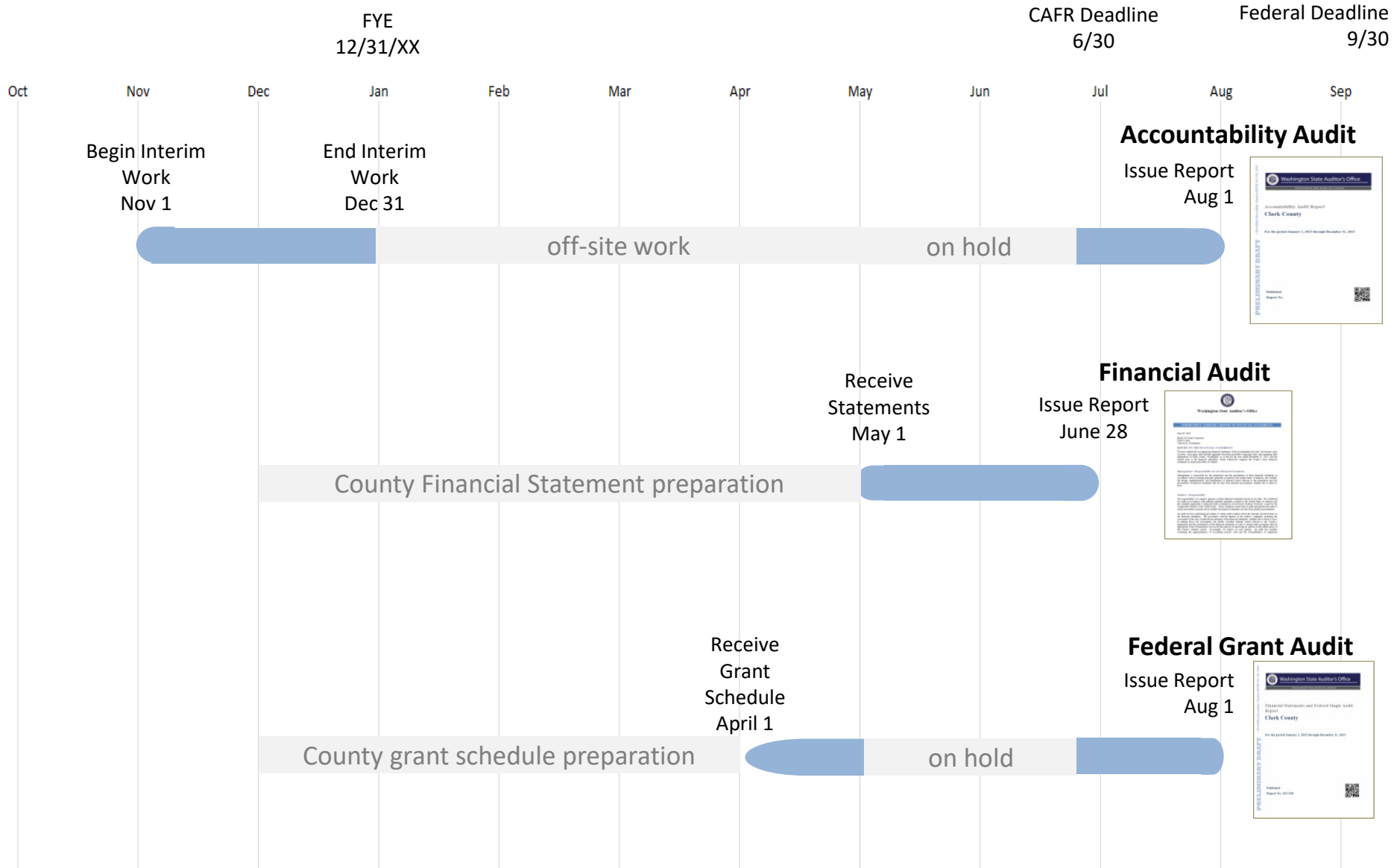
- A special focus on federal single audits
 - ❑ Guidance on identifying compliance requirements
 - ❑ Tips to ensure compliance with your grant



County-wide Audit Process



Audit Timeline



Accountability Audit

- **Focus on areas of highest risk for abuse and misuse or public resources**
 - **Internal Controls (Safeguards)**
 - **Compliance with applicable laws and regulations**
 - **Contracts**
 - **Policies**



Accountability Audit Process

- **Planning ~ risk assessments**
- **Departmental audits**
- **Compliance work ~ crosses many de**
- **Weekly meetings with the Auditor's Office**
- **Interim audit work**



Departmental Audits (Accountability)

- Entrance/exit conference
- Audit status updates
- Questions/concerns
- Other feedback

DEPARTMENTS

- Assessor
- Auditor
- Board of Equalization
- Budget
- Children's Justice Center
- Community Development
- Community Planning
- Community Services
- County Clerk
- County Council
- County Manager
- Courts
- District Court
- Elections
- General Services
- Geographic Information Systems
- Human Resources
- Juvenile Court
- Medical Examiner
- Prosecuting Attorney
- Public Health
- Public Information and Outreach
- Public Works
- Sheriff
- Superior Court
- Treasurer

Citizen Hotline

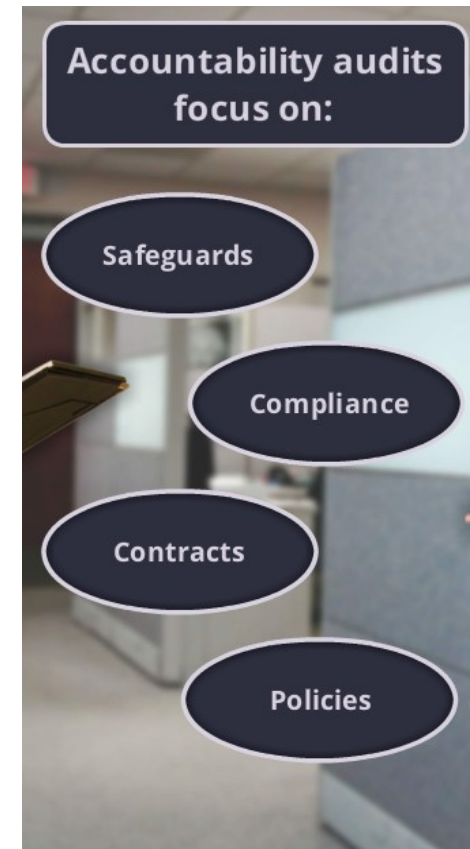
- Citizens can report problems such as misuse of government property or waste of taxpayer money.
 - Can be submitted anonymously
 - We are required to evaluate all submissions
 - Submissions are filed on the SAO website



Accountability Resources

See our website for tips on auditing resources for accountability audits.

MRSC, the BARS Manual, State Law, and County Policies provide additional guidance about related accountability areas



Financial Statement Audit

Financial Statement audits focus on reviewing the District's annual financial statement package, including:

- Proper reporting framework (GAAP/BARS)
- Internal controls
- Compliance with state laws and regulations
- Contracts with potentially material impact on the financial statements

Financial Statement Audit



- Some items to note:
 - ❑ Short timeframe
 - ❑ Some items requested in advance
 - ❑ Affects many departments
 - ❑ Annual update of control understandings
 - Testing controls in an audit decision
 - ❑ Audit is risk based; requests will vary

Financial Statements Resources

Our website has a list of resources for best practices relating to financial statements.

The BARS Manual also provides guidance regarding resources.

| CLARK COUNTY, WASHINGTON | | | |
|--|--------------------|------------------|--------------------|
| Statement of Net Position | | | |
| December 31, 2015 | | | |
| | Primary Government | | |
| | Governmental | Business-type | Total Primary |
| | Activities | Activities | Government |
| ASSETS | | | |
| Cash, cash equivalents & pooled investments | \$ 149,736,353 | \$ 8,249,362 | \$ 157,985,715 |
| Deposits in trust | 3,527,606 | | 3,527,606 |
| Deposits with agents | 500,000 | | 500,000 |
| Investments | 552,493 | - | 552,493 |
| Net Receivables | 45,377,952 | 881,992 | 46,259,944 |
| Internal balances | 57,441 | (57,441) | - |
| Inventories | 2,030,440 | | 2,030,440 |
| Prepays | 1,959,327 | 11,237 | 1,970,564 |
| Notes receivable | 12,133,743 | - | 12,133,743 |
| Net OPEB asset | 966,276 | - | 966,276 |
| Net pension asset | 5,447,567 | - | 5,447,567 |
| Equity interest in joint venture | 8,344,994 | - | 8,344,994 |
| Capital assets not being depreciated: | | | |
| Land, infrastructure and construction in progress* | 362,926,454 | 105,163,226 | 468,089,680 |
| Capital assets net of accumulated depreciation | <u>818,534,258</u> | <u>1,911,455</u> | <u>820,445,713</u> |
| Total assets | 1,412,094,904 | 116,159,831 | 1,528,254,735 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred charge on refunding | 5,222,286 | - | 5,222,286 |
| Amounts related to pensions | <u>10,896,598</u> | <u>459,819</u> | <u>11,356,417</u> |
| Total deferred outflows of resources | 16,118,884 | 459,819 | 16,578,703 |
| LIABILITIES | | | |
| Accounts payable and other current payables | 11,314,739 | 901,160 | 12,215,899 |
| Accrued liabilities | 7,518,740 | 205,014 | 7,723,754 |
| Deposits payable | 6,354,090 | 74,228 | 6,428,318 |
| Due to other governments | 1,824,578 | 4 | 1,824,582 |
| Revenue collected in advance | 7,769,250 | 116,530 | 7,885,780 |
| Long term liabilities: | | | |
| Net pension liability | 74,649,695 | 3,581,059 | 78,230,754 |
| Other due within one year | 14,923,628 | 565,584 | 15,489,212 |
| Other due in more than one year | <u>140,198,087</u> | <u>2,948,733</u> | <u>143,146,820</u> |
| Total liabilities | 264,552,807 | 8,392,312 | 272,945,119 |

Federal Single Audit

- These audits focus on:
 - Entities with federal expenditures over \$750,000
 - Adequate internal controls over compliance requirements
 - Testing compliance requirements

Our website maintains a list of resources at:

- <http://www.sao.wa.gov/resources/Pages/SingleAuditResources.aspx>

Federal Single Audit

How we conduct a federal single
audit . . .

Step 1 – Verify the SEFA and other planning

Step 2 – Conduct risk assessments and select major
program(s)

Step 3 – Contacts program managers to review all
applicable compliance areas of the selected programs

Step 4 – Conclude and report



Federal Single Audit

- What does our testing involve?
 - Determine which compliance requirements are applicable, direct and material
 - Davis Bacon, Program Income, Participant Eligibility, etc.
 - Understand the County's controls over requirements
 - Test effectiveness of controls
 - Test compliance
 - For issues:
 - Follow-up with County management
 - Evaluate if reportable



Federal Single audit

- How to identify your compliance requirements?
 - **Read carefully** your agreement and all amendments:
 - Can impose *more* requirements than standard guidance
 - The Compliance Supplement is **available online**. Contains *most common* programs, not all:
https://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2015
 - Part 3: Describes each basic compliance requirement
 - Which requirements apply:
 - Part 2: Matrix of requirements by program
 - Part 4: Specific, detailed guidance by program.

Part 3: Describes basic requirements

F. EQUIPMENT AND REAL PROPERTY MANAGEMENT

Compliance Requirements

Equipment Management

Title to equipment acquired by a non-Federal entity with Federal awards vests with the non-Federal entity. Equipment means tangible nonexpendable property, including exempt property, charged directly to the award having a useful life of more than one year and an acquisition cost of \$5000 or more per unit. However, consistent with a non-Federal entity's policy, lower limits may be established.

A State shall use, manage, and dispose of equipment acquired under a Federal grant in accordance with State laws and procedures. Subrecipients of States who are local governments or Indian tribes shall use State laws and procedures for equipment acquired under a subgrant from a State.

Local governments and Indian tribes shall follow the A-102 Common Rule for equipment acquired under Federal awards received directly from a Federal awarding agency. Institutions of

Part 3: Contains audit procedures

Suggested Audit Procedures – Compliance

(Procedure 1 only applies to subrecipients of States that are local governments or Indian tribal governments. Procedure 2 only applies to States and to subrecipients of States that are local governments or Indian tribal governments.)

1. Obtain entity's policies and procedures for equipment management and ascertain if they comply with the State's policies and procedures.
2. Select a sample of equipment transactions and test for compliance with the State's policies and procedures for management and disposition of equipment.

(Procedures 3-4 only apply to institutions of higher education, hospitals, and other non-profit organizations, and Federal awards received directly from a Federal awarding agency by a local government or an Indian tribal government.)

3. *Inventory Management of Equipment*
 - a. Inquire if a required physical inventory of equipment acquired under Federal awards was taken within the last 2 years. Test whether any differences between

Part 2: Matrix of Compliance Requirements

| CFDA | <i>Types of Compliance Requirements</i> | | | | | | | | | | |
|--|--|--|------------------------------|-----------------------|--------------------------|---|--|------------------------------------|---|-----------------------------|------|
| | A. <i>Activities Allowed or Unallowed</i> | B. <i>Allowable Costs/Cost Principles</i> | C. <i>Cash Management</i> | D. <i>Reserved</i> | E. <i>Eligibility</i> | F. <i>Equipment and Real Property Management</i> | G. <i>Matching, Level of Effort, Earmarking</i> | H. <i>Period of Performance</i> | I. <i>Procurement and Suspension and Debarment</i> | J. <i>Program Income</i> | Res. |
| 20 – Department of Transportation (DOT) | | | | | | | | | | | |
| 20.106 | Y | Y | Y | | | Y | Y | Y | Y | Y | |
| 20.205 | | | | | | | | | | | |
| 20.219 | Y | Y | Y | | | Y | Y | Y | Y | Y | |
| 23.003 | | | | | | | | | | | |
| 20.223 | Y | Y | Y | | | Y | Y | Y | Y | Y | |
| 20.319 | Y | Y | Y | | | Y | Y | Y | Y | Y | |

- Double-check with Part 4 and award contract
- **Remember:** Agreements/Awards can impose *more* requirements.

Part 4: Program-specific information

DEPARTMENT OF TRANSPORTATION

| | |
|--------------------|--|
| CFDA 20.205 | HIGHWAY PLANNING AND CONSTRUCTION (Federal-Aid Highway Program) |
| CFDA 20.219 | RECREATIONAL TRAILS PROGRAM |
| CFDA 23.003 | APPALACHIAN DEVELOPMENT HIGHWAY SYSTEM |

I. PROGRAM OBJECTIVES

The objectives of the Highway Planning and Construction Cluster are to (1) assist States, tribal governments, and Federal land management agencies in the planning and development of an integrated, interconnected transportation system important to interstate commerce and travel by constructing, rehabilitating, and preserving the National Highway System (NHS), including Interstate highways and most other public roads; (2) provide aid for the repair of Federal-aid highways following disasters; (3) foster safe highway design and improve bridge conditions; (4) to support community-level transportation infrastructure; and (5) to provide for other special purposes. This cluster also provides for the improvement of roads in Puerto Rico, Guam, the Virgin Islands, American Samoa, the Commonwealth of the Northern Mariana Islands, and the Appalachian Development Highway System (ADHS). The objective of the ADHS program is to

Part 4: Program-specific information


III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 12 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

A. Activities Allowed or Unallowed

1. Federal funds can be used only to reimburse costs that are (a) incurred subsequent to the date of authorization to proceed, except for certain property acquisition costs permitted under 23 USC 108 and certain emergency repair work under 23 USC 125; (b) in accordance with the conditions contained in the project agreement and the plans, specifications, and estimates (PS&E); (c) allocable to a specific project; and (d) claimed for reimbursement subsequent to the date of the project agreement (23 CFR sections 1.9, 630.106, and 630.205).
2. Federal funds can be used for administrative settlement costs incurred in defending contract claim proceedings before arbitration boards or State courts only if approved by FHWA for Federal-aid projects. If special counsel is used, it must be recommended by the State Attorney or State Department of

Your Applicable Requirements

1. Activities Allowed or Unallowed
2. Allowable Costs/Cost Principals
3. Cash Management
4. Eligibility
5. Equipment and Real Property Management
6. Matching, Level of Effort & Earmarking
7. Period of Performance
8. Procurement, Suspension and Debarment
- ~~9. Program Income~~ 
10. Reporting
11. Subrecipient Monitoring
12. Special Tests
 1. Davis-Bacon Act

Know Your Requirements

- Ensure you are knowledgeable about federal grant requirements
 - Does the awarding agency publish special guides or literature for the program?
 - Have you or other staff received program memos?

- Management oversight
 - Are program staff familiar with federal guidance, rules, and regulations?
 - Have staff taken appropriate training? Recently? Have they followed up on what they learned?

2 CFR 200 – Uniform Guidance

- Applies to new awards and new funding increments federally awarded *after* December 26, 2014.
- Do not use the pass-through contract date.

ELECTRONIC CODE OF FEDERAL REGULATIONS



View past updates to the e-CFR.
Click here to learn more.

e-CFR data is current as of October 12, 2016

[Title 2](#) → [Subtitle A](#) → [Chapter II](#) → [Part 200](#)

TITLE 2—Grants and Agreements

Subtitle A—OFFICE OF MANAGEMENT AND BUDGET GUIDANCE FOR GRANTS AND AGREEMENTS

CHAPTER II—OFFICE OF MANAGEMENT AND BUDGET GUIDANCE

PART 200—UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS

Subpart A—ACRONYMS AND DEFINITIONS

ACRONYMS

§200.0 Acronyms.

§200.1 Definitions.

2016 Transition of Uniform Guidance

- Federal awards are transitioning to Uniform Guidance
- Program staff should:
 - Know which programs are under old OMB Circulars (A-133, A-87, A-102) vs new Uniform Guidance (2 CFR 200)
 - Ensure compliance with new guidance
 - Be able to provide expenditures by award
- Audits of programs with contracts issued under both old and new guidance may require significantly more audit work.

Significant areas changing with new guidance

- Clarified costs that require prior *written* approval
- Indirect costs and new de minimis use rate
 - May affect Clark County if there has never been a *federally* negotiated rate or cost allocation plan
- Requires written policies and procedures
 - Procurement methods – must address procedures when using federal funds
 - Procurement conflict of interest/standards of conduct
 - Cash management for advances
- Time and effort: no more examples.
 - Follow own established practices that must be adequate §200.430

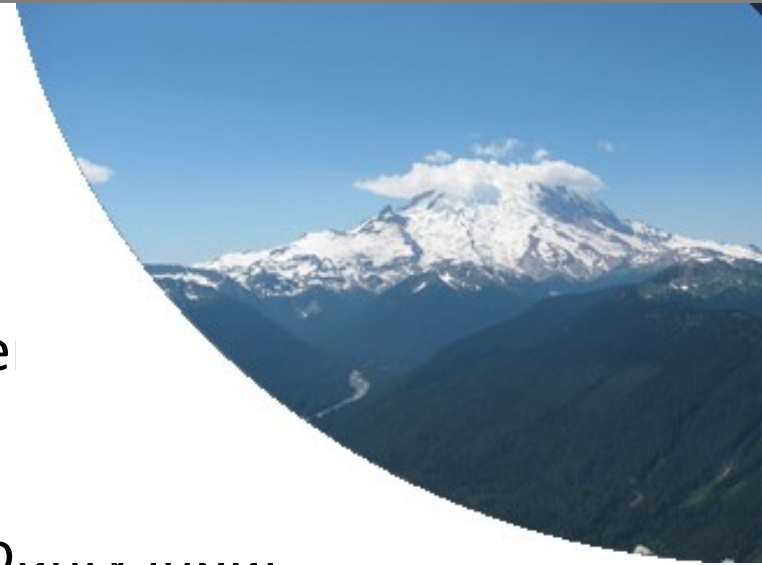
Loss or Illegal activity

- RCW 43.09.186
 - Requires known or suspected loss of funds or assets to be reported to the State Auditor's Office
 - Except the following:
 - Normal and reasonable "over and short" situations from cash receipting operations
 - Reasonable inventory shortages identified during a physical count
 - Breaking and entering or vandalism



Concluding and Reporting – all audits

- Communication of recommendations
- Reporting levels (verbal, exit/written recommendations, management letters, findings)
- We share draft reportable items for County input
- Audit dispute process
- Results are shared with the County Commissioners, July-August each year



Other Items

- Audit costs
- Requests for information/timeliness
- Sampling



Emerging issues, Upcoming trainings, other

- Stay connected with The Audit Connection available on our website, quarterly.
- WFOA-offered Federal Grants Requirements & Management Training
 - ❑ **March 2017 – TBD**
- Resources:
 - ❑ SAO HelpDesk
 - ❑ Local Government Performance Center

Washington State Auditor's Office
The Audit Connection
Government that works for citizens

Leap to it! May 29 is the filing deadline

The 2016 leap year brings a May 29 filing deadline for all local governments that operate on a December 31st year end. Most of the 1,800 governments in Washington are busy filing their annual reports, and a large majority have already submitted successfully. As if the leap year deadline wasn't already unusual, May 29 also falls on the Sunday of Memorial Day weekend.

Unfortunately, the state law which requires local governments to file a report does not mention an allowance for holidays or weekends. File as early as you can, and give yourself the break you need over that long weekend.

If you need any last-minute help, please reach out to us. Contact Duane Walz (Duane.Walz@sa.o.wa.gov) or use our Client HelpDesk from your Online services account.

National award for FIT

The National State Auditors Association (NSAA) selected our Financial Intelligence Tool (FIT) to receive one of four Excellence in Accountability Awards for 2016, in the Special Project category.

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

The Local Government Performance Center at the Washington State Auditor's Office developed FIT to help officials register, assess and monitor their government's financial information in a trend format, with graphics that allow for easy analysis. It is designed to help government officials who need a sound understanding of their organization's finances, but who may not have the experience or confidence to analyze complex statements themselves.

In This Edition
31

Changes in audit billing follow your...
Coming Soon: Emails let you know...
audit reports publish...
New resource to implement GASB...
Kitsap FD No. 1 receives Stew...
Cyber-Security Alert
Stewardship Awards pre...
AAP users
Learn about...

Report Publication

- Audit reports are published on our website and distributed via e-mail in an electronic .pdf file.
- We also offer a subscription service that allows you to be notified by email when audit reports are released or posted to our website.
- You can sign up for this convenient service at: <https://portal.sao.wa.gov/saoportal/Login.aspx>.

Audit survey

- When your report is released you will receive an audit survey from us.
- We value your opinions on our audit services and hope you provide feedback.
- Feedback is welcome at any point during the audit.



Questions?

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