

Minutes for May 9, 2012

Local Government Advisory Committee (LGAC)

Attendees

Members: Alexandra Johnson (SAO), Christy Raske (SAO), Jerry Pettit (WACO), Jim Chase (WFOA), Jim Hendrickson (WMTA), Bret Broderson (OFM), Milene Henley (WACO), Sandy Langdon (WFOA), Dean Walz (WFOA), Victoria Lincoln (AWC), Jeff Monsen (CRAB), John Payne (WFOA), Brad Posenjak (WACO), Kay Stevens (WCAA), Dawna Truman (WSAC), Chuck Pfeil (SAO)

Additional attendees: Jeff Smith (WPPA), Annette Creekpaum (Mason PUD 3), Kathy Streissguth (Clark Fire and Rescue), Tamara Dinius (East County Fire and Rescue), Rick Dyer (Clark PUD), Doug Cochran (SAO), Larisa Benson (SAO)

Decisions of the State Auditor

No decisions required by the State Auditor.

Minutes

The LGAC meeting began at 10:00 am and was held in the Sunset Building, Olympia. The meeting was called to order by Christy Raske.

Approval of Minutes from November 2011

Christy Raske asked if the members had reviewed the minutes and if they are ready for approval. Jerry Pettit moved and Jim Chase seconded the motion to approve the minutes. The minutes were unanimously approved.

BARS Update

With the new BARS update out there have been a few issues that we are addressing.

Alexa reminded the Committee about the SAO commitment to paperless BARS manual. The meeting with the SAO IT group confirmed that the best

format for the manuals would be PDF. The SAO explored the possible features that can be utilized to make the format easy to update and use. One of the main concerns is the size of the files and possible split of the manuals into smaller parts. There were some suggestions from Dean Walz and Bret Brodersen about tools that may make it easier prior to converting to PDF. Bret provided a contact at OFM that may be helpful in our research.

So far, except for two GASB statements (which would not be applicable for 2012 reporting), the only changes to BARS would be related to updating references to new chart of accounts and removal of some unused informational chapters like detailed revenues and expenses for proprietary funds in Part 1 of the GAAP manual.

Although the draft of the new chart of accounts was available for review in summer of 2011, the SAO received very few comments. Since the implementation deadline is approaching, more governments expressed interest in the new chart and voiced their comments. Also, the new online reporting is a good test for some of the problems in the current chart not addressed in the new one. As a result, the new chart will be adjusted to resolve these issues. The biggest change so far will be reinstatement of interfund transactions related to internal service funds. The collection fee account for REET will be moved from taxes to fees. Some accounts, where there is a potential of double counting on a state level, will have an additional reminder in their definitions regarding coding. Also, the removal of the requirement to report grants and similar payments from local governments on the state portion of Schedule 16 is being discussed. Dean Walz proposed changes to the description in account 518.9X to accommodate accounting for central engineering. He stated that the rewording of 518.9X was just a way the issue could be addressed and there may be other options within the 518 expenditures.

The Committee discussed the proposed removal of Schedule 10, *Limitation of Debt*. Alexa pointed out that the local governments are still required to pay attention to their limits and calculate it when considering issuing debt, but they would not be required to report this at the year end to the SAO. For audit purposes the auditors would be able to obtain this information from the SAO data base. The recently upgraded Schedule 09 would provide basis for the internal calculation and would reflag governments approaching the limit. The Committee felt that the Schedule is important and it should be kept in the Manual, most likely in Part 3 (Accounting). Dean Walz indicated the instructions should be reviewed as they are confusing. Christy Raske asked for volunteers to join Dean on a LGAC subcommittee designated to review and revise the Schedule 10 for cities, counties and other

governments. Jerry Pettit, John Payne (or his designee), and Sandy Langdon will join Dean's efforts with possibly adding some staff members from the MRSC.

Performance Improvement Leadership Group

Larisa Benson, Director of Performance Audit, provided a summary of the new Local Government Performance Center. This SAO initiative is in the early stages of developing a resource center for local governments. The goal is to improve cost effectiveness of the services to citizens by using performance management tools and techniques. The program includes a main clearing house (virtual library) and resource center, training including online classes, presentations at conferences, and onsite assessments of specific areas. Larisa provided a handout with information on where the local governments can find some of the upcoming workshops. In the near future there will be a workshop in conjunction with the AWC budget training. There will also be presentation at the WFOA conference this September.

SAO/WFOA Training

Christy mentioned there has been an increased demand in BARS training this year due to the restructure. At this time, the SAO added two BARS classes (for a total of nine) and one fire specific class. The SAO proposed to the WFOA Board one-day special purpose district class that is a combination of training and workshop. Attendees could bring their annual reports for assistance during the workshop portion of the class. This idea was well received by the WFOA Board.

Although the face-to-face trainings are very successful, there has been discussion with the WFOA to offer BARS webinar training starting next year. This would serve some individuals who cannot get away for a day or do not need the full day of BARS training. The SAO is looking at dividing the all day class into four segments: 1) Introduction to BARS, 2) Funds, 3) Revenues, and 4) Expenditures. The SAO is working with the WFOA on regarding the cost and registration for these possible webinars.

The SAO is also planning on adding to its website some informational e-learning segments similar to what is there for instructions to online filing. These instructions are intended to help annual report filers and are considered more informational than training.

Single Audit

Chuck provided a handout on proposed changes by the OMB for single audits and the SAO's response to the OMB. There has been discussion at the federal level that the single audits are not serving the intended purpose. The original proposal included increasing the \$500,000 single audit threshold and moving to a tiered risk assessment approach. The SAO and others responded to the OMB's suggestion of moving to a tiered risk assessment approach. The SAO did not feel that this approach would reduce audit costs since there may be costs for the risk assessment and then cost would increase, if auditors had to go back and perform a single audit. Others agreed and it appears the OMB is moving towards considering just increasing the threshold. Chuck offered to provide a link to all of the responses to the OMB. At this time there is no set timeframe when the changes would be implemented.

Reassessing Risk

The SAO is researching its audit policies in preparation of possible changes in audit frequency. During the 2012 legislative session there were several bills (none of which passed) that would have limited audit frequencies; for example, to one every three years unless there was 1) a federal audit requirement, 2) findings in last three years 3) fraud or irregularities or 4) a more frequent audit requested by an entities governing body.

SAO periodically assesses audit risk, audit frequencies and thresholds and this spring SAO audit management met with every audit manager to analyze audits and look for ideas to make audit adjustments where appropriate.

With a new State Auditor coming, the Office will be prepared for the transition team to provide this information as well as for the next legislative session. Dean Walz proposed leaving the decision to local governments regarding the frequency of their audits if they are less than annually. Victoria Lincoln pointed that larger governments typically want the annual audit, but some medium to smaller would prefer to have them less frequent. The SAO will continue to review this issue and develop a proposal sometime this fall.

Fraud Detection

Chuck discussed the frequent asked question of "why the SAO audits do not always find frauds". The SAO performs three types of audits: 1) accountability, 2) single, and 3) financial. The audits programs are not designed to detect frauds. They are risk-based and focus on specific

objectives such as internal controls and compliance, federal grant controls and compliance and fairness of financial presentation.

The SAO does find some frauds each year but the majority of frauds are found by the governments themselves.

If the SAO audits were designed to find fraud, they would be very expensive. Chuck mentioned that the Association of Certified Fraud Examiners reports that external auditors find only 4.5% frauds. This is not surprising since external auditors are not there day to day watching the operations. This is why it is critical for governments to have internal controls particularly when it comes to cash.

Meeting adjourned at 11:30 a.m.