



Talking with Jan Jutte Acting State Auditor



I have known and worked with many of you in one or more of my many roles during the more than 30 years I have been with the Washington State Auditor's Office, under three different state auditors. I speak to you now in my most challenging and unexpected role – that of acting state auditor.

As you may know, I had originally planned to retire on May 1. When I agreed several months ago to postpone my retirement for 18 months to serve as director of operations for the State Auditor's Office, I could not have imagined what was to come.

While I never expected or wanted to be in this role under these circumstances, I have accepted it because I love this agency, the hundreds of dedicated professionals who work here, and the important work they do every day for you and for all the citizens of Washington.

The State Auditor's Office is established in the state's Constitution as an agency with the independence to perform audits and investigations objectively. We report objectively and directly to the taxpayers regarding government stewardship of public funds and, through our newest authority, on agencies' performance. This vital work continues, and will continue, uninterrupted.

As I told the news media, I take very seriously the responsibilities that have been delegated to me, but it is important to understand that the successful operation of this agency is not the result of one person's efforts. It is the result of hundreds of individuals providing leadership and teamwork throughout the State Auditor's Office.

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GASB 68 Updates for Pension Standards - School Districts

Governmental Accounting Standards Board (GASB) 68 pension standards requirements for reporting balances on financial statements will be as follows:

- Cash and modified accrual school districts will need to report new note disclosures and balances on the schedule of liabilities.
- Generally Accepted Accounting Principles (GAAP) districts will be required to report a net pension liability (or asset), pension expense, and deferred inflows and outflows related to pensions, in addition to reporting new note disclosures, liability balances on the Schedule of Liabilities and Required Supplementary Information.

The Auditor's Office is working with the Office of Superintendent of Public Instruction to develop draft guidance and template note disclosures that will be released in the coming months. Information needed to calculate figures for district reporting are expected to be available by September 2015.

Districts should refer to the GASB 68 Implementation Guide for details.

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What Local Governments Can Learn from the State IT Security Performance Audit

A performance audit published in December 2014 examined the state's information technology (IT) security posture, looking for opportunities to strengthen existing practices and reduce the risk that hackers and others could gain access to sensitive data. While the audit found that Washington's statewide IT security standards align closely with leading practices, it also found that state agencies were not in full compliance with the standards set by the state's Office of the Chief Information Officer, the OCIO. While most of the issues were due to a lack of documentation of processes or good record-keeping, the audit also found problems in data security, such as the inadequate use of data encryption, and in operations management, such as not sending backup data to an offsite location.

The audit found a total of 46 issues at five audited agencies: seven were rated critical and 12 were rated high. Those ratings indicate the impact to the agency could be major or extreme, and the flaw was such that it could be exploited by an attacker with minimal skills.

The tests the auditors conducted to identify security weaknesses in applications and underlying infrastructure were extensive and thorough – and such complex testing by outside experts often comes with a hefty price tag. What can a local government do to protect itself from IT security risks without spending the entire IT budget to do so?

You could start with the material used by the auditors as their criteria for appropriate secure IT management: the OCIO's Policy 141.10: *Securing IT Assets Standards* (available online at <https://ocio.wa.gov/policies/141-securing-information-technology-assets/14110-securing-information-technology-assets>), which contains both detailed and high-level advice. Appendix A offers an IT security checklist, "as a structured and uniform method to help agency business and technical leaders understand the controls needed to comply with IT security standards" based on their own systems, data, users and architecture. An extra document gives tips on best practices for disposing of unwanted computer or data storage drives.

You might also be interested in the performance audit's leading practices Appendix C (online at http://www.sao.wa.gov/state/Documents/PA_State_IT_Security_AppC.pdf), which also addresses national standards.

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We have an excellent Executive Leadership Team and a team of deputy directors and managers across the state, and I will rely heavily on each of them in the days ahead.

And let me take this opportunity to ask for your support and leadership, and your help in maintaining and strengthening our agency's relationship with you, your staff and the people you serve.



Jan M. Jutte
Acting State Auditor

Federal Grant Reform

In the December 26, 2013 Federal Register Notice, OMB issued Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Final Rule. Commonly referred to as the "Super Circular" or "Omni Circular," it is generally known as the "Uniform Guidance" and is codified in Title 2 of the Code of Federal Regulations, Section 200 (2 CFR §200). While the basic structure of the single audit process remains unchanged, information related to grant administration, cost principles and audits has been updated.

The effective date of the Uniform Guidance is December 26, 2014. The changes to Administrative Requirements and Cost Principles will apply to new awards and to additional funding to existing awards made by the federal government after December 26, 2014. Existing Federal awards with no new funding increments will continue to be governed by the original terms and conditions. The Audit Requirements are effective for fiscal years beginning on or after December 26, 2014, and include an increase in the threshold requirement for a single audit to \$750,000.

The Council on Financial Assistance Reform (COFAR) led the grant reform efforts. Please visit the COFAR website at <https://cfo.gov/COFAR/> for further information about the new Uniform Guidance, including training videos, FAQs and crosswalks from old to new guidance.

We strongly encourage state and local government entities to work closely with their federal grantors and pass-through entities to understand the requirements applicable to each of their grants during this transition.

Becoming fiscally fit –The City of Lakewood makes a bold commitment

In August 2014, the State Auditor’s Office released Progress Report: Local Government Financial Health. This report highlighted signs of declining financial condition identified by audits since an initial report in November 2012. During this reporting period, we found 57 local government organizations showed indicators of declining financial condition. In light of this, there is a strong need for effective leadership in financial management. Sound financial management practices are grounded in sensible financial policies.

As noted in our Progress Report, the City of Lakewood showed several indicators of declining financial condition; however, in September 2014, the City Council demonstrated a strong commitment to prudent fiscal management by adopting a set of comprehensive financial policies that provides an essential foundation and framework for the City’s recovery to a more sustainable financial future. Examples include:

Long range forecast – With each budget, the City will update spending and revenue projections for the next six years. Projections will include estimated operating costs for capital improvements that are in the capital budget. Data will come to the City Council in a form that can facilitate budget decisions, based on a multi-year perspective.

Excess cash balances – Cash balances in excess of the amount required to maintain General and Street Operations & Maintenance Fund reserves may be used to fund one-time or non-recurring costs.

Quarterly financial reports – The budget will be produced so that it can be directly compared to the actual results of the fiscal year and presented in a timely quarterly report. All budget amendments, both revenues and expenditures, will be noted in the quarterly financial report.

Enterprise fund balance – The City will maintain a minimum cash balance in its enterprise funds equal to two months operating expenses, to ensure adequate maintenance reserves and cash flow.

Use of one-time/unpredictable revenues – The City will not use one-time revenues such as proceeds from the sale of land or surplus equipment, legal settlements, or revenue windfalls for recurring operating expenditures.



As Lakewood city officials note, there are many benefits to adopting financial policies. Sound policies:

- Help the City Council, City Manager and leadership manage the city’s finances
- Save time and add clarity when discussing financial matters
- Increase public confidence and credibility with investors and bond rating agencies
- Provide continuity as civic leadership changes over time
- Provide a means for dealing with fiscal emergencies

The Local Government Performance Center helps local governments get FIT

The Local Government Performance Center within the State Auditor’s Office is assembling new resources that can help local governments identify and respond to financial problems without waiting for an audit to detect them. Once such resource is the Financial Intelligence Tool, or FIT:

- Provides standard, transparent, understandable and easily accessible financial information
- Guides financial decision-makers of any experience level
- Helps local government officials tell their government’s financial story

FIT has now been released to the majority of governments that record their transactions using the BARS cash basis of accounting. Governments may download their FIT reports through their account on our Client Portal. Learn more at: www.sao.wa.gov/local/Documents/FIT_Announcement_2015.pdf

Training courses in 2015

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) – GAAP Basis

June 18, 2015 – Spokane

August 5, 2015 – Vancouver

You can register for these courses on WFOA's website at: www.wfoa.org/training-header/

Staff changes at our Office

Effective January 16, 2015:

Sheri Sawyer has been promoted to Deputy Director of Local Government Services, responsible for the Local Government Support team, the Local Government Performance Center, and in-house Lean program. She joined the State Auditor's Office as Assistant Director for the Performance Center in February 2013, leading its growth through the Lean Academies and other trainings. Before joining the State Auditor's Office, Sheri spent a year as the Performance Audit Liaison with the Office of the Governor. Sheri also spent over eight years working as a legislative and policy analyst for the Association of Washington Cities

Effective March 15, 2015:

Troy Niemeyer has been promoted to Deputy Director of State Audit. Troy has been with the State Auditor's Office for nine years. He has managed both state and local audit teams, including Team Olympia, Team Cascadia, the Whistleblower program, and the Statewide Technology Audit Team.

Effective April 8, 2015:

Ann Strand has been appointed Audit Manager for Team Cascadia. She has been with the Washington State Auditor's Office for about 16 years. She started on Team Yakima in 1999, working as an intern. She was promoted to an Assistant Audit Manager in 2002.

Over the years, Ann has contributed to ensuring audit quality in many ways including being the High Education Program Manager/Specialist for several years. In addition, Ann has received numerous recognitions for her leadership and commitment to professional development.

File online.. in four minutes

Filing with the State Auditor's Office can be quick — and to demonstrate the ease and accessibility of our online filing system for annual reports, we've posted a video showing how governments can file in under four minutes.

Filing your annual reports online saves your entity time; you only prepare required items, and you can begin the filing process early. The system ensures greater accuracy through unique features such as an option to "test validity of BARS coding," which allows you to save your work as you go—it also includes built-in analytical steps and reconciliations. Watch the video on our YouTube channel, or contact Duane Walz (pictured teaching a course about online filing) with questions.



If you have any questions about either training opportunity, please email Duane.Walz@sao.wa.gov.

Honoring Local Heroes

On February 17, State Auditor's Office Chief of Staff Doug Cochran (left) recognized the finance director of Redmond, Mike Bailey (right), for being an outstanding local government partner.



Our Office is dedicated to helping state and local governments work better, cost less, and deliver higher value to the residents they serve.