



Local Government Advisory Committee

Minutes

April 8, 2009

Members Present

Christy Raske, State Auditor's Office
Alexandra Johnson, State Auditor's Office
Chuck Pfeil, State Auditor's Office
Sheila Gall, Association of Washington Cities
Dean Walz, Washington Finance Officers Association
Jim Chase, Washington Finance Officers Association
Jim Hendrickson, Washington Municipal Treasurers Association
Kay Stevens, Washington Association of County Officials
Michael Garvison, Washington Association of County Officials
Michael Mann, Legislative Evaluation & Accountability Program Committee

Additional attendees:

Duane Walz, State Auditor's Office
Sue Remer, State Auditor's Office
Chris Johnson, Washington Public Ports Association
Kathi Rauch, Washington Counties Insurance Program
Mary Bilderlsock, Washington State Conservation Commission
Annette Creekpau, Mason County PUD No. 3
Kathy Streissguth, Clark County Fire & Rescue
Stuart Elway, Elway Research

Decision of the State Auditor

No decisions required by the State Auditor.

Minutes

The LGAC meeting began at 9:00 am and was held in the Sunset Building, Olympia. The meeting was called to order by Christy Raske.

Approval of Minutes from November 19, 2008

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

BARS Restructure

Christy Raske provided a handout that summarized the subcommittee meeting that was held in Ellensburg February 11 - 12, 2009. The document provides the background of the BARS restructure project and the results of the brainstorming session. The brainstorming sessions asked questions such as:

- Why do we have BARS?
- What do we expect from BARS?
- Who are the users of BARS?
- What improvements would we like to see in BARS?

Dean Walz described the process the subcommittee went through to come up with options and outcomes within the options, including some of the strategies and tasks to achieve these outcomes. He mentioned that the background/implications column was not part of the workgroup but was added by State Auditor's Office staff to provide some additional information.

The next step the subcommittee would like to see is to hire a survey professional to create a survey that would address these outcomes and lead us to definitive results. There was much discussion about the level of detail we need in BARS, and the users of BARS. Are we addressing concerns for a small amount of BARS users instead of the many other BARS users (such as cash reporting entities) or should we consider the small amount of GAAP users that represent the majority of the dollars reported?

There was also a lot of discussion regarding the questions we should ask. A few suggestions include:

- What size revenue do you have?
- How do you report your statements (GAAP or cash?)
- When do you foresee changing your accounting system?
- From the suggested changes, which works best for you?
- Are you already using account codes 700 and 800s?

Since we did not expect to answer these questions, we agreed the State Auditor's Office should first meet with Elway Research to 1) determine the cost of hiring them to help with the survey and 2) to determine what we need to do to get the survey underway.

Changes to the Public Deposit Protection System

Christy Raske provided a handout of the Public Deposit Protection Commission resolution effective July 1, 2009. The resolution will require public depositories to collateralize 100 percent of their uninsured public deposits (previously 10 percent). The PDPC change is a reaction to the Bank of Clark County that closed earlier this year and resulted in public depositories picking up approximately \$15 million in uninsured deposits. The PDPC resolution is intended to better protect public deposits in the future.

The resolution states all deposits in noninterest-bearing accounts are fully covered by the Federal Deposit Insurance Corporation (FDIC). This is true with the exception of five banks that opted out of this program (see handout). The AWC and the State Auditor's Office Small Cities Specialist Toni Nelson have been asked what the small cities' and towns' options are since some banks may only offer noninterest accounts to avoid collateralizing 100 percent. The State Auditor's Office is working with the Association of Washington Cities and the Office of the State Treasurer to provide guidance to local governments on options for investments.

Cash-Basis Entities with GAAP Utilities

In the past, when there were thresholds for GAAP and cash-basis entities, it was possible that an entity qualified to account for its governmental activities on cash basis, but if its utility had an annual operating income over \$5 million, the utility fund had to be reported on GAAP basis. The State Auditor's Office provided an option to prepare a mixed report and issued an OCBOA audit opinion. In current review of the efficiency of the audit process, the State Auditor's Office found out that only seven entities used that option and four of them would be willing to prepare all financial statements on cash basis. This leaves only three entities having two basis of accounting.

The continuation of the mixed reports option would still require maintaining and updating several manuals (Audit Policy Manual, Auditing Standards Manual, BARS, TeamMate, etc.) and additional audit work, the State Auditor's Office proposed to remove this option and would provide the three entities with two separate audits and audit opinions. The Committee agreed with proposed change.

Economic Stimulus Package

The State Auditor's Office is working on providing accounting and reporting requirements related to the American Recovery and Reinvestment Act (ARRA) funds. Since the Federal government did not finalize its reporting requirements, it is difficult to make a decision. The State Auditor's Office considers prescribing 339 as a revenue account code and designating within this code direct and indirect grants. The Committee members felt that even if the State Auditor's Office did not make final decision, some preliminary info should be sent. Alexa Johnson with the State Auditor's Office said there will be some communication within next couple weeks. The State Auditor's Office will use its subscription services to distribute the update.

Electronic Submittal of Annual Reports

Duane Walz with the State Auditor's Office provided a flowchart that describes a new option for submitting annual reports to the State Auditor's Office. Currently he receives annual reports in multiple formats (disks, paper, e-mails, thumb drives). Paper copies often have to be manually 10-keyed. Duane has been encouraging entities them to send the data electronically. The State Auditor's Office is now working with a contractor that is developing an option on the Web site where entities can "send" their annual report via attaching files. They will receive back e-mail confirmation acknowledging receipt of the annual report. There are two schedules Duane identified that can be entered on the Web site (schedule C-2 and schedule 22). These are static schedules and over time, he would like to add more of these types of schedules to be completed on-line. He was asked if the auditors could obtain their schedules from this new system, instead of them having to provide them. Duane will be working with the auditors to encourage this once the system developed which should be mid-May. For this year, this reporting will be optional using the new system.

One area that is an opportunity for improvement is receiving all annual reports in the standard record layout. Although, this is prescribed in BARS, he often receives data not in the correct format which causes unnecessary time on the State Auditor's Office part to convert. At some point, State Auditor's Office will only accept annual reports in the electronic format.

Performance Audit and Miscellaneous Audit Issues

Chuck Pfeil with the State Auditor's Office reminded the Committee that the State Auditor's Office had sent a letter to all standards-setters questioning the level of standards required recently. The State Auditor's Office had a conference call with GASB and they took the position that GAAP should only apply to the largest entities. The GASB does not provide a definition for small or large entities.

The State Auditor's Office budget is with the Legislature and with three versions out there, it's hard to determine at this time what the final budget will look like. There have been proposals to cut the state audit budget by 20 percent, and \$500,000 out of the municipal revolving account. Performance audit has been cut to some degree in all of the budgets. Michael Garvison asked if the State Auditor's Office will reduce staff. Chuck is confident that attrition will take care of this as the turnover in staff in the past has been high, although it has stabilized.

At this time, multiple performance audits are underway. They are currently wrapping up many audits such as fleet management-Department of Fish and Wildlife, King County Rural Library District, and the Community of Trade and Economic Development. They have a plan to start additional performance audits such as City of Yakima, which was requested by the City. Additional information is available on the Office's Web site.

Meeting adjourned at 12 p.m.