

DRAFT Minutes for May 12, 2010

Local Government Advisory Committee (LGAC)

Attendees

Members: Alexandra Johnson (SAO), Christy Raske (SAO), Jerry Pettit (WACO) (via telephone), Jim Chase (WFOA), Jim Hendrickson (WMTA), Teresa Camfield (WFOA), John Payne (WFOA), Mark Neary (WFOA), Milene Henley (WACO), Andrea Brown (OFM), Sherry Swanson (AWC)

Additional attendees: Rick Dyer (PUD Clark County), Annette Creekpaum (Mason County PUD 3), Jan Jutte (SAO), Doug Cochran (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 19, 2009

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

Reinventing Audit

Jan Jutte provided a handout that illustrates the new audit approach being used by the SAO. The SAO has used a new audit model in their performance audits which identifies high risk areas. This approach is now being introduced in the financial and legal compliance audits. The approach incorporates taking a different view of audits. For example, in auditing a contract for the audit period, it will view it as the life of the entire contract

and projects that often spans over multiple years. The new model will be implemented in future audits of state and local audits. Rick Dyer asked if we have a definition of *accountability*. Jan provided some examples where the SAO is attempting to increase communication with local governments on audit issues such as fraud audit alerts and quarterly newsletters.

Budget

Doug Cochran from the SAO described some of the budget issues that have to face this biennium. The SAO basically has three budget sources: 1) state appropriation for state audits, 2) local government billings, and 3) performance audit appropriations. The Legislature this biennium has taken money from all three areas. They swept \$500,000 from the local government revolving fund, reduced state audit funding by 33% and took back \$15 million from performance audit.

To deal with the reduced budgets, the SAO has cut positions at all levels in the office, reduced some positions (including the small city specialist position to half-time), and cut travel and facilities costs. Because of the billing structure, the SAO will not take furlough days due to a plan approved by the Governor. When asked if billing rates will be increased, Doug replied with that the billing rates will be reviewed in June along with the SAO performance measures. Although the total audit cost is the main concern, Doug stated the SAO has not increased the billing rate in five years. The SAO does not know the answer to the billing rate at this time, but they do recognize the financial struggles of the local governments as well.

BARS Redesign Workgroups

Christy Raske provided the minutes from the BARS redesign workgroups. The workgroups were created as a result of survey information from BARS users to not change the existing BARS account code structure but to review existing accounts.

An invitation to participate was sent to all BARS users in February 2010 and from that workgroups for expenditures were created. Workgroups for revenues will follow later this year. The SAO does not expect to make major changes from these workgroups in the next BARS update. It will take time to work through all the individual workgroups and then bring them all back together.

The transportation and general government workgroups met in April and are meeting again in the next few weeks. Attendance has been great except the counties are under-represented and Christy encourages everybody sign up for the workgroups. It is apparent that multiple meetings will be needed since the initial meetings created many questions which need to be further researched. Additional people are being invited as needed, such as individuals from the DOT to discuss the street report. The results of the initial meetings indicate that many accounts are not being used and there may be some that will be eliminated which will free up accounts for future use. Some accounts will require better definitions (e.g., preservation and maintenance) to encourage consistent reporting.

GASB 54 Implementation/Miscellaneous BARS Topics

Alexa discussed some topics related to the BARS. The next update will include a revised section related to petty cash and a new section about original supporting documentation (e-mailed through Subscription Services in February 2010). The RCW index and listing of MCAG numbers will be excluded since they can be easily accessed in the electronic format. She also discussed proposed changes to Schedule 09 (streamlining existing and adding new categories) and potential elimination of Schedule 10. The participants did not feel that this elimination is necessary since the Schedule is very easy to prepare. John Payne was concerned with which assessment of property would be used in calculation.

Another topic was a revision/addition of new GAAP notes disclosures. This included: related party transaction and subsequent events (both revised per GASBS 56), going concern (new per GASBS 56), bankruptcy (new per GASBS 58).

Alexa also discussed implementation of GASBS 54. The Statement will require many new disclosures (fund balance policy, fund balance details [if not available on the face of the statements], encumbrance reporting as significant commitments, stabilization arrangements and minimum fund balance policy). Also, the change in the definitions of some funds will require revision of Part 3, Chapter 1. Currently the SAO is reviewing legal requirements for creating funds and evaluating if these funds meet GASB's definitions. Since GAAP requirements override legal requirements for external reporting, the governments have to be careful how they will present their budgetary information, since the budgeting may reflect legal rather than GAAP fund structure. The *substantial* amount of revenues for special revenue funds will be defined by the SAO as 20% of revenues in the fund. This and other information will be included in an article in the WFOA

newsletter. The participants asked if the SAO can release some guidelines before the budget cycle. If possible, the SAO will try to meet this request.

Performance Audit

Christy provided the State Government Performance Audit Work Plan for March 2010-June 2013. There are four audits that are currently being wrapped up from last year: the PUD's, Port of Seattle, Seattle School District and the Department of Fish and Wildlife. The work plan lists all of the audit areas through 2013, however most of the audits are focused on state agencies. The SAO is working on several local government performance audit themes similar to the impact fees. We may take a subject like contracting and audit a group of local governments

Meeting adjourned at 12:10 pm.