



The Audit Connection

Emerging Issues: Cyber Security

There have been a number of security related incidents in the news concerning public entities in the State of Washington. Local and state governments have reported recent cyber heists, some larger than a million dollars, as well as large, sensitive data breaches. These incidents have impacted governments both large and small.



This is a good time to perform a self-assessment of your cyber security risk. Here are some ideas to get you started:

- Identify your most sensitive data and processes and emphasize these areas in your assessment. Consider banking and other cash handling interfaces, sensitive data, and systems critical to your operations.
- Identify all users and processes with access to your sensitive resources. Consider how you ensure only authorized individuals conduct authorized activity. Some common protections to support this goal include:
 - Current anti-virus software
 - Strongly configured firewalls
 - Limited access to only those users that need access to do their job. Consider high level, administrative users in particular!
 - Strong user authentication practices including comprehensive passwords policies enforced by the system.
 - Software updates implemented on a regular basis (updates frequently include security fixes).
 - Develop (or purchase) software that has emphasized security considerations in the design, development and testing.
- Control vendor access, disable or regularly change vendor passwords.
- Use a single function computer for banking transactions.
- Security testing such as penetration testing, vulnerability scanners.
- Identify where your sensitive data is located and evaluate your level of protection at each location. Don't forget to consider copies of this data located on network folders, in backups, on desktops, laptops or other portable devices. Common protections in addition to those listed above include:
 - Encryption
 - Portable device security
 - Remote wipe (for lost portable devices)

And most importantly, educate your employees regularly and often. Cyber attacks are frequently perpetrated through e-mail attachments or other social engineering approaches that can quickly compromise your system's security. Make sure your employees know what to do and who to call if they identify a problem. Time is of the essence in a cyber attack!

Here are a few resources to get you started:

Consolidated Technology Services (CTS) is Washington's utility technology provider for state agencies, and tribal and local governments <http://www.cts.wa.gov/products/security/Security.aspx>

Office of the Chief Information Officer (OCIO) publishes the State Technology Manual which includes policy, standards and checklists <http://ofm.wa.gov/ocio/policies/manual.asp#security>

In this edition

Cyber Security	1
Potential for Municipal Bond Downgrades	2
The State Auditor's Local Government Performance Center	2
Two Performance Audits	3
Lodging Tax Revenues	4
Whistleblower Assertions	4
Team Changes	4
Office Contacts	5

Potential for Municipal Bond Downgrades

On February 22, 2013, Moody's Investors Service placed the ratings of 40 U.S. Public Finance Local Government obligors under review, affecting approximately \$354 million of outstanding debt. The lack of sufficient, current financial information prompted the review. A total of nine Washington State municipalities were impacted by this review, which comprised the following local government types: city, port, school district, irrigation district, water district, fire district, and parks and recreation district.

When local governments issue bonds there are various covenants made with bondholders and regulations and commitments made to the rating agencies regarding the timely filing of audited financial statements. Most issuers of debt must file their audits within nine months of year-end.

Moody's recent action to either withdraw or downgrade issuers who have failed to file their audits has severe implications for the value of bonds for bondholders. It can also have significant ramifications to municipalities as they seek to obtain cost-effective capital in the markets in the future.

The Washington State Auditor's Office has been working with Moody's representatives to address the immediate need for audited financial statements. We are collaborating at the Washington Finance Officers Conference in September to educate local governments of the importance of timely and accurate financial reporting and audits and their potential impact on bond ratings.

Local Governments that currently have bond obligations should research their audit requirements for meeting bond covenants. If a more frequent financial statement audit is required, they should contact their local audit team to schedule an audit to meet the requirement, you can find your local audit team at www.sao.wa.gov.



The State Auditor's Local Government Performance Center – Making governments work better and cost less

In the March edition of *The Reporter*, State Auditor Troy Kelley mentioned his newest initiative, the Local Government Performance Center, answering local government leaders' call for hands-on tools and resources to assist in reducing costs, solving problems, and improving the value of services. These resources address common local government challenges including providing strategic direction, budgeting during shortfalls, evaluating operations, improving cost-effectiveness of services, and communicating with the public.

Online resources: The Center's website provides more than 150 tools, templates, and resources you can browse, share, download, and even customize for your own jurisdiction. You can find them at www.sao.wa.gov/PerformanceCenter. For example, online tools highlight how to save money on cell phones, create a process improvement team, and optimize staffing levels.

Training: As of March, the Center has provided workshops and courses to almost 1,200 people in communities across Washington.

Topics included:

- Performance measures
- Staffing analysis
- Engaging citizens
- Process improvement and Lean

We will continue to offer similar courses this year. See the Training page on the Center's website for dates and locations.

Assessments: The Center provides performance measure assessments to evaluate how local governments track their performance. Examples include evaluating how the Thurston Counties Sheriff's Office used performance measures to inform its leadership. Another example is helping the City of DuPont build performance measures for all six city departments.

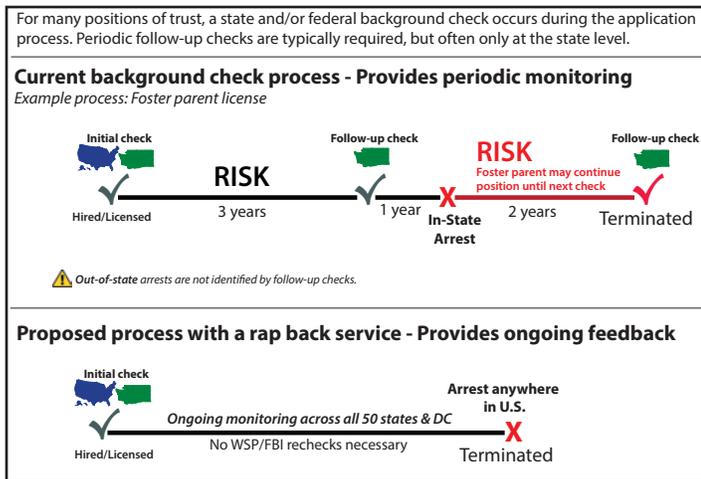
For more information about the Local Government Performance Center, contact Sheri Sawyer at (360) 725-9745 or sheri.sawyer@sao.wa.gov.

Two performance audits examine background checks and the state's financial management system

Two performance audits released in spring 2013 addressed very different aspects of the state's responsibilities: public safety and the efficient management of the state's finances.

Enhancing background checks in Washington

In Washington, people applying to work in positions of trust, such as teachers, foster parents, and police officers, must undergo background checks. In 2012, the Washington State Patrol conducted more than 800,000 criminal justice and applicant screening checks on behalf of government agencies.



Periodic criminal history monitoring is essentially a series of “snapshots in time.” As the graphic shows, this practice may allow people to continue working because the crimes they committed between follow-up checks may remain undisclosed until the next check. A “rap back” service uses stored fingerprint records to track new criminal information for people subject to background checks. After the applicant’s initial fingerprint check and hiring, the rap back service sends an automated notification to the employer if that person is later fingerprinted as a result of an arrest or conviction, allowing prompt action to protect the public.

We found that the criminal histories for more than 700,000 applicants were not checked nationally; further, about half of all background checks in the state are not fingerprint-based, which limits the use of even an in-state rap back service. If the state implemented both a federal and state rap back, an arrest made anywhere nationwide would be automatically reported to participating Washington agencies. The audit recommended that the Legislature consider revising state law to enable state and federal rap back services.

Implementing a modern financial management system in Washington

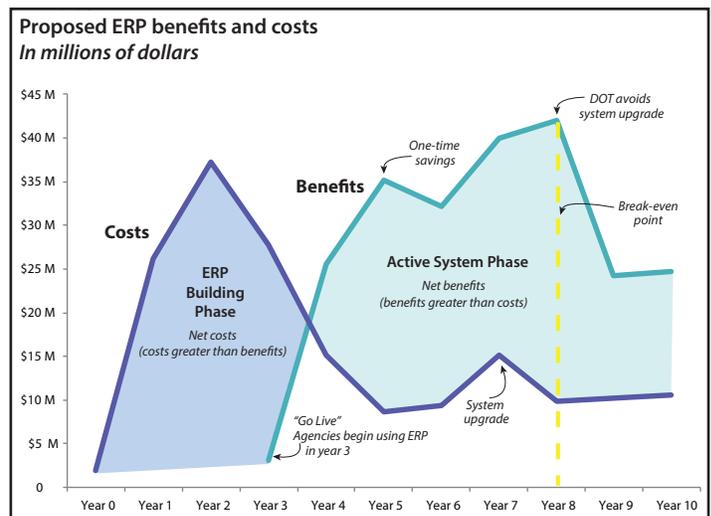
In a time of continuing budget challenges, Washington manages its state finances using inefficient, out-of-date technology that cannot provide timely information to decision-makers. This audit examined how much a new financial management system would cost, what benefits it would provide, and identified leading practices in replacing the old system.

We found that the current system is not meeting agency or state needs because of fragmented, outmoded technology. As a result, state agencies have implemented numerous stand-alone components, which are redundant.

- Financial managers, agencies, and legislative staff do not have access to the real-time financial data they need to make informed decisions.
- Most of the core and agency-managed systems can be replaced by a single Enterprise Resource Planning system.

The current system is not in danger of collapsing, but maintaining it will grow more problematic over time, not least as it becomes more difficult to retain and recruit staff with the skills to operate an outdated system. While developing an integrated financial management system will pay for itself in year 8, the upfront costs are high at \$172 million. Estimated benefits, however, total \$228 million.

The audit recommended that the Office of Financial Management, the Department of Enterprise Services, and the Office of the Chief Information Officer continue working together to modernize the state’s financial management system.



Lodging Tax Revenues

During the 2013 regular legislative session, the Washington State Legislature amended two hotel/motel (lodging) tax statutes, RCW 67.28.1816 and RCW 67.28.080. These amendments became effective on July 1, 2013, and can be found in ESHB 1253 (<http://apps.leg.wa.gov/documents/billdocs/2013-14/Pdf/Bills/Session%20Laws/House/1253-S.SL.pdf>).

The amendments removed sunset provisions and preserved all the current uses of lodging tax fund except for capital expenditures for tourism-related facilities owned by nonprofit organizations.

There are also new application requirements, new procedures for making funding decisions in cities and counties with a population of 5,000 or more, and revised reporting requirements.

Since the SAO regularly evaluates the use of restricted funds expended by entities, which may include Hotel/Motel (lodging) tax revenues, the amendments to the lodging tax statutes will have modest impacts. Specifically, expenditures occurring after July 1, 2013, will be reviewed to determine if they are for capital expenditures for tourism-related facilities owned by nonprofit organizations.

State Auditor's Office sees staff changes at all levels

The State Auditor's Office has experienced some recent staff changes.

The Division of State and Local Audit has promoted former Team Bellingham Audit Manager Sadie Armijo to Deputy Director. Sadie joined the office in 1998 and served as Audit Manager of Team Everett in 2003, transferring to Team Bellingham in 2007. Sadie is also the Program Manager of Risk Pools, and joins current Deputy Directors Kelly Collins and Jan Jutte in the Division. **The new Audit Manager of Team Bellingham is Andy Asbjornsen**, who replaces Sadie. Andy joined the office in 2006 and became an assistant Audit Manager in 2008.

The new Audit Manager on Team Port Orchard is Carol Ehlinger, who replaced current manager Brian Taylor who left the office in May 2013. Carol joined the office in 2002 and has served as Audit Manager of Team Tri Cities and most recently Team Central King County for the past five years. Carol is also the Program Manager over Public Facility Districts, Public Development Authorities, Large Cities and Counties, Ports and Transits.

The new Audit Manager of Team Central King County is Jim Griggs, who replaces Carol. Jim joined the office in 1984 and became an Audit Manager of Team South King County in 2004.

Team Tri Cities has a new Audit Manager, Ginny Waltman. Ginny replaces former Audit Manager Kent Zirker who left the office in December 2012. Ginny joined the State Auditor's Office in 1998 and became assistant Audit Manager in 2000.

The new Audit Manager of Team South King County is Renee Meyer who replaces manager Jim Griggs who is now the Audit Manager of Team Central King County. Renee joined the office in 2002 and became an assistant Audit Manager in May of 2004.

Team Cascadia also has a new Audit Manager, Ivan Dansereau. Ivan takes over the Audit Manager position for Troy Niemeyer, who is now Audit Manager for the Whistleblower Team.

All are already working in their new roles, so audit clients who work with those teams may contact them with questions. You can contact Sadie through email at sadie.armijo@sao.wa.gov, Andy at andrew.asborne@sao.wa.gov, Carol at carol.ehlinger@sao.wa.gov, Jim at james.griggs@sao.wa.gov, Ginny at ginny.waltman@sao.wa.gov, Renee at renee.meyer@sao.wa.gov, and Ivan at ivan.dansereau@sao.wa.gov.

Thomas Shapley joins leadership team

Thomas Shapley joins the State Auditor's leadership team August 1 as Deputy Director of Communications.

Thomas comes to the Office after serving five and a half years as Senior Director of Public Affairs at the Department of Social and Health Services. He also served as Assistant Superintendent for Communications and Community Outreach at the Office of Superintendent of Public Instruction. Before coming to state government, Thomas was a newspaper journalist for more than 30 years, the last 17 as an editorial writer and columnist with the *Seattle Post-Intelligencer*. He worked at newspapers in Oregon, Texas, Colorado, and Arizona. He holds a bachelor's degree in journalism from Central Washington University.

"I am honored to have the opportunity to serve under State Auditor Troy Kelley and to help tell the story of how he and the folks in this agency work to hold government accountable to the taxpayers of Washington," he said.

Thomas and his wife of 44 years, Diana, live just north of Olympia in the Boston Harbor neighborhood. They have three grown children and eight grandchildren.

More ways to get in touch with the State Auditor's Office

Press or legislator question? Who to call? While communications responsibilities are being identified and assigned, direct questions about current audits, reports or legislative matters to Deputy Auditor Matt Miller, matt.miller@sao.wa.gov or 360-902-0364.

Want to receive automatic email notices? Visit the [website](#) and [create an account](#) to receive email notices about audit and investigation reports; local government budget, accounting, and reporting requirements; State Auditor's annual reports, job openings, and news releases.

Contact information for the State Auditor's Office

Headquarters in Olympia	www.sao.wa.gov	360-902-0360
State Auditor Troy Kelley	auditor@sao.wa.gov	360-902-0360
Chief of Staff Doug Cochran	doug.cochran@sao.wa.gov	360-902-0090
Deputy Director of Communications Thomas Shapley	thomas.shapley@sao.wa.gov	360-902-0367
Performance audits		
Director of Performance Audit -- Open		360-725-9720
David Dean, Deputy Director of Performance Audit	david.dean@sao.wa.gov	360-725-9735
State and local audits		
Chuck Pfeil, Director of State and Local Audit	chuck.pfeil@sao.wa.gov	360-902-0366
Sadie Armijo, Deputy Director of State and Local Audit	sadie.armijo@sao.wa.gov	360-676-2165
Kelly Collins, Deputy Director of State and Local Audit	kelly.collins@sao.wa.gov	360-902-0091
Jan Jutte, Deputy Director of State and Local Audit	jan.jutte@sao.wa.gov	360-902-0363
Julie Amos, Energy Audit Manager	julie.amos@sao.wa.gov	360-725-5639
Peg Bodin, Local IS Audit Manager	peggy.bodin@sao.wa.gov	360-676-2165 x110
Rick Bonner, School Programs Manager	rick.bonner@sao.wa.gov	509-662-0463
Pete Donnell, Statewide Technology Audit Manager	peter.donnell@sao.wa.gov	360-725-5428
Troy Niemeyer, Whistleblower Manager	troy.niemeyer@sao.wa.gov	360-725-5352
Sarah Walker, Fraud Manager	sarah.walker@sao.wa.gov	509-454-3621
Steve Wendling, State Team Audit Manager	steven.wendling@sao.wa.gov	360-725-5351
Local audit managers		
<i>Bellingham</i> Andy Asbjornsen	andrew.asbjornsen@sao.wa.gov	360-676-2165
<i>Cascadia</i> Ivan Dansereau	ivan.dansereau@sao.wa.gov	253-372-6250 x109
<i>Central King County</i> Jim Griggs	jim.griggs@sao.wa.gov	206-615-0555
<i>Everett</i> Casey Dwyer	casey.dwyer@sao.wa.gov	425-257-2137
<i>Inland Northwest</i> Debbie Pennick	deborah.pennick@sao.wa.gov	509-334-5825
<i>Olympia</i> Angela Cady	angela.cady@sao.wa.gov	360-533-9241
<i>Port Orchard</i> Carol Ehlinger	carol.ehlinger@sao.wa.gov	360-895-6138
<i>South King County</i> Renee Meyer	renee.meyer@sao.wa.gov	253-372-6250
<i>Tacoma</i> Mark Rapozo	mark.rapozo@sao.wa.gov	253-593-2047
<i>Tri-Cities</i> Ginny Waltman	ginny.waltman@sao.wa.gov	509-734-7104
<i>Vancouver</i> Tina Watkins	tina.watkins@sao.wa.gov	360-260-6408 x106
<i>Wenatchee</i> Juan Esparza	juan.esparza@sao.wa.gov	509-662-0440
Administrative services		
Local Government Support Christy Raske	christy.raske@sao.wa.gov	360-725-5593
Public Records Officer Mary Leider	publicrecords@sao.wa.gov	360-725-5617