



Office of the
Washington
State Auditor
Pat McCarthy

Bridging Communication Gaps: How city councils can affect audits

*AWC annual conference
June 21, 2023*

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Innovation



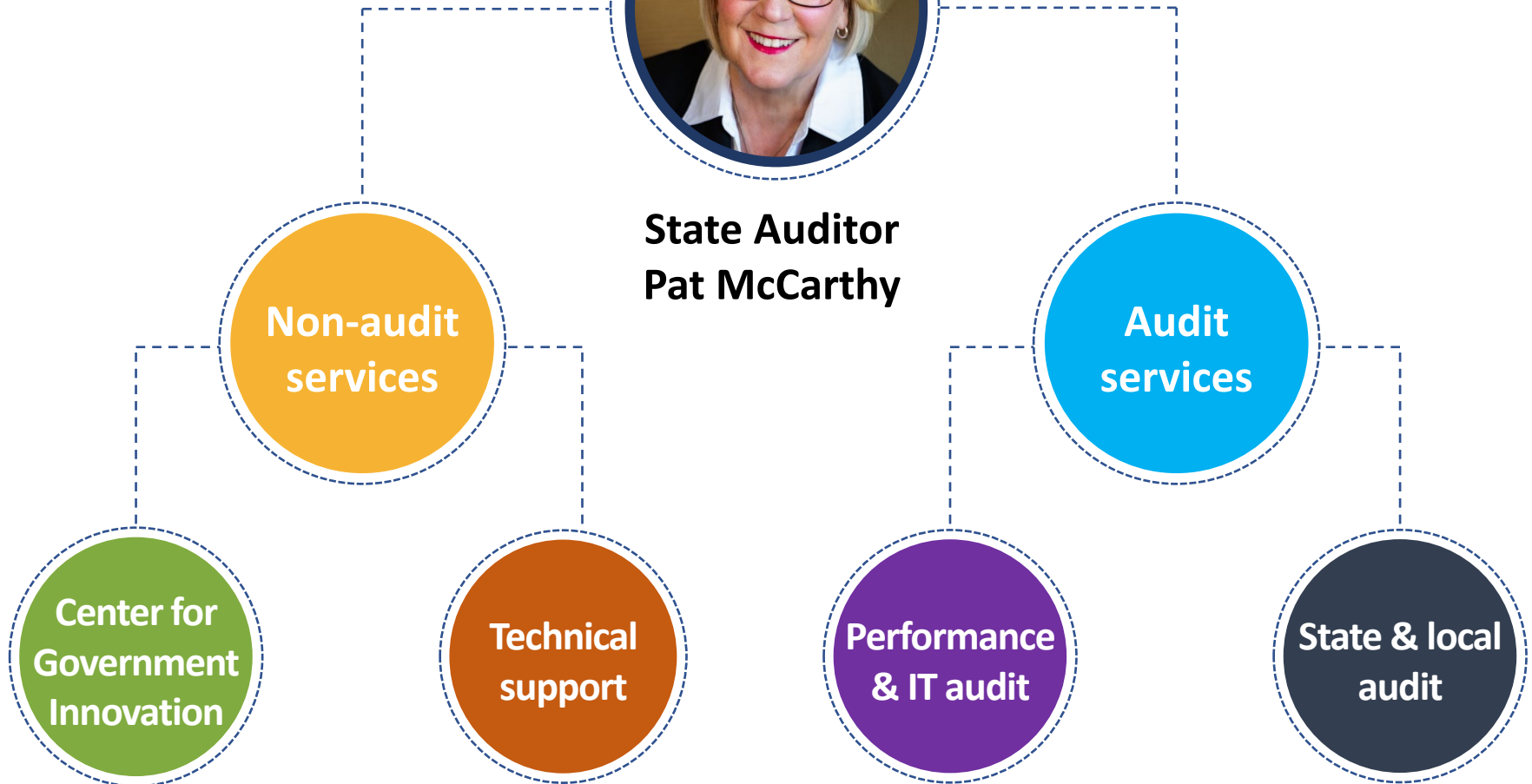
SAO's mission



About SAO



**State Auditor
Pat McCarthy**

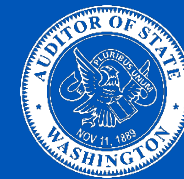


Session overview



- Type of audits we perform
- Overview of the audit process
- Council's role in the audit process
- Reporting levels for audit issues
- Council's role in addressing common recommendations
- Helpful resources from the Center for Government Innovation

Types of audits



2,566 audits July 1, 2021 - June 30, 2022

1,124
audits

79 findings

Accountability audits

Accountability audits determine whether public funds are accounted for and controls are in place to protect public resources from loss, misappropriation and abuse.

756
audits

72 findings

Financial audits

Financial audits determine whether the financial statements present an accurate picture of a government's finances.

473
audits

117 findings

Federal audits

Federal audits determine whether federal money is being used properly according to federal regulations.

11
investigations

Fraud investigations

A fraud investigation results in a written report if we find significant misuse or theft of public money. We identified \$811,688 in misappropriated public funds and \$176,724 in questionable transactions.

Audit process





Council's role in the audit process

Council responsibilities that auditors rely on:

Control environment & activities

- Organizational oversight
- Adopt policies, procedures, and internal controls
- Attend open public meetings
- Establish the budget

Risk assessment

- Identify and evaluate internal and external risks
- Determine how risks should be addressed and controlled

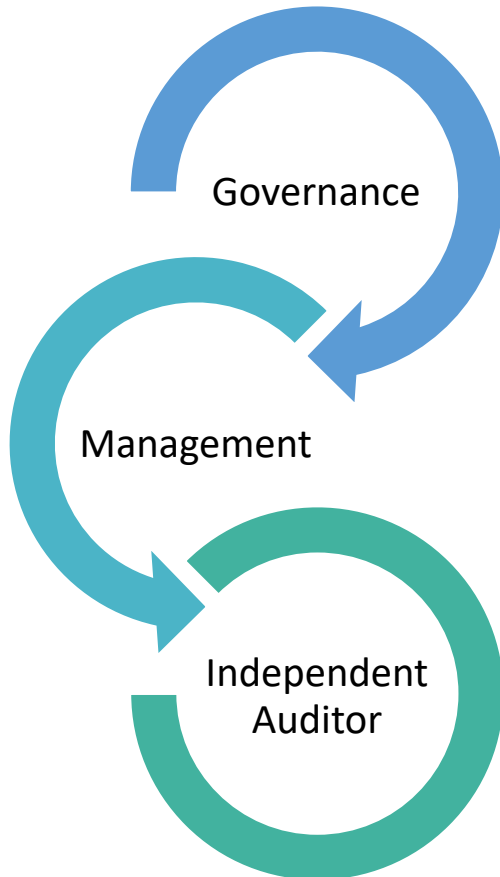
Monitoring

- Review and approve voucher and payroll claims
- Approve contracts on behalf of the government
- Review financial activity in relation to the budget

Mayor/council's role in the audit process



Working with the independent auditor:



- Discuss risk assessment with auditors
- Participate in key meetings
- Support audit liaison
- Follow up on audit recommendations
- Mayor sign the management representation letter (in mayor-council form of government)
- Become familiar with information and resources available

Reporting levels for audit findings



Findings

Significant results that will be published in audit report

Management letter

Important results that will appear in management letter

Exit items

Insignificant issues communicated to management

How city councils can help address audit recommendations



- Attend exit conferences
- Fully understand recommendations and ask questions
- Revisit associated policies or consider creating new policies
- Consider whether employees need additional training or resources
- Follow up with management about the status of corrective action after the exit conference



What auditors look for with open public meetings



Regular meetings:

- Minutes are adequately recorded and retained
- Quorum of governing body attends each meeting
- Official decisions and voting records recorded in the minutes
- Approval of prior minutes, monthly claims and payroll expenses

Special meetings:

- Advertising appropriately within 24 hours
- Business is only for the advertised purposes



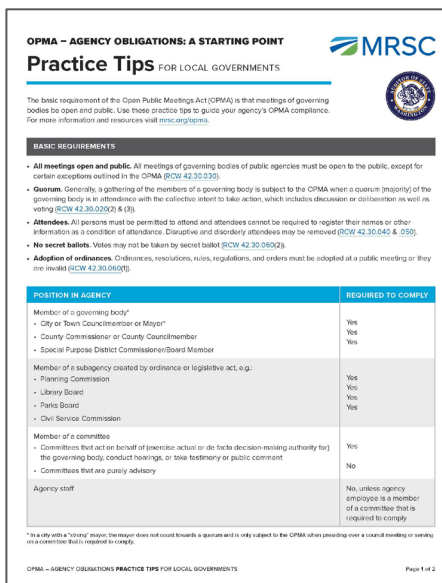
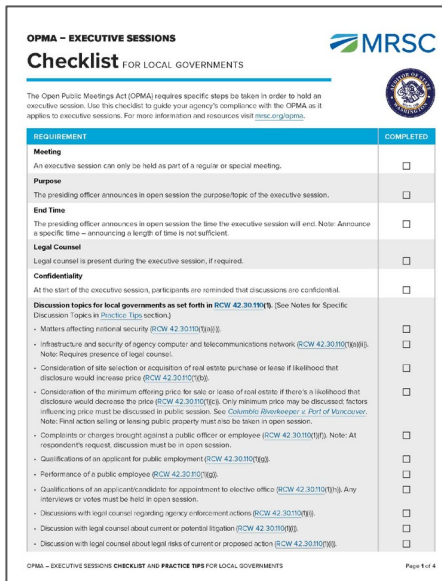
What auditors look for with open public meetings



Executive sessions:

- Purpose for excluding the public is clearly documented and allowed by RCW
- Expected duration of the executive session announced and documented in the regular minutes
- Actual time the governing body entered into executive session and the time they returned to regular session
- Governing body cannot return into regular session until the expected duration has ended





Top audit issues for cities



Most common:

1. Accounting and financial reporting
2. Federal grants
3. Procurement, bids, prevailing wage
4. Accounts payable disbursements

Less common: Restricted funds, cash receipting, payroll/personnel, safeguarding of assets/property, financial condition



Common audit issue: Financial reporting




How city councils can help:

- Provide resources so that employees receive necessary training to do their jobs
- Establish effective policies and procedures over the financial statement preparation process
- Review financial statement errors identified in the prior audit recommendations
- Verify with management that an independent person reviews the financial statements before submitting the annual report



Resources:

Financial reporting



Center for Government Innovation

Internal Control Checklist for Cash Basis Preparers


Date of Review: _____

Completed by: _____

Key recommendations: _____

Instructions: Use this checklist to help prepare and review financial statements prepared in accordance with the Budgeting, Accounting and Reporting System (BARS) Cash Basis Manual. Complete this optional checklist before filing your annual report with our Office.

Category	Question	Yes	No	N/A	Comments
Journal entries	1 Are all journal entries completed, supported and reviewed by someone other than the preparer?				
General ledger reconciliation	2 Are the subsidiary ledgers reconciled to the general ledger (the ledger on which the financial statements are based) regularly? <small>Note: Subsidiary ledger information generates source information included in the general ledger, such as a utility billing system; reconciliations can identify discrepancies or posting errors that might reflect inaccurate information.</small>				
	3 Have the general ledger cash and investment balances been reconciled each month with third-party documents (such as bank statements or county treasurer reports)? (BARS 3.1.8.5)				
	4 Have the general ledger revenues been reconciled to total cash receipts, as shown by banking or county treasurer records? <small>Note: Maintaining a list of reconciling amounts between cash receipts and revenues will help in performing a proof of cash, providing amounts for Schedule 06 and detecting irregularities.</small>				
	5 Have the general ledger expenditures been reconciled to total cash payments, as shown by banking or County Treasurer records? <small>Note: Maintaining a list of reconciling amounts between cash payments and expenditures will help in performing a proof of cash, providing amounts for Schedule 06 and detecting irregularities.</small>				
	6 Does the general ledger reflect all of the local government's activity? <small>Note: For example, if the court has a separate bank account, then the cash and related activity should be included in the general ledger and the financial statements.</small>				
	7 Does someone other than the preparer of the reconciliations monitor to ensure they have been completed accurately and in a timely manner?				
BARS changes	8 Have staff reviewed the "Overview of changes" in the BARS Manual as well as any BARS Alerts sent out during the year? <small>Note: A best practice is to review for changes early in case they require time to implement.</small>				
	9 Have appropriate staff attended a recent BARS training? <small>Note: Some options are an in-depth BARS Cash training at WFOA.org (under non-conference education) or our Office's annual BARS Cash Update found at https://sao.wa.gov/bars-annual-filing-training-and-workshops "clearings".</small>				



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Checklist for Preparing Financial Statements following Generally Accepted Accounting Principles (GAAP)

Date of Review: _____

Completed by: _____

Key recommendations: _____

Instructions: Use this checklist, or portions thereof, while preparing your financial statements. Customize the checklist to meet your needs or use it as a starting point to help you develop your own checklist.

Question	Yes	No	N/A	Comments
In preparation for year-end close				
1 Has management conducted a risk assessment over financial reporting to identify potential problem areas that might require additional planning to address? <small>Note: see the cell comment for a link to SAO's Resource Library, scroll down to find this resource: Financial Reporting Risk Assessment tool.</small>				
2 Has management recently reviewed accounting policies and evaluated whether any policy updates are needed? <small>Note: See cell comment for a related SAO-sponsored resource.</small>				
3 Have the appropriate staff involved in the preparation of financial statements reviewed the BARS Manual's "Overview of Significant Changes" to ensure changes have been implemented? <small>Note: See cell comment to sign up for BARS change alerts.</small>				
4 Are implementation plans in place for accounting or reporting changes? <small>Note: See the cell comment for a link to SAO's Resource Library, scroll down to find this resource: Best Practices for Implementing Accounting Standards</small>				
5 Have a task timeline, milestones, and final reporting deadline been established for the financial reporting process?				
6 Has management evaluated the resources available for financial reporting and determine if additional resources are needed to meet preferred timeframes or deadlines?				
7 Have financial staff taken sufficient training to maintain or build their knowledge base in technical financial accounting and reporting? Is additional training needed?				
8 Is the local government using any accounting practices that do not conform to GAAP? If so, have they been recently evaluated to assess materiality and whether				

Updated January 2023

Common audit issue: Federal grants



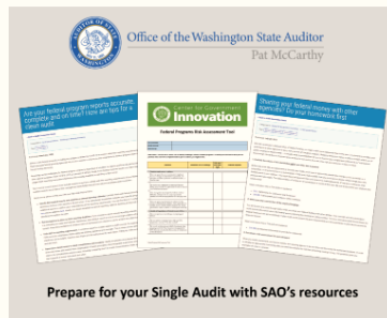
How city councils can help:

- Provide resources so that employees administering federal grant programs receive adequate training
- Stay informed of federal grant and loan funding the city has received
- Understand what the grant or loan funds are allowed to be used for
- When money is passed to a subrecipient, sure city staff is monitoring the subrecipient's use of the funds



Resources:

Federal grants blog posts



Are you ready for a federal Single Audit? SAO offers resources to help you avoid common audit issues

AUGUST 2, 2022

Navigating federal requirements and establishing controls in your government to ensure compliance can be challenging—even for governments that routinely receive significant amounts of federal dollars. That's why over the past year we've updated some of our resources and published several articles on federal program requirements. With more local governments potentially needing Single Audits over the next few years, SAO's blog articles and resources can help you address potential internal control weaknesses early to avoid audit issues. ... [CONTINUE READING →](#)



Avoid the most common federal Single Audit finding with these 10 tips

MAY 26, 2022

Several pieces of legislation are infusing significant amounts of federal funds into state and local governments. When using federal funds, local governments must follow very specific procurement requirements. SAO identifies particularly risky areas to pay attention to when you procure goods and services with federal funds. ... [CONTINUE READING →](#)



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Common audit finding: Procurement



How city councils can help:

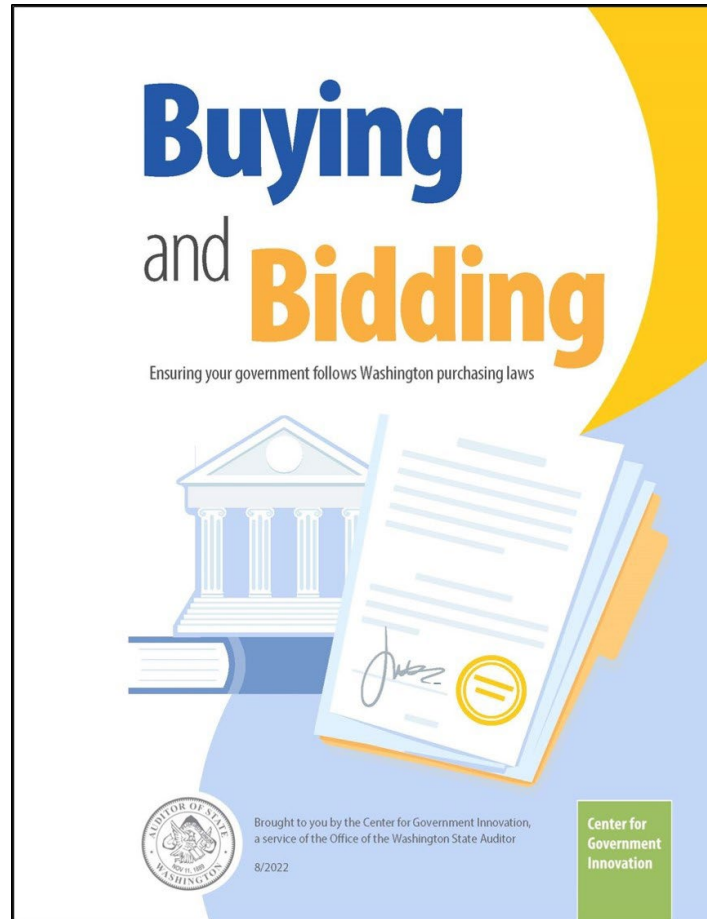
- Know the city's bidding requirements
- Make sure the city's policies are updated
- Discuss upcoming purchases/contracts and methods of procuring these goods and services
- Before approving contracts, verify the city followed appropriate bidding requirements
- When declaring sole source exemptions, make sure that the exemption meets the state law requirement



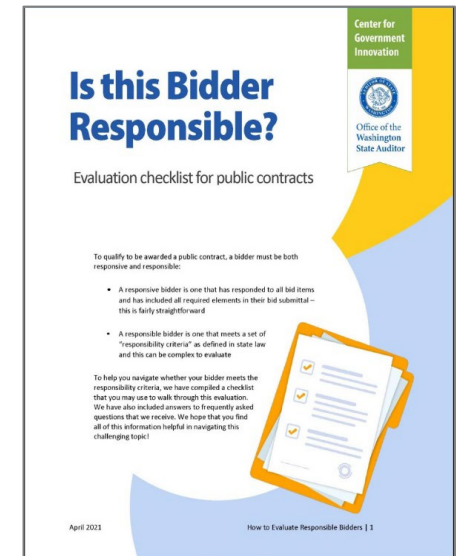
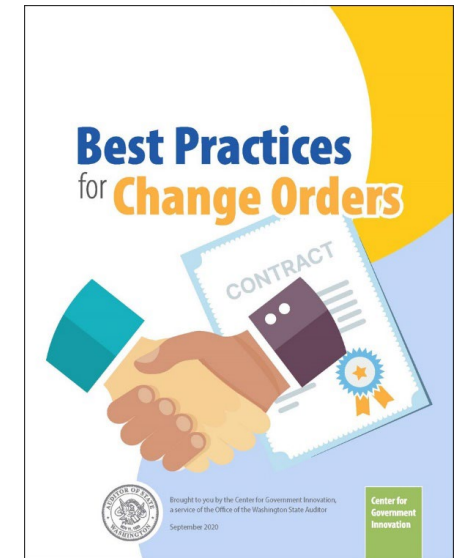
Resources: Procurement



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Updated August 2022



Resources: Procurement

Updated guidance:
Interlocal Agreement Act
does not apply to contracts
offered by the Washington
Department of Enterprise
Services.

Piggybacking under Washington State Law



Brought to you by the Center for Government Innovation,
a service of the Office of the Washington State Auditor
April 2023



Updated April 2023



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Common audit findings: Disbursements, payroll and electronic funds transfer (EFT)



How city councils can help:

- Closely review payroll and claims transactions monthly at the regular council meetings
- Review budget to actual reports monthly
- Approve payroll contracts and contracts for goods and services while keeping in mind conflict of interest laws and available budget



Common audit findings: Disbursements, payroll and electronic funds transfer (EFT)

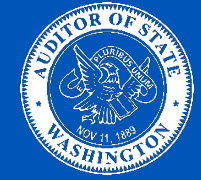


How city councils can help (continued):

- Ensure city policies require:
 - Staff to retain itemized invoices/receipts for all purchases and EFTs
 - Segregation of duties between:
 - Those with access to perform EFTs and
 - Those that review bank reconciliations



Fraud-prevention resource for elected officials and appointed board members

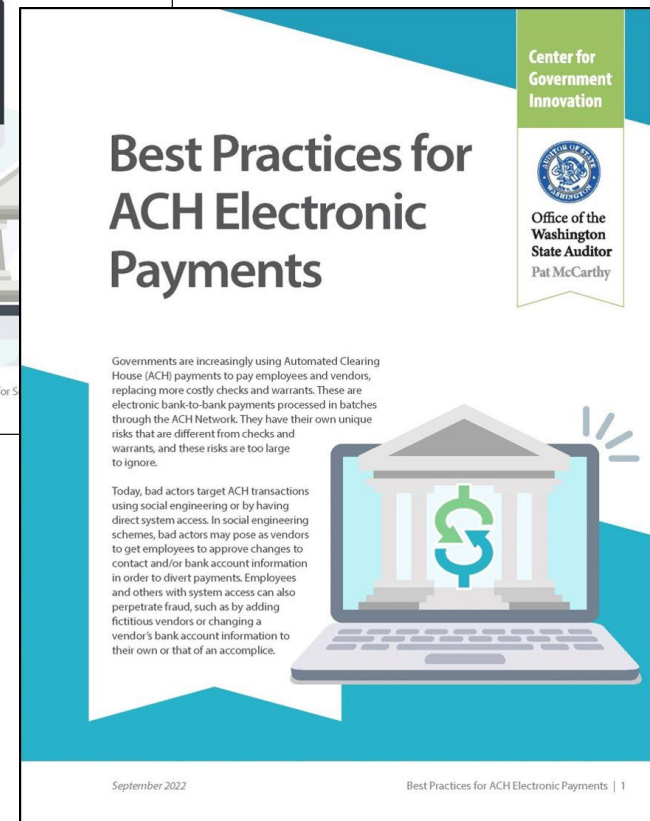
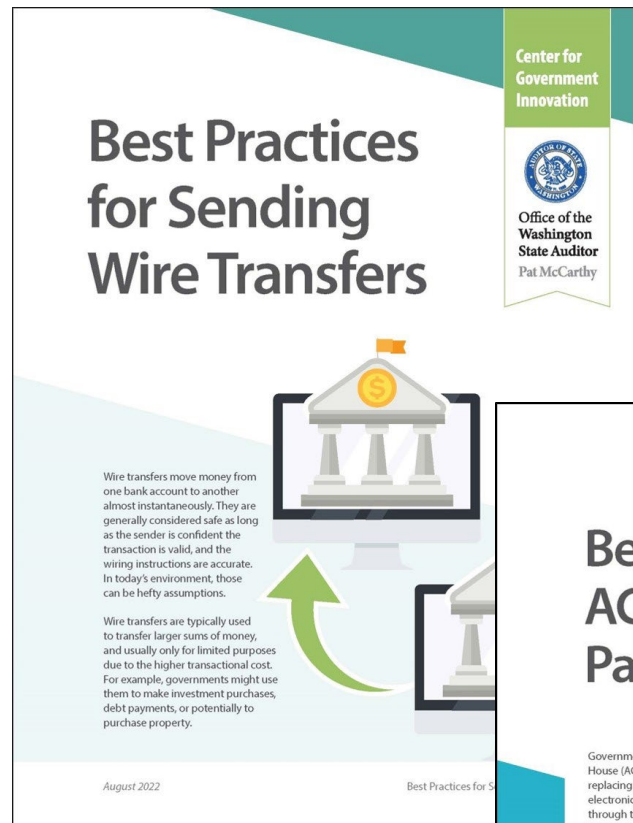


The guide is organized into three sections:

- **Preventing fraud:** Includes tips to consider when establishing a fraud policy and assessing your risk
- **Detecting fraud:** Offers tips for improving your fraud-detection abilities, including a list of three review strategies
- **Responding to fraud:** Provides guidance on developing a fraud response plan, communicating to the media and public, and reporting known and suspected losses to SAO



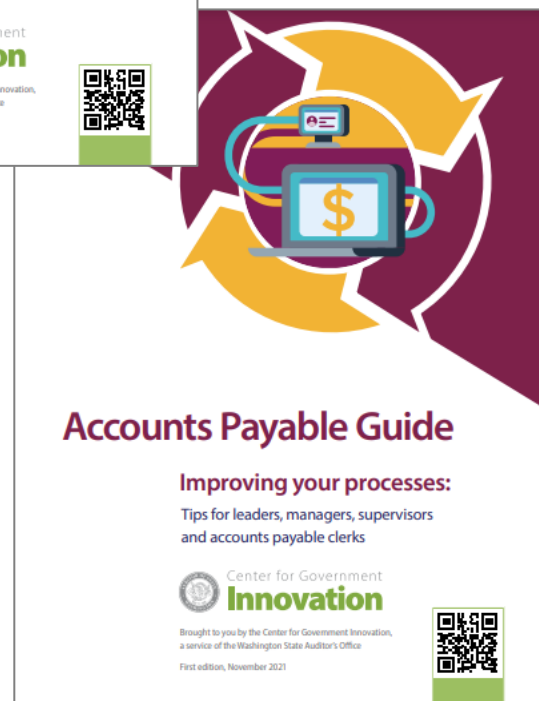
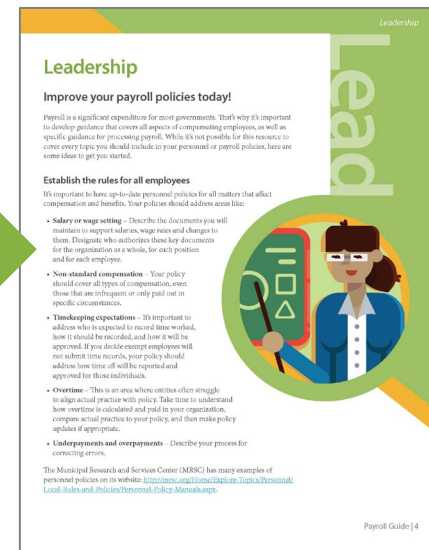
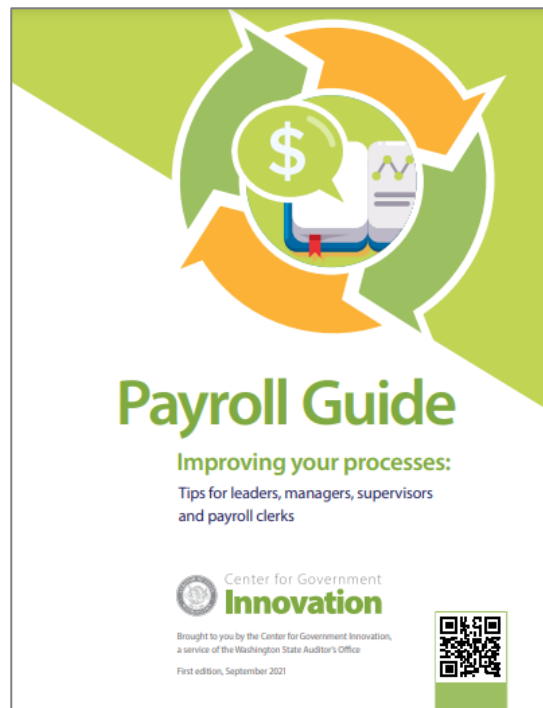
New Resources: Electronic payments



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Resources:

Accounts payable & payroll



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Know your city's financial health



- Evaluate the city's financial health regularly
- Understand the city's financial resources (i.e., revenues) and anticipated upcoming expenses or projects when preparing the budget
- Actively participate in financial discussions at monthly board meetings
- Perform a detailed review of monthly claims and verify that expenses will not exceed approved budget



Resources:

Financial Intelligence Tool



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Looking for tips to help manage your government's day-to-day business?



Accounts payable & receivable

Cash receipting

Payroll

Assets

Cybersecurity

Federal funds



Fraud prevention

Procurement

Public records & open meetings

GAAP & Cash financial reporting

Revenues & expenditures

Technology

SAO's online Resource Library





Two ways to sign up:

1. Via SAO's website at sao.wa.gov, then click on the Audit Connection blog at the top of the page. Fill in your information in the ribbon on the left.
2. Or scan this QR code with your phone and fill in your information.



Subscribe to SAO's e-newsletter

Smart governments know cyber health is key. Talk to the Center for Government Innovation about a free checkup!

#BeCyberSmart

- Phone: 564-999-0818
- Email: center@sao.wa.gov
- Website: sao.wa.gov



Why get a checkup?

The Center's new checkups will help your government:

- Understand security safeguards and why they're important
- Begin building a cybersecurity program or strengthen an existing one
- Rank the urgency of identified security gaps and prioritize improvements
- Connect to free and low-cost resources



sao.wa.gov/becybersmart

Questions



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