





Common audit issues and ways to prevent them

Ann Strand
Assistant Director of Local Audit

Niles Kostick
Center for Government Innovation Manager

*AWC Budget Workshop
August 1, 2024*





Office of the
Washington
State Auditor


Today's agenda

- 01** Common audit issues
- 02** Required risks to assess
- 03** Emerging issues
- 04** Helpful resources


Area of Issue	ML	Finding
Financial Statement Preparation	18	28
Suspension and debarment - federal single audits		13
Procurement – federal single audits	5	6
Procurement – accountability audits (state and local regulations)	16	2
Safeguarding of assets/property	9	2
Billings/receivables	5	2
Accounts payable/disbursements	4	2



Audit issue by category



Office of the Washington State Auditor
Common Audit Findings & Resources to Help
3

3



Financial statement preparation

- Perform an independent review of financial statements
- Know your reporting requirements
 - New GASBs
 - Updated BARS requirements
- Verify amounts in the statements agree to supporting documentation
- Reconcile bank statements to general ledger


Office of the Washington State Auditor
Common Audit Findings & Resources to Help
4

4

Center resource

Center for Government Innovation



Office of the Washington State Auditor

Center for Government Innovation

Checklist for Preparing and Reviewing Cash Basis Financial Statements

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.

Question	Yes	No	N/A	Comments
General ledger reconciliations				
Does your government have a process in place to ensure that all journal entries are completed, supported and reviewed by someone other than the preparer?				
Did someone verify that the general ledger reflects all of your government's cash and related activity? For example, if the court has a separate fund account, then the cash and related activity should be included in the general ledger and the financial statements.				
Did someone reconcile each month's general ledger ending cash and investment balances to third-party documents, such as bank statements or county treasurer reports? (BARS 3.9.3.3)				
Did someone reconcile each month's general ledger revenues to total cash receipts as per third-party documents, such as bank statements or county treasurer reports?				
Did someone reconcile each month's general ledger expenditures to total cash payments as per third-party documents, such as bank statements or county treasurer reports?				
Did someone reconcile each month any subsidiary ledgers to the general ledger? (Note: a subsidiary ledger, such as a utility billing and accounting module, provides transactional data for the general ledger; reconciliations can identify discrepancies or posting errors.)				
Did someone other than the preparer verify the reconciliations were completed, accurate and balanced as due?				
BARS changes				
Did someone review the "Changes of Changes" section in the BARS Manual and any BARS Manual not out during the year?				
Have appropriate staff attended a recent BARS training? (Note: SAO offers an on-site BARS Cash training at \$700 per reader non-continuing educational and an annual update of changes found at https://cas.wa.gov/bars-annual-ongoing-training-and-workshop-activities)				

Updated January 2024

New section for lease accounting. Five questions to help you double-check several aspects of your implementation.

5

Center resource

Center for Government Innovation



Office of the Washington State Auditor

Expenditures	\$91,090,940	\$100,091,531	\$108,848,989	\$115,668,800
General Government	\$28,453,143	\$31,062,785	\$39,215,601	\$37,502,533
Legislative Activities	\$889,430	\$1,278,151	\$1,087,328	
Judicial Activities	\$5,300,119	\$5,273,237	\$5,801,743	
Courts	\$1,115,834	\$1,183,049	\$1,560,539	
Superior Court	\$1,115,834	\$1,183,049	\$1,560,539	
County Clerk	\$1,389,505	\$1,401,658	\$1,485,072	
District Court	\$2,814,780	\$2,688,530	\$2,756,132	
Financial, Recording, and Election Activities	\$4,089,879	\$4,347,307	\$4,425,483	\$37,502,533
Legal Services	\$6,221,029	\$6,406,712	\$6,563,977	
Legal Services - Internal	\$2,934,522	\$3,082,650	\$3,042,555	
Internal Legal Services - Advice	\$135,131	\$63,095	\$372,810	
Internal Legal Services - Claims and Litigation	\$2,799,391	\$3,019,555	\$2,669,745	
Legal Services - External	\$78,835	\$23,096	\$50,325	
External Legal Services - Advice	\$78,835	\$23,096	\$50,325	
Crime Victim and Witness Program	\$84,966	\$88,759	\$94,336	
Indigent Defense	\$3,122,706	\$3,212,207	\$3,376,761	
General Indigent Defense	\$1,659,172	\$1,703,985	\$1,799,649	
Adult Felony	\$786,513	\$797,840	\$952,019	
Adult Misdemeanor	\$546,980	\$577,386	\$581,065	
Juvenile Offender	\$130,041	\$132,996	\$44,028	
Employee Benefit Programs	\$1,490	\$157	\$1,984	
Centralized/General Services	\$11,951,196	\$14,656,221	\$21,335,086	

Bonus tip:

Look at your data holistically and historically. It may be hard to spot errors unless you zoom out.

6

Policy must:

- ✓ Include federal procurement procedures
- ✓ Require employees to use the most restrictive of state, local and federal thresholds
- ✓ Have written standards of conduct covering conflicts of interest



Federal procurement



7



Federal procurement audit issues

- No policy or procedures in place
- Policies/procedures don't address federal, state and local requirements or thresholds
- Standards of Conduct Policy is missing



8



Accountability procurement audit issues

- Lack of documentation to show the entity:
 - Procured goods or services properly
 - Solicited qualifications for architect and engineering services and selected most qualified firm
- Piggybacking – not verifying that the lead entity complied with its own procurement requirements



9

Procurement resources



10

Required for:

- ✓ All new contracts (purchases) more than \$25,000
- ✓ All new subrecipient contracts (no threshold)



Verification can be a clause in contract; review EPLS or written certification from contractor



Federal suspension & debarment



11

Center blog articles

www.sao.wa.gov

Center for Government
Innovation

Are your federal program reports accurate?

Are you applying for new federal awards? Know the strings attached.

Sharing your federal money with other agencies?
Learn what you can do today.

Federal single audit issues involving wage rate requirements are on the rise.

SHARING YOUR FEDERAL MONEY WITH OTHER AGENCIES? DO YOUR HOMEWORK FIRST



Office of the
Washington
State Auditor

12

Center resource

Center for Government Innovation



Office of the Washington State Auditor

Center for Government Innovation

Federal Programs Risk Assessment Tool

Date performed: _____
 for the period of: _____
 performed by: _____

Instructions: Use this tool to assess risk or identify challenges related to federal programs. Establish your risk level so that you can prioritize risks and form an implementation plan to address your highest risks.

Question	Identified risk or challenge	Risk level (low, med, high)	Planned response
1. Changing requirements or priorities			
Have your agency been new requirements to implement because of changes to administrative requirements, cost principles and other requirements of Uniform Guidance, 2 CFR Part 200?			
Do you have new requirements to implement because a federal agency changed the requirements for one (or more) of your federal grant programs? <i>Note: Each grantor may interpret the Uniform Guidance differently and impose its own unique requirements. Guidance for COVID-19 programs has been changing often.</i>			
Have your agency regularly updated its policies to reflect changes in federal program guidance, where applicable? For example, policies related to federal programs may include procurement, conflict of interest, or subcontractor monitoring.			
Schedule of Expenditures of Federal Awards (SEFA)			
Have you experienced any challenges in preparing past SEFAs?			
Has your auditor reported any issues with your SEFA, preparation or accuracy? Were they resolved?			
Do you rely on information provided by departments when preparing your SEFA? Have the parties who prepared the SEFA, have any concerns about the accuracy or completeness of the information?			

Updated April 2022

Will help you identify, prioritize and mitigate your risk to your federal grants



Safeguarding of assets/property issues

- ✓ Not having an asset policy
- ✓ Not tracking and monitoring assets purchased or performing an annual inventory



Office of the Washington State Auditor

Common Audit Findings & Resources to Help

- ✓ Customers were not charged the correct amount
- ✓ Adjustments were not reviewed or supported
- ✓ Late fees weren't charged as outlined by policy



Billing and receivable issues



15



Accounts payable issues

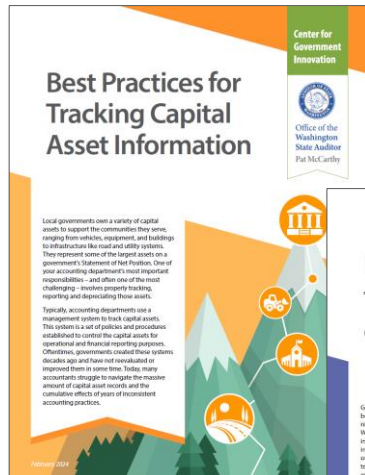
- ✓ Payments were not supported by invoices or itemized receipts
- ✓ Cities were not able to determine whether purchases were for valid business purposes



16

Center resources

Center for Government
Innovation



17

- Electronic Fund Transfer (EFT) controls



Required risks to assess



Office of the Washington State Auditor

Common Audit Findings & Resources to Help

18

18

EFT Controls

- There is an increase in payroll & vendor EFT cyber-related fraud
- External bad actors are using social engineering to convince your staff to:
 - Change bank information for an employee or vendor
 - Purchase gift cards
 - Make electronic payments



**Required risks
to assess**



- WA's governments are required to report losses to SAO
- More than 150 loss reports submitted since 2016
- From smallest governments to largest state agencies
- Losses total more than \$30 million



Remember to report these losses to SAO, even if you were able to recover funds.

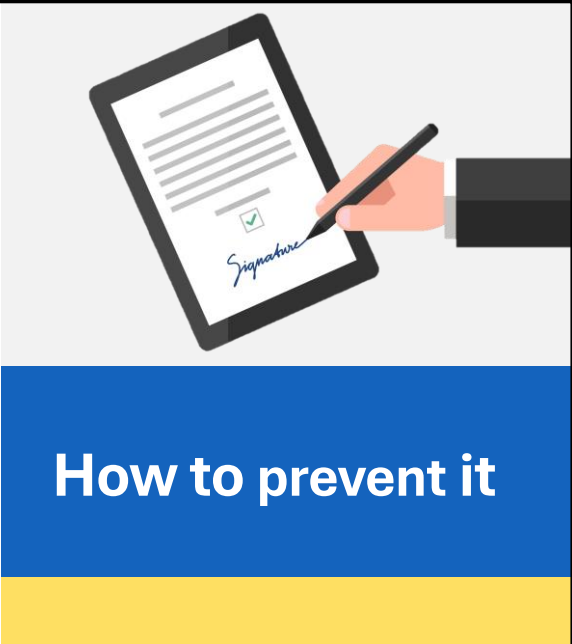


EFT controls



Put it in writing and be reasonably suspicious

- Establish a standardized process to initiate, approve and execute ACH transactions
- Segregation duties
- Require reporting of suspicious activity immediately
- Validate internally transferred emails
- Use reliable contact information



How to prevent it



Center resources

Center for Government Innovation

Best Practices for Sending Wire Transfers

Center for Government Innovation
Office of the Washington State Auditor
Pat McCarty

Wire transfers move money from one bank account to another almost instantaneously. They are generally considered safe as long as the sender's confidence that the transaction is valid and the wiring instructions are accurate. In today's environment, there can be hefty assumptions.

Wire transfers are typically used to transfer larger sums of money, and usually only for limited purposes due to the higher transactional cost. For example, governments might use them to make investment purchases, debt payments, or payments to purchase property.

Best Practices for ACH Electronic Payments

Center for Government Innovation
Office of the Washington State Auditor
Pat McCarty

Governments are increasingly using Automated Clearing House (ACH) payments to pay employees and vendors, replacing more costly checks and warrants. There are electronic links to bank payments processed in batches through the ACH network. They have their own unique risks that are different from checks and warrants, and these risks are too large to ignore.

Texas, bail actors target ACH transactions using social engineering or by having direct system access. In social engineering schemes, bail actors may pose as vendors to get employees to approve changes to contact and/or bank account information in order to direct payments. Employees and other with system access can also perpetrate fraud, such as by adding fictitious vendors or changing a vendor's bank account information to their own or that of an accomplice.



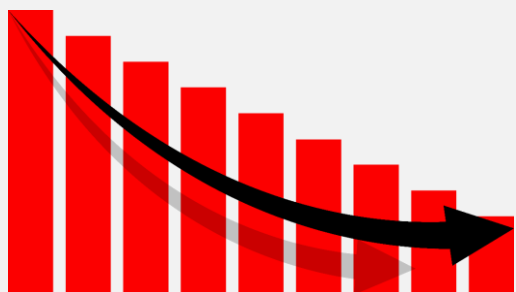
Emerging issues



- ▶ Declining financial condition
- ▶ Audit timeliness
- ▶ Fraud statistics



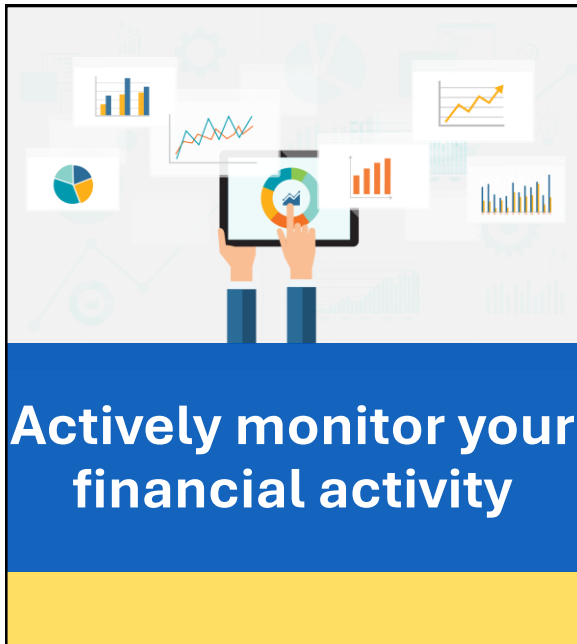
Declining financial condition



Start with approving a balanced budget

- Anticipate and budget for expenses
- Forecast anticipated revenues and perform utility rate studies to assess needs
- Ensure that revenues and available resources are adequate to pay for appropriations
- If the financial condition is declining, evaluate solutions and develop a plan to address it





Actively monitor your financial activity

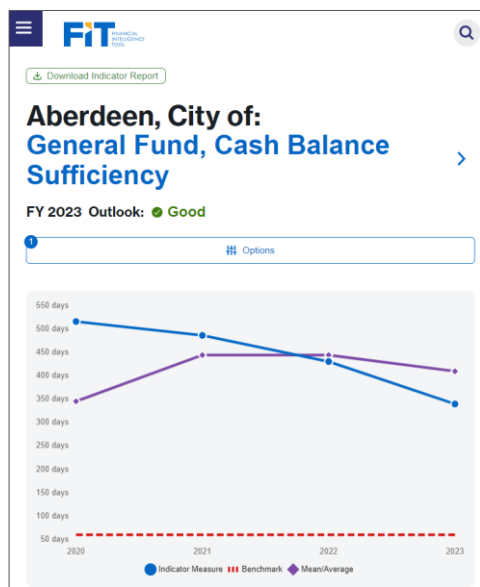
- Compare actual revenues to anticipated revenues regularly
- When approving expenses, verify the applicable fund:
 - Hasn't exceeded its budgeted appropriations
 - Has the available resources to pay for the expenses



25

Center resources

Center for Government Innovation



Options

Years: 2020 - 2023

Data Options

Indicator Measure

Indicator Net

Benchmark

Cash Cities/Towns (281):

Mean/Average

Median

Trimmean

26

Audit timeliness takes a team effort

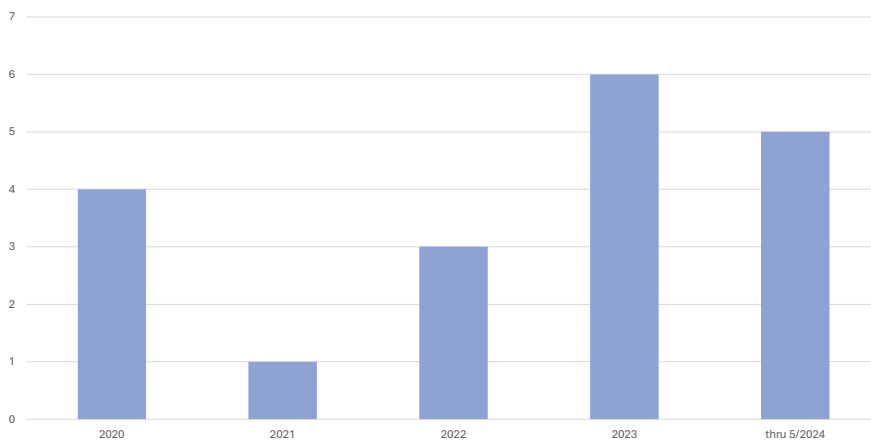
- SAO's priority is to work with you on timely and cost-effective audits
- Be sure to identify and communicate your audit needs
 - Bond deadlines
 - Annual Comprehensive Financial Reporting (ACFR)
- We will work collaboratively with you to plan and effectively meet the audit timeline needs
- Good communication makes it all happen



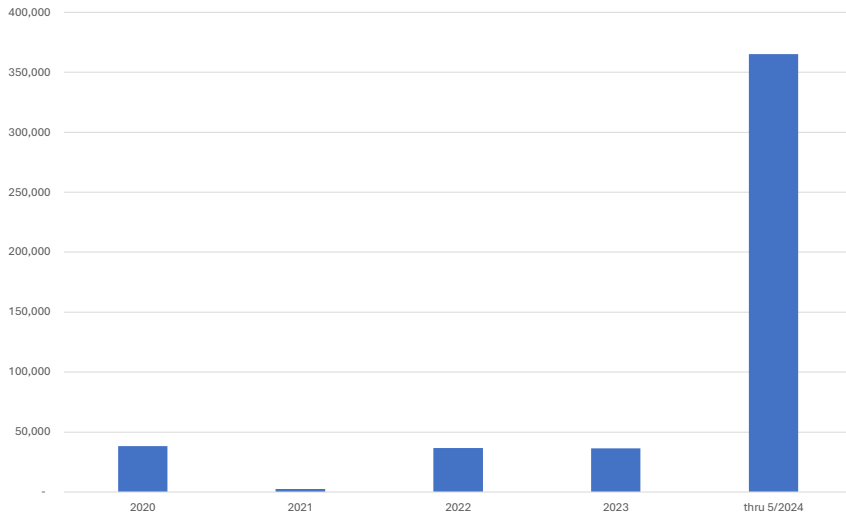
AUDIT



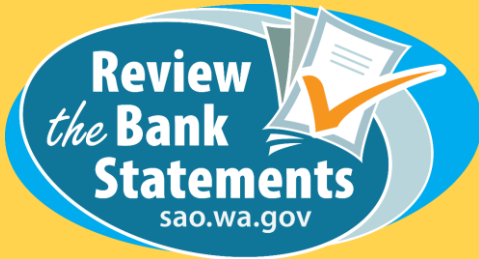
City/town fraud reports issued by year



City/town misappropriation (excluding cyber)



29



Why?

Bank account activity is the core source of a government's money flow

- Many schemes reveal themselves in the statements, either obviously or subtly.
- Bank statements provides helpful perspective into a government's activities.



30



Scan QR to download it from our [Resource Library!](#)

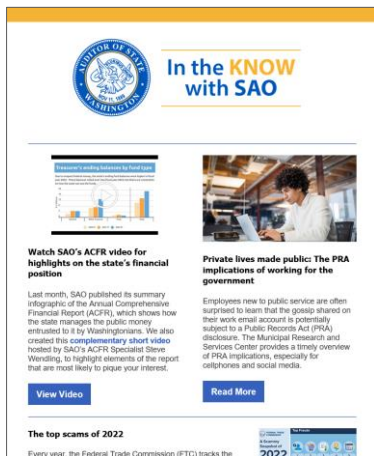
Trust, but verify

Fraud-prevention resource for elected officials and appointed board members



31

Subscribe to SAO's e-newsletter



Two ways to sign up:

1. Via SAO's website at sao.wa.gov
2. Use the QR code below:



32

Newest resources you should know



Best practices for travel and reimbursable expenses

Center for Government Innovation
Office of the Washington State Auditor
Pat McCarthy

January 2024

Best practices for credit card programs

Center for Government Innovation
Office of the Washington State Auditor
Pat McCarthy

April 2024

Best practices for tracking small and attractive assets

Center for Government Innovation
Office of the Washington State Auditor
Pat McCarthy

April 2024



Office of the Washington State Auditor

Common Audit Findings & Resources to Help

Coming soon



Coming soon!

- Small entity best practices
- Bid law guide update
- Take home vehicles and small and attractive assets updates
- Single audit guide
- IT policies guide
- Segregation of duties guide update

Center for Government Innovation

Coming soon

Center for Government Innovation

Categories	2020	2021	2022	2023
Taxes	\$14,441,444	\$16,555,553	\$17,576,659	\$17,914,381
Property Tax	\$3,902,506	\$3,117,750	\$3,125,793	\$3,194,076
Retail Sales and Use Taxes	\$5,969,303	\$7,067,490	\$7,567,276	\$8,212,441
Business and Occupation Taxes	\$5,524,619	\$5,576,296	\$6,456,488	\$6,255,368
Excise Taxes in Lieu of Property Tax	\$44,467	\$50,632	\$54,699	\$67,014
Other Taxes	\$200,549	\$342,975	\$372,603	\$185,782
Licenses and Permits	\$52,042	\$637,069	\$911,459	\$932,597
Intergovernmental Revenues	\$5,633,691	\$7,380,424	\$8,942,981	\$7,219,895
Charges for Goods and Services	\$13,885,683	\$15,461,504	\$17,547,213	\$4,798,089
Fines and Penalties	\$227,544	\$241,603	\$204,984	\$220,604
Miscellaneous Revenues	\$502,267	\$386,561	\$739,248	\$2,552,913
Grand Total	\$34,511,681	\$40,262,314	\$45,922,634	\$43,630,479



Drilldowns return to FIT

Get 11 years of data down to the account level in FIT coming this fall, just in time for budgeting and year-end work.

About the Center

Center for Government Innovation

The Audit Connection Blog Coronavirus Public Records Client Login

Office of the Washington State Auditor
Pat McCarthy

Search SAO

Reports & Data Performance Audits About Audits Improving Government BARS & Annual Filing Report a Concern About SAO

SAO HOME / IMPROVING GOVERNMENT / The Center for Government Innovation

The Center for Government Innovation

Helping local governments help the people they serve

We have resources to help local governments throughout Washington work better. We offer tools and services to help you solve problems and improve operations. Our team is available by phone, online or in person to offer assistance at no additional cost.

Contact Us:
564-999-0818
center@saow.wa.gov

Lean Services

We help you improve how work gets done. Whether it's purchasing, payroll, or any other area, Lean services can help your government optimize efficiency, quality and customer service.

[Find out more >](#)

Teambuilding Workshops

We offer engaging and interactive CliffordStrengths workshops to help strengthen your team, increase trust and productivity, and promote workplace harmony and employee satisfaction.

[Find out more >](#)

#BeCyberSmart

Local governments are attractive targets for cyber criminals. That's why we created the #BeCyberSmart program, which includes free check-ups, resources and training to help governments improve their overall cyber health.

[Find out more >](#)

Financial Intelligence Tool

Developed by the State Auditor's Office (SAO), the interactive Financial Intelligence Tool (FIT) gives you the data you need to help your government make better business decisions and improve its financial health.

[Financial Intelligence Tool >](#)

Resource Library

We provide a variety of free guides, checklists, and best practices to help governments improve internal controls, grants management, procurement practices, financial reporting, operations, technology and more.

[Find out more >](#)

Technical Advice

Connect with the Center's experts in Washington government operations to get answers to your questions about internal controls, procurement, financial reporting, cybersecurity and more.

[Find out more >](#)





Contact information

Ann Strand

Assistant Director of Local Audit

Ann.Strand@sao.wa.gov

(509) 454-7849

Niles Kostick

Center for Government Innovation Manager

Center@sao.wa.gov

(564) 999-0818

