

City of Redmond



Agenda

Special Meeting Notice and Agenda

Tuesday, July 27, 2021

4:00 PM

**City Hall: 15670 NE 85th Street; Remote: Facebook (@CityofRedmond),
Redmond.gov/rctvlive, Comcast Ch. 21, Ziplly Ch. 34, or 510-335-7371**

City Council

Mayor

Angela Birney

Councilmembers

Tanika Kumar Padhye, President

Jeralee Anderson, Vice-President

David Carson

Steve Fields

Jessica Forsythe

Varisha Khan

Vanessa Kritzer

Redmond City Council Agendas, Meeting Notices, and Minutes are available on the City's Web

Site: <http://www.redmond.gov/CouncilMeetings>

FOR ASSISTANCE AT COUNCIL MEETINGS FOR THE HEARING OR VISUALLY IMPAIRED:

Please contact the City Clerk's office at (425) 556-2194 one week in advance of the meeting.

Redmond City Council Special Meeting

I. Audit Entrance Conference

[Attachment A: Entrance Conference Agenda](#)

[Attachment B: GASB Update June 2021](#)

[Attachment C: Audit Connection April 2021](#)

[Attachment D: 2020 Annual Report](#)



Memorandum

Date: 7/27/2021
Meeting of: City Council Special Meeting

File No. SPC 21-070
Type: Verbal Report

TO: Members of the City Council
FROM: Mayor Angela Birney
DEPARTMENT DIRECTOR CONTACT(S):

Finance	Chip Corder	425-556-2189
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DEPARTMENT STAFF:

Finance	Kelley Cochran	Deputy Finance Director
Finance	Julie Elsom	Financial Services Manager

TITLE:
Audit Entrance Conference

OVERVIEW STATEMENT:
At the conference the auditors will discuss the audit scope, timing and cost.

☐ **Additional Background Information/Description of Proposal Attached**

REQUESTED ACTION:

☒ **Receive Information** ☐ **Provide Direction** ☐ **Approve**

REQUEST RATIONALE:

- **Relevant Plans/Policies:**
N/A
- **Required:**
N/A
- **Council Request:**
N/A
- **Other Key Facts:**
N/A

OUTCOMES:
N/A

COMMUNITY/STAKEHOLDER OUTREACH AND INVOLVEMENT:

- **Timeline (previous or planned):**
N/A
- **Outreach Methods and Results:**
N/A
- **Feedback Summary:**
N/A

BUDGET IMPACT:

Total Cost:
N/A

Approved in current biennial budget: ☐ Yes ☐ No ☒ N/A

Budget Offer Number:
N/A

Budget Priority:
N/A

Other budget impacts or additional costs: ☐ Yes ☒ No ☐ N/A
If yes, explain:
N/A

Funding source(s):
N/A

Budget/Funding Constraints:
N/A

☐ Additional budget details attached

COUNCIL REVIEW:

Previous Contact(s)

Date	Meeting	Requested Action
10/27/2020	Committee of the Whole - Finance, Administration, and Communications	Receive Information

Proposed Upcoming Contact(s)

Date	Meeting	Requested Action
N/A	None proposed at this time	N/A

Time Constraints:

N/A

ANTICIPATED RESULT IF NOT APPROVED:

N/A

ATTACHMENTS:

Attachment A: Entrance Conference Agenda

Attachment B: GASB Update June 2021

Attachment C: Audit Connection April 2021

Attachment D: 2020 Annual Report



Office of the Washington State Auditor

Pat McCarthy

Entrance Conference: City of Redmond

The Office of the Washington State Auditor's vision is increased trust in government. Our mission is to provide citizens with independent and transparent examinations of how state and local governments use public funds, and develop strategies that make government more efficient and effective.

The purpose of this meeting is to share our planned audit scope so that we are focused on the areas of highest risk. We value and appreciate your input.

Audit Scope

Based on our planning, we will perform the following audits:

Accountability audit for January 1, 2020 through December 31, 2020

We will examine the management, use and safeguarding of public resources to ensure there is protection from misuse and misappropriation. In addition, we will evaluate whether there is reasonable assurance for adherence to applicable state laws, regulations and policies and procedures.

We plan to evaluate the following areas:

- General disbursement system – review processes for general invoices, employee reimbursement, credit cards transactions
- Payroll – review of overtime, merit, sick leave and physical bonuses
- Use of restricted funds – review use of lodging taxes and building and land use permits
- State grants – review of state grant expenditures
- Procurement – review for compliance with competitive bidding requirements for public works projects

Financial statement audit for January 1, 2020 through December 31, 2020

We will provide an opinion on whether your financial statements are presented fairly, in all material respects, in accordance with the applicable reporting framework. The audit does not attempt to confirm the accuracy of every amount, but does search for errors large enough to affect the conclusions and decisions of a financial statement user.

Comprehensive Annual Financial Report letter for the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting Program. We perform additional review procedures and provide our financial statement opinion in letter form for inclusion in your submission for this award program.

Federal grant compliance audit for January 1, 2020 through December 31, 2020

This audit is required by federal law when a local government spends \$750,000 or more annually in federal financial assistance. We will provide an opinion on compliance with federal requirements that could have a direct and material effect on your major federal programs.

We plan to test the following federal program:

- Coronavirus Relief Fund – CFDA No. 21.019

This report must be submitted, along with the Data Collection Form, to the federal clearinghouse within 30 days after receipt of the report or nine months after the end of the audit period, whichever is earlier.

Engagement Letter

We have provided an engagement letter that confirms both management and auditor responsibilities, and other engagement terms and limitations. Additionally the letter identifies the cost of the audit, estimated timeline for completion and expected communications.

Levels of Reporting

Findings

Findings formally address issues in an audit report. Findings report significant results of the audit, such as significant deficiencies and material weaknesses in internal controls; misappropriation; and material abuse or non-compliance with laws, regulations or policies. You will be given the opportunity to respond to a finding and this response will be published in the audit report.

Management Letters

Management letters communicate control deficiencies, non-compliance, misappropriation, or abuse that are less significant than a finding, but still important enough to be formally communicated to the governing body. Management letters are referenced, but not included, in the audit report.

Exit Items

Exit items address control deficiencies, non-compliance with laws or regulations, or errors that have an insignificant effect on the audit objectives. These issues are informally communicated to management.

Important Information

Confidential Information

Our Office is committed to protecting your confidential or sensitive information. Please notify us when you give us any documents, records, files, or data containing information that is covered by confidentiality or privacy laws.

Audit Costs

The cost of the audit is estimated to be approximately \$118,500, and other expenses, if any.

Expected Communications

During the course of the audit, we will communicate with Ms. Julie Elsom, Accounting Manager, on the audit status, any significant changes in our planned audit scope or schedule and preliminary results or recommendations as they are developed.

Please let us know if, during the audit, any events or concerns come to your attention of which we should be aware. We will expect Ms. Elsom to keep us informed of any such matters.

Audit Dispute Process

Please contact the Audit Manager or Assistant Director to discuss any unresolved disagreements or concerns you have during the performance of our audit. At the conclusion of the audit, we will summarize the results at the exit conference. We will also discuss any significant difficulties or disagreements encountered during the audit and their resolution.

Loss Reporting

State agencies and local governments are required to immediately notify our Office in the event of a known or suspected loss of public resources or other illegal activity. These notifications can be made on our website at www.sao.wa.gov/report-a-concern/how-to-report-a-concern/fraud-program/.

Peer Reviews of the Washington State Auditor’s Office

To ensure that our audits satisfy *Government Auditing Standards*, our Office receives external peer reviews every three years by the National State Auditors Association (NSAA). The most recent peer review results are available online at www.sao.wa.gov/about-sao/who-audits-the-auditor/. Our Office received a “pass” rating, which is the highest level of assurance that an external review team can give on a system of audit quality control.

Emerging Issues

Some of the emerging issues affecting local governments are the following:

- June 2021 GASB Update Handout – see attached
- 2020 Annual Report – see attached
- April 2021 Audit Connection – see attached

Working Together to Improve Government

Audit Survey

When your report is released, you will receive an audit survey from us. We value your opinions on our audit services and hope you provide us feedback.

Local Government Support Team

This team provides support services to local governments through the Budget, Accounting, and Reporting System (BARS) and annual online filing technical assistance, provides accounting, reporting and BARS training. Our website and client portal offers many resources, including a client Help Desk that answers auditing and accounting questions, updated BARS manuals, access to resources and recorded trainings, and additional accounting and reporting resources. Additionally this team assists with the online filing of your financial statements.

The Center for Government Innovation

The Center for Government Innovation of the Office of the Washington State Auditor offers services designed to help you, help the residents you serve at no additional cost to your government. What does this mean? They provide expert advice in areas like building a Lean culture to help local governments find ways to be more efficient, effective and transparent. The Center also provides financial management technical advice and best practices and resources. These can be accessed from the “Improving Government” tab of our SAO website and help you act on accounting standard changes, comply with regulations, protect public resources, minimize your cybersecurity risk and respond to recommendations in your audit. The Center also offers the Financial Intelligence Tool, better known as FIT, to help you assess and monitor your finances and compare your financial operations

to other local governments like you. You can email the Center for a personal training session to learn all the benefits using the FIT tool can provide. The Center understands that time is your most precious commodity as a public servant, and wants to help you do more with the limited hours you have. If you are interested in learning how the Center can help you maximize your effect in government, call them at (564) 999-0818 or email them at Center@sao.wa.gov.

Audit Team Qualifications

Kelly Collins, CPA, Director of Local Audit – Kelly has been with the Washington State Auditor’s Office since 1992. In her role, she oversees the audit teams that perform the audits for over 2,200 local governments. She serves on the Washington Finance Officers Association Board and is a member of the Washington Society of Certified Public Accountants’ Government Auditing and Accounting Committee. Phone: (564) 999-0807 or Kelly.Collins@sao.wa.gov

Mark Rapozo, CPA, Assistant Director of Local Audit – Mark has been with the Washington State Auditor’s Office since 1983. In his role as Assistant Director, he assists with the statewide oversight and management of all the audits for local government. He also served as the chairman of the Local Records Committee of the Washington State Archives for 10 years. Phone: (564) 999-0794 or Mark.Rapozo@sao.wa.gov

Wendy Choy, Program Manager – Wendy has been with the Washington State Auditor’s Office since 2002 and is also the Program Manager for public hospital districts. In her role, she oversees Team North King County which performs the audits for over 85 state and local governments. She has also worked on four teams covering different audits throughout the King County and south Snohomish County regions. Wendy received her Bachelor of Arts degree in Business Administration with a concentration in Accounting at the University of Washington. Phone: (425) 502-7067 or Wendy.Choy@sao.wa.gov

Haji Adams, Assistant Audit Manager – Haji has been with the Washington State Auditor’s Office since 2009. During his time with the Office, Haji has been a member of the South King County and North King County teams covering local governments throughout Western Washington. Haji has a wide range of experience auditing cities, school districts, hospital districts, housing authorities, risk pools, fire districts, sewer districts, and water districts. He has performed accountability, federal single audit, and financial statement audits in accordance with the audit plan to ensure Office quality expectations and standards are met. Haji received his Bachelor of Arts degree in Accounting with a minor in Business Administration at Western Washington University. Phone: (425) 502-7067 ext. 105 or Haji.Adams@sao.wa.gov

Stacey Chen, Audit Lead – Stacey has been with the State Auditor’s Office since April of 2016. During her time with the Office, Stacey has worked on two different teams covering state and local governments throughout the King County region. Stacey has a wide range of experience auditing cities, school districts, hospital districts, housing authorities, higher education institutions, risk pools, public development authorities, and water and sewer districts. She has performed accountability, single audit, and financial statement audits in accordance with the audit plan to ensure Office quality expectations and standards are met. She also serves as a fraud specialist on the local team. Stacey received her Bachelor of Science degree in Accounting and Bachelor of Science degree in Business Administration with a concentration in Accounting at University of Washington. Phone: (425) 502-7067 or Stacey.Chen@sao.wa.gov

Sheri Campbell, Assistant State Auditor – Sheri has been with the State Auditor’s Office since 2013. In her role as an Assistant State Auditor, she has worked on financial statement, energy, federal grant and accountability audits on the Central King County and North King County teams. Prior to joining the State Auditor’s Office, Sheri was an International Fuel Tax Auditor with the State of Washington. Sheri received her Masters in Business Administration from Seattle Pacific University. Phone: (425) 502-7067 or Sheri.Campbell@sao.wa.gov

Becky Shaddox, Assistant State Auditor- Becky has been with the State Auditor’s Office since 2018. She earned a Bachelor of Science degree in Accounting, from Central Washington University in June 2018. In her role as audit staff, Becky performs audit work in accordance with the audit plan to ensure Office quality expectations and standards are met. Phone: (425) 502-7067 or Becky.Shaddox@sao.wa.gov

Melissa McCallum, Assistant State Auditor – Melissa began working with the Washington State Auditor’s Office in 2021. She received her Bachelor of Arts degrees in Business Administration with a concentration in Accounting at Washington State University in December 2020. Prior to joining the State Auditor’s Office, Melissa was an accountant at a local CPA firm. She is currently studying for the CPA examination. Phone: (425) 502-7067 or Melissa.McCallum@sao.wa.gov

Wyatt DeGagne, Assistant State Auditor – Wyatt started with the State Auditor’s Office in May of 2021. He attended Western Washington University and graduated in August 2020 earning a bachelors in accounting as well as management information systems (MIS). In his role as audit staff, Wyatt performs audit work in accordance with the audit plan to ensure Office quality expectations and standards are met. Phone (425) 502-7067 or Wyatt.Degagne@sao.wa.gov



Office of the
Washington
State Auditor
Pat McCarthy

GASB UPDATE

June 2021

The Governmental Accounting Standards Board (GASB) establishes generally accepted accounting principles (GAAP) for U.S. state and local governments. All statements, exposure drafts and other documents for public comment are available from the GASB website, www.gasb.org, free of charge.

Here is a summary of current and upcoming accounting and financial reporting standards.

GASB Pronouncements Effective for Reporting Year 2021

- **Statement No. 89, *Accounting for Interest Cost Incurred before the end of a Construction Period***
This statement suspends paragraphs 5-22 of GASB 62. Do not capitalize interest cost related to capital assets – expense as incurred. This statement was originally effective for the 2020 reporting year but was postponed by GASB 95.

GAAP – Formalizes that interest incurred before construction is complete for a capital asset is **not** capitalizable.

CASH – Does not apply since this is in relation to capital assets.

- **Implementation Guide 2019-1**

This guide's objective is to provide guidance that clarifies, explains, or elaborates on GASB Statements. This guide addresses OPEB, Derivative Instruments, Nonexchange Transactions, Impairment and Insurance Recoveries, and other accounting and reporting topics. This guidance was originally effective for the 2020 reporting year, but was postponed by GASB 95.

GAAP – Most of the required changes have been implemented in BARS. Please review the new rules for storm cleanup and insurance recoveries, which can be found in the insurance recovery BARS codes.

CASH - Most of the required changes have been implemented in BARS. Please review the new rules for storm cleanup and insurance recoveries, which can be found in the insurance recovery BARS codes.

GASB Pronouncements Effective for Reporting Year 2022

- **Statement No. 87, *Leases***

This statement's scope includes definition of a lease, lease term, short-term leases, subleases, and sale-leasebacks. Guidance related to accounting and reporting for lessee and lessor. An implementation guide is available: **Implementation Guide 2019-3 - Leases**. The statement and guidance were originally effective for the 2020 reporting year but was postponed by GASB 95.

GAAP – Please see the Leases project page for accounting and reporting requirements. We will update the BARS manual in the Summer of 2022.

CASH - Please see the Leases project page for accounting and reporting requirements. We will update the BARS manual in the Summer of 2022.

- **Statement No. 91, *Conduit Debt Obligations***

The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement was originally effective for the 2021 reporting year, but was postponed by GASB 95.

GAAP - Conduit debt will not be reported unless certain criteria has been met.

CASH - Conduit debt will not be reported unless certain criteria has been met.

- **Statement No. 92, *Omnibus 2020***

This statement addresses a mix of implementation issues related to leases, reinsurance recoveries, and derivative instruments (**effective immediately for reporting year 2020**). Other items effective for reporting year 2022 include intra-entity transfers of assets, postemployment benefit arrangements, government acquisitions, etc. This guidance was originally effective for the 2021 reporting year, but was postponed by GASB 95.

GAAP – Most of the required changes have been implemented in BARS.

CASH - Most of the required changes have been implemented in BARS.

- **Statement No. 93, *Replacement of Interbank Offered Rates***

This statement provides exceptions to derivatives hedge accounting termination provisions and lease modifications solely to replace an interbank offered rate (IBOR). This guidance was originally effective for the 2021 reporting year but was postponed by GASB 95.

GAAP – LIBOR has been removed from the hedging derivative section of the BARS manual.

CASH – Does not apply to cash due to only apply to hedging derivatives.

- **Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for IRC Section 457 Deferred Compensation Plans***

This statement supersedes GASB Statement No. 32. IRC section 457 deferred compensation plans that meet the definition of a pension plan should follow the accounting and financial reporting requirements of pension plans.

GAAP – Most of the required changes have been implemented in BARS.

CASH - Most of the required changes have been implemented in BARS.

GASB Pronouncements Effective for Reporting Year 2023

- **Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements***

This statement establishes the definition of PPP's and APA's and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions.

GAAP – Adds more situations for Service Concession Arrangements to apply and updates the accounting and reporting requirements in these areas.

CASH – Does not apply due to the fact that Service Concession Arrangements are not reported in Cash.

- **Statement No. 96, *Subscription Based Information Technology Arrangements***

This statement brings the guidance on the accounting and financial reporting for “SBITA’s” in line with that of GASB 87 - Leases.

GAAP – Adds software to the lease standard.

CASH – Adds software to the lease standard.

GAAP - *For all statements, earlier application is encouraged.*

CASH – *Implementation will be at the time of BARS prescription.*

Current GASB Exposure Drafts, Invitations to Comments, etc.

GASB recently issued several proposed new standards for public comment. These exposure drafts are not new standards yet, but they will be in the future. The Board encourages any individual or organization to provide written comments about them and instructions are included with each document. The documents can be downloaded free of charge from the GASB website. This is a good opportunity to become involved in the standard setting process.

- **Exposure Draft, *The Annual Comprehensive Financial Report***, Comments due by July 9, 2021
- **Exposure Draft, *Accounting Changes and Error Corrections***, Comments due by August 31, 2021

If you have questions about GASB standards, please contact the HelpDesk to be connected with a BARS and GASB Specialist.

Special Message from State Auditor Pat McCarthy

McCarthy's Corner



Here at the Office of the Washington State Auditor, we have faced the unfortunate reality behind increasing cyberattacks. We are working through the very scenario we and so many government agencies work hard to prevent: A data breach.

As many of you already know, we were alerted to a security incident involving a third-party file transfer service our office used to share information with the public agencies we audit. Although we had stopped using the service in question at the end of the year,

in mid-January we were notified about an incident that happened toward the end of 2020. Over the next few weeks, we learned that data stored in Accellion's File Transfer Application had been compromised. The incident remains under investigation by SAO, Accellion and law enforcement.

Threats against third-party service providers are an increasing concern. Sophisticated cybercriminals who successfully attack these service providers can access the data of multiple organizations. There have been several examples of this issue in the past year. Indeed, many other companies and public agencies around the world used the Accellion system and were affected by the same security incident as SAO.

We continue our work to mitigate any harm caused by this incident, including communicating with the local governments and state agencies whose audit data may have been affected, responding to their questions as best we can, and providing updated information as it becomes available. We are offering support to Washingtonians' whose personal information may have been made vulnerable. Our dedicated webpage, sao.wa.gov/breach2021, is kept up to date to explain how SAO is responding to the incident and suggest resources for those affected.

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Have a peek inside

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- 3 Single audit alert: Updated guidance for due dates and items reported on the Schedule of Expenditures of Federal Awards (SEFA)
- 5 Auditor McCarthy joins national association's committee
New checklists help you create strong controls to prevent fraud
- 6 The 2020 annual report filing system and the annual BARS updates are live!
Saundra Groshong named new audit manager for Tacoma office
- 7 Restructuring of the Special Investigations Program
Three small governments declared unauditale; final 2020 tally released
- 8 Remote work: What 2020 has taught us
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Responding to a data breach is extremely challenging for a public entity. The response demands urgent action, but also requires diligence and accuracy. Public agencies must uphold public expectations of transparency and accountability, but they also must be circumspect – otherwise the information disclosed may help the very cybercriminals who engineered the attack.

I can also tell you this experience has deepened our commitment to government cybersecurity. It is vitally important that we do all we can do, and help other governments do all they can do, to prevent successful attacks.

We continue to conduct cybersecurity audits, which help governments identify areas for improvement. And we continue to offer resources, tips and ideas for our colleagues to help them protect their systems and data. I know you all take this subject seriously as well, and I look forward to our collective partnership in efforts to improve cybersecurity. The dangers we face, as we know all too well, are very real.



Pat McCarthy

Pat.McCarthy@sao.wa.gov, (564) 999-0801

Do your employees and citizens have a way to report concerns?

Imagine this scenario: A school district employee observes a co-worker taking the deposit home each night. The employee knows it's a problem but struggles with how they might go about reporting it and how it might affect their job in the future. The employee is fearful of the backlash from the co-worker if it becomes known who shared the concern.

Or how about a payroll clerk told to process an unsupported payment to the general manager who is giving this direction? Where does an employee go when it's the head of the organization that they have an issue with?

These employees are like many others – working front and center in daily operations and most likely to notice problems. These scenarios might raise red flags for theft, or policies or laws not being followed.

Employees often really struggle with how to handle these types of situations. It's also unrealistic to assume employees will always feel comfortable going to their direct manager with concerns, especially when the issue might involve that manager. Sometimes employees need a way to report anonymously to feel comfortable sharing their concerns.

And it's not just employees who make observations. Citizens, too, observe government workers daily. Consider the citizen who might observe a cashier who routinely doesn't offer receipts to customers, or a citizen who lives next door to a public works employee who brings home rock in County-owned equipment.

As such, it's important that local governments provide employees and citizens with a safe and trusted reporting process. Doing so helps you find out about issues and address them promptly, mitigating financial and other negative effects to your organization. In fact, a [2020 report by the Association of Certified Fraud Examiners](#) shows that governments with hotlines detect frauds more quickly and have smaller frauds on average than those without them.

To help you get started, we have [a new resource](#). It discusses options and considerations for developing your own reporting process and related policies and procedures. It also provides links to some additional information that will help you.

If you would like to offer feedback about this resource, or talk with one of our financial management specialists, email us at Center@sao.wa.gov.

Single audit alert: Updated guidance for due dates and items reported on the Schedule of Expenditures of Federal Awards (SEFA)

In July, we told you about changes to the single audit due dates and information required to be reported on the Schedule of Expenditures of Federal Awards (SEFA). Additional guidance was published in the [2020 Compliance Supplement Addendum](#) on Dec. 22, 2020, and in [Memorandum M-21-20](#) on March 19, 2021, by the U.S. Office of Management and Budget. As you read through the entire Addendum and M-21-20, here are some key items for your attention:

Single audit due dates

The Addendum contained a 3-month single audit due date extension for certain entities having a year-end in 2020 and that received COVID-19 funding.

M-21-20 contained different extension guidance that affects all entities that had not filed their single audits with the Federal Audit Clearinghouse as of March 19, 2021. This additional guidance allowed a six month extension and applies to all entities, not to only those receiving COVID-19 funding.

Affected year-ends and new due dates include:

Fiscal Year Ended	Original 9-month Due Date	Extended Due Date –Addendum (if filed before 3/19/2021)	Extended Due Date – M-21-20 (if unfilled at 3/19/2021)
January 31, 2020	October 31, 2020	January 31, 2021*	April 30, 2021
February 29, 2020	November 30, 2020	February 28, 2021*	May 31, 2021
March 31, 2020	December 31, 2020	March 31, 2021*	June 30, 2021
April 30, 2020	January 31, 2021		July 31, 2021
May 31, 2020	February 28, 2021		August 31, 2021
June 30, 2020	March 31, 2021		September 30, 2021
July 31, 2020	April 30, 2021		October 31, 2021
August 31, 2020	May 31, 2021		November 30, 2021
September 30, 2020	June 30, 2021		December 31, 2021
October 31, 2020	July 31, 2021		January 31, 2022
November 30, 2020	August 31, 2021		February 28, 2022
December 31, 2020	September 30, 2021		March 31, 2022
January 31, 2021	October 31, 2021		April 30, 2022
February 28, 2021	November 30, 2021		May 31, 2022
March 31, 2021	December 31, 2021		June 30, 2022
April 30, 2021	January 31, 2022		July 31, 2022
May 31, 2021	February 28, 2022		August 31, 2022
June 30, 2021	March 31, 2022		September 30, 2022

* If a single audit report for this yearend was not filed with the Federal Audit Clearinghouse as of March 19, 2021, the extended due date would be in the next column. If the single audit report was filed before this date, then the extended due date in this column would apply if the entity received COVID-19 funding.

Note: If the due date falls on a weekend or federal holiday, it changes to the next business day.

No application or approval is needed in either case to use the applicable extension. Entities that take advantage of the extension period must document the reasons for doing so, which does not jeopardize their future qualification for “low risk” status under 2 CFR §200.520.

Remember, the guidance in the Addendum and M-21-20 only affects one of the criteria for determining the actual audit submission due date. Under federal law (2 CFR §200.512), the entity’s due date for an audit submission is the earlier of 1) 30 calendar days after receipt of the audit report, or 2) nine months after the end of the audit period (plus extension).

Schedule of expenditures of federal awards (SEFA)

Additional SEFA guidance was also issued in the Addendum for:

- Provider Relief Program (CFDA 93.498) (PRF) –
 - o This program, including lost revenue, will be first reported on the SEFA for years ending on or after Dec. 31, 2020. No amounts related to this program are to be reported on the SEFA for fiscal years ending prior to that date.
 - o For fiscal years ending Dec. 31, 2020, and in 2021 on or before June 29, 2021, the footnotes to the SEFA will contain a disclosure stating that the amount reported (including lost revenue) is based on the Dec. 31, 2020, PRF report to the U.S. Department of Health and Human Services.
- Donated personal protective equipment (PPE) – Some entities received donations of PPE from federal or pass-through agencies for use in their COVID-19 response activities, without an indication of its value.
 - o Receiving entities should assign a value to the PPE based on its fair market value and report it in a footnote to the SEFA. The value would not be reported with federal program expenditures on the SEFA and may be marked “unaudited.”
 - o The value of the PPE is not counted toward the federal single audit threshold, nor will it be included in the process of selecting federal programs for the single audit.

- Education Stabilization Fund under the CARES Act (CFDA 84.425) –

- o This funding was subdivided into programs as indicated by letters (84.425A – 84.425P) and some further grouped by those covered by the Education Stabilization Fund and by the Higher Education Emergency Relief Fund.
- o The SEFA should list the expenditure amounts by individual program, including the letter (e.g. 84.425C, 84.425D, 84.425E, 84.425F), and include a total for the entire program (84.425).
- o The program as a whole will be considered in the process of selecting federal programs for the single audit.

Further, we’ve learned that COVID-19 vaccines distributed to entities are not considered federal financial assistance because they remain federal property until administered to an individual. Therefore, amounts related to vaccines do not need to be included on the SEFA or in the footnotes.

Finally, State Auditor Pat McCarthy has encouraged entities to “**Document, Document, Document**” as it relates to expenditures of COVID-19 awards. The Addendum directs auditors to consider the awarding agency guidance existing at the time of the expenditure when determining compliance with applicable requirements. Some guidance has changed over time. Therefore, it will be especially important for that documentation to demonstrate how the expenditure met the requirement at the time.

The Office of the Washington State Auditor understands all of us in government are working in extraordinary circumstances. We will continue to monitor the situation and keep you apprised of any further developments. Please also remember, we are here to help governments across Washington. Contact **your audit team** or submit a **help desk** question on the SAO website.



Auditor McCarthy joins national association's committee

Washington State Auditor Pat McCarthy has been appointed to the executive committee of the National State Auditors Association. The nonpartisan group represents state auditors' interests in financial management and provides training and resources to professionals in the field.

"It's an honor to serve with my colleagues across the nation as we work to provide all Americans the government transparency and accountability they expect," said McCarthy.

The association's executive committee met and unanimously voted to name McCarthy as an at-large member on December 18. She takes a position created by the retirement of Martha Mavredes, who had been Virginia's Auditor of Public Accounts.

The National State Auditors Association is a department of the National Association of State Auditors, Comptrollers and Treasurers. More information can be found at www.nasact.org.



New checklists help you create strong controls to prevent fraud

Everyone knows a strong system of internal controls is the best way to deter fraud in your organization, or detect it quickly should it occur. But designing and evaluating internal control systems can be overwhelming. The system needs to be robust enough to detect and deter fraud, but it must also be functional, cost effective and efficient. So where do you start?

Don't worry, we have tools to help. We recently released new internal control checklists over [cash receipting](#) and [payroll](#). You can use these checklists to evaluate your existing internal control systems and identify potential areas for improvement.

These resources are already available for you in our Resources Database. We also plan to introduce more checklists in the months to come, with an accounts payable checklist coming up next.

Make sure you're signed up

Do you want to know as soon as we have these resources available for you? [Sign up](#) to receive notifications.



The 2020 annual report filing system and the annual BARS updates are live!

Local governments with a fiscal year ending December 31, 2020 are required to file their annual report by **Sunday, May 30, 2021**. Note – early filing is encouraged to ensure staff support during the business week. Staff is available Monday – Friday from 7am – 5pm via the [HelpDesk](#) or LGCSFeedback@sao.wa.gov

The [GAAP](#) and [Cash Basis](#) BARS Manuals updates were completed in December 2020 and are available online.

The Overview of Changes contains detailed descriptions of the changes and links to the appropriate sections of the manuals. Please refer to the *Alerts and Changes* tab for determining which revisions might affect your 2020 annual reporting.

There is a new section in both manuals called “Determining Fiduciary Activities to be Reported in Custodial Funds” to assist governments in determining custodial fund activity. The GAAP section can be found [here](#) and the Cash section [here](#).

There is a completely revised section in the Cash Manual regarding “[Beginning and Ending Cash and Investment Classifications](#)”.

The BARS Reporting Templates page has been updated for 2020 annual filing templates. Also updated and available for use is the [BARS & Annual Report Filing FAQs](#) page.

If you missed the 2020 BARS Update webinars, you can find the recorded trainings on the [eLearnings](#) section of the Training and Workshops page.

SAO will have webinar offerings on the annual report filing process in April. Additionally, one on one appointments will also be offered in May for local governments that need additional support with the filing system. Information and registration is coming soon!

Saundra Groshong named new audit manager for Tacoma office

We are pleased to welcome back Saundra Groshong as our new Audit Manager for Team Tacoma, effective December 1, 2020.

Saundra comes to us from the City of Buckley, where she was the finance director for a little over a year.

Before that, she was the Audit Manager for our South King County and technology assistance teams. Saundra has over 19 years of work experience at SAO, 15 of which were with our Tacoma office.



Restructuring of the Special Investigations Program

Our Office is responsible for investigating state whistleblowers and fraud for both state and local governments.

We have recently restructured our programs, bringing these two functions together. We also want to announce our two Special Investigations Program Managers: Stephanie Sullivan and Sarrah Superville.

Stephanie and Sarrah will be working together and helping each other manage our fraud and whistleblower programs.

We are very excited to have Sarrah and Stephanie in these new roles.



Stephanie leads our Fraud Investigations Program. She has worked for our office for eight years and has been part of the Fraud Team since April 2016. Before working for the Auditor's Office, she held the position of Internal Auditor for five years with the Oregon State Board of Higher Education.



Sarrah leads our Whistleblower Investigations Program. She has worked with SAO for five years in our Everett office, where she was an auditor and one of the team's fraud specialists. Sarrah is a Certified Fraud Examiner.

Three small governments declared unauditale; final 2020 tally released

In December 2020, the Office of the Washington State Auditor issued reports declaring three small local governments unauditale, bringing the total of such reports to seven for 2020. The State Auditor's Office

(SAO) also notified local counties of these unauditale governments, a step toward halting their use of tax money, restricting payments for expenditures, and their possible dissolution under a new state law.

“Since we launched our effort to ensure every government in Washington is audited, many in danger of being declared unauditables have stepped forward to become accountable,” said State Auditor Pat McCarthy. “This report identifies only seven of Washington’s more than 2,000 local governments as unauditables. Nevertheless, our goal is to ensure that every single government that receives public tax dollars is accountable to the public, and these reports are part of that effort.”

Longstanding law in Washington requires every local government to submit annual financial reports to SAO and participate in an independent audit at least once every three years. The State Auditor’s Office worked with the Legislature and local governments to address the small number of governments that do not comply with these accountability laws.

In 2020, the Legislature passed a law requiring SAO to notify the legislative authority of a county and the State Treasurer of any special purpose districts in their jurisdiction that are determined to be unauditables. The new law places restrictions on releasing sales or use taxes to those governments, restricting payments for expenditures, and allows counties to dissolve or absorb those governments. A government deemed unauditables is also referred by SAO to the State Attorney General’s Office for possible legal action.

You can read the report on 2020’s unauditables governments here: <https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1027573&isFinding=false&sp=false>



Remote work: What 2020 has taught us

If we chose a single word to capture the essence of our 2020 work world, that word might be “unprecedented.” The coronavirus pandemic affected every aspect of our lives in ways we never could have anticipated. The unimaginable pace at which we had to move from office to remote work put many government workers on a virtual roller-coaster of finding sustainable ways to work together while being physically apart, many for the first time. So as 2020 comes to a close, let’s reflect on a few things we’ve learned.

Feedback is still critical — maybe more than ever

Feedback has always been important, but a remote worker might value it even more. In a [2014 Harvard Business study](#), 72 percent of respondents said they thought their performance would improve if their managers would provide corrective feedback. That perceived “negative” feedback, if delivered appropriately, is many times the advice employees are craving. Employees want to improve their performance, and generally they already know what they are good at and where they excel. Managers and supervisors should work to provide both praise and

corrective feedback to remote workers and make sure the feedback loop doesn’t fall apart just because employees are out of sight, out of mind. Because all of our important communications are now handled virtually, develop a plan to make feedback a two-way street. This provides remote workers the opportunity to share their feedback with managers and supervisors and clear up any misinterpretations or misunderstandings that might arise because of our new long-distance communication channels.

Meetings might be even more productive in a virtual setting

When everyone attends a meeting remotely, the playing field is more level. Although many of us used a video conferencing service before the pandemic, most meetings were held in person at a conference room, with a few people calling in virtually. Sometimes those calling in found it difficult to really feel included in the meeting. Some organizations are adopting a “remote first” policy. This policy states that if even one person needs to be remote for a meeting, then everyone is expected to join

virtually, even if they are at their desk. This way, everyone on the call feels like they have an equal voice and an equal opportunity to participate in the meeting.

Flexible schedules can not only work, but work well

For many, the stay-at-home order meant juggling children and other family commitments while also finding somewhere to work from home. Although this presented some challenges, allowing flexible work schedules gave employees a way to balance the merging of all life's responsibilities. Some days, it's easy to work a normal schedule, and flexible work hours allow for midday breaks to go for a run or walk to clear your head for more productive work. Other days, a flexible schedule makes it easier to schedule appointments with teachers or loved ones during the day. Another benefit of flexible schedules is increased productivity. Some people work better in the early morning and lose steam in the afternoon, while others find their best brain power comes in the evenings. Flexible schedules require a communication plan, because your co-workers need to know when you're available and when you aren't. Whatever schedule you work, the goal should be the same – to have meaningful collaboration with your colleagues and meet deadlines.

That feeling of connectedness is difficult but not impossible

A distributed team has many benefits, but maintaining social interaction and a feeling of connectedness takes work. We miss sharing our lives in stories in our office doorways, at the copy machine or in the lunchroom. Being in the same physical location provides openings for collaboration, as well as, spontaneous office chatter, so it is important to intentionally create opportunities to socialize virtually to avoid feelings of isolation. This [Psychology Today article](#) reminds us that meaningful human connections are vital for our mental and physical health and wellbeing, and it offers 10 suggestions about how to add "human moments" to our virtual world.

Some miss their commute while others couldn't be happier without it

For many of us who were spending time in the car, or on public transportation, there were obvious benefits of no more commute, such as financial savings and more available time. But for many, there was also a less apparent benefit – less stress. No fight to get everyone out the door in the morning, no sitting in traffic fuming about unexpected delays or careless drivers, less worry

about being late for meetings. But what about those who actually miss their commute? For some, the commute played an important role – a clear transition from work life to personal life. For workers with a busy family and home life, the commute was often a daily dose of "me time" when they could read a book, listen to music or phone friends. Some workers report missing these activities because they no longer have a dedicated time or space for them, despite supposedly having more time to do them. If you find yourself in this position, consider scheduling a commute appointment to get back that bit of personal time you need.

The biggest lesson of all

Communication is critical to success, and done right, a remote work environment can actually boost productivity and employee morale. And even with everyone's best efforts, some things just won't work and will need to change fast. Leadership teams that are agile and proactive, seek meaningful ways to share ideas across their organizations, and actively identify what's working and quickly make it a best practice will likely be most successful. As our virtual world continues into 2021, use your lessons learned to find your organization's best version of remote work.



Find your purpose to combat stress

Are you finding that you have a few stressors in your life these days? Your dining room table is also a home office and school desk; your cat interrupts important virtual meetings with your boss; so much togetherness! Connecting to a strong sense of purpose might just help you deal more effectively with stress whatever your situation might be.

So what is a sense of purpose? Basically it's understanding what gives your life meaning. For some it might be meaningful work, spending time in the kitchen baking for friends and neighbors, and volunteering in their community. This pandemic hasn't affected the ability to bake and volunteer, but there are days when it might be hard work to find the meaningful fruits of one's labor at work. Having problems finding it yourself these days? Don't worry ... you have more control than you think. You actually "create" a sense of purpose in your work life more than "find" it. If you are feeling stuck and craving a more meaningful sense of purpose at work, here are some ideas:

- **Learn what motivates you.** For many of us who work in government, our strongest motivations aren't money or a desire for prestige, but making a difference to those we serve, following a passion or using our talents. Luckily for us, we have more control over those purpose-enhancing motivators than a raise or promotion. Think about what motivates you, then tie the reasons to those less-desirable tasks and projects to find more purpose in your work. For example, your Mondays might be filled with non-stop meetings. It can be a daunting way to start the work week. If you remind yourself that those meetings help you identify and prioritize meaningful work for you and your team members, then they might have an increased sense of purpose and actually energize you. Would identifying what motivates you and a change of perspective bring more purpose to your work?

- **Look for purpose in the simple moments of your everyday work life.** Think purpose needs to have some big world-changing, life-altering impact? Actually, the

ordinary, everyday activities and behaviors you bring to work can fill you with a sense of purpose. For example, taking time to understand the uniqueness of each co-worker brings joy and a sense of purpose to some people. This might mean providing work assignments that fit each employee's strengths, learning about their treasured pets and hobbies, or taking the time to provide personalized, specific recognition for a job well done. What daily activities present opportunities to bring more purpose to your work life?

- **Leave a work "legacy."** One definition of legacy is a gift of property, by will. What if you took that definition, and redefined it as something you possess that you can give to your co-workers of your own free will. Most of us won't leave a world-changing legacy like Edison or Monet, but each of us has unique gifts that we can give to others: our time, experience, empathy, a listening ear, knowledge and gratitude. Would being generous with your gifts bring your work life more purpose?

The truth is, we all want to find meaning and purpose in our work, but often we don't know where to look. If we change our thinking about purpose from this huge, elusive thing that involves some earth-shattering, light-bulb moment to optimizing small actions and behaviors to uncover purpose little by little, we can all develop a heightened sense of purpose that can help us deal with the stress of any crisis or disruption that comes our way.

For more about purpose, check out the full article on research from Eric S. Kim, Ph.D., a research scientist with the Department of Social and Behavioral Sciences at Harvard's T.H. Chan School of Public Health:

www.health.harvard.edu/blog/will-a-purpose-driven-life-help-you-live-longer-2019112818378



Linking Lean and leadership

Lean principles have stood the test of time since their introduction by Dr. Edward Deming in the 1930s because they are universal to all process work and applicable to any organization. From large to small, private industry to public sector, east coast to west coast to around the globe, Lean principles are a proven system's approach to successful process improvement and performance excellence.

In fact, Lean principles go far beyond this original purpose of organizational process improvement and can easily be the foundation for an individual's personal value system. Many of us would make better personal decisions if first we clearly defined our goals and then took the time to understand our current condition so we didn't lose or give away anything critical or valuable to our happiness.

If we go slowly to create a comprehensive plan before moving fast to make changes in our lives and simultaneously take the time to keep our personal work space clean and organized, there is no doubt we can achieve more of what we personally desire.

The Leadership Challenge

Similar to Lean principles, the Kouzes and Posner Leadership Challenge (K&P) remains as popular today as when it was first introduced in 1987 because it is applicable to any leadership position whether that be at work, volunteering or with your family.

This article is the first in a series meant to demonstrate how the K&P leadership model connects to Lean principles bringing more success and personal satisfaction to people dedicated enough to follow them both. Today's article summarizes the five K&P behaviors or practices of exemplary leadership. Future articles will expand on how

these practices connect to specific Lean principles to gain followers and improve leadership results.

Growing Your Leadership Skills

Jim Kouzes and Barry Posner believe that leadership is learned, not a quality some people are simply born with. And what is a leader without followers?

As professors at Santa Clara University, they studied thousands of leaders that followers reported to be exemplary. Their research asked what those leaders do when they are performing at their personal best. These case studies turned into their book, *The Leadership Challenge*, describing five core behaviors that anyone can use to become a better leader regardless of their management style or personality.

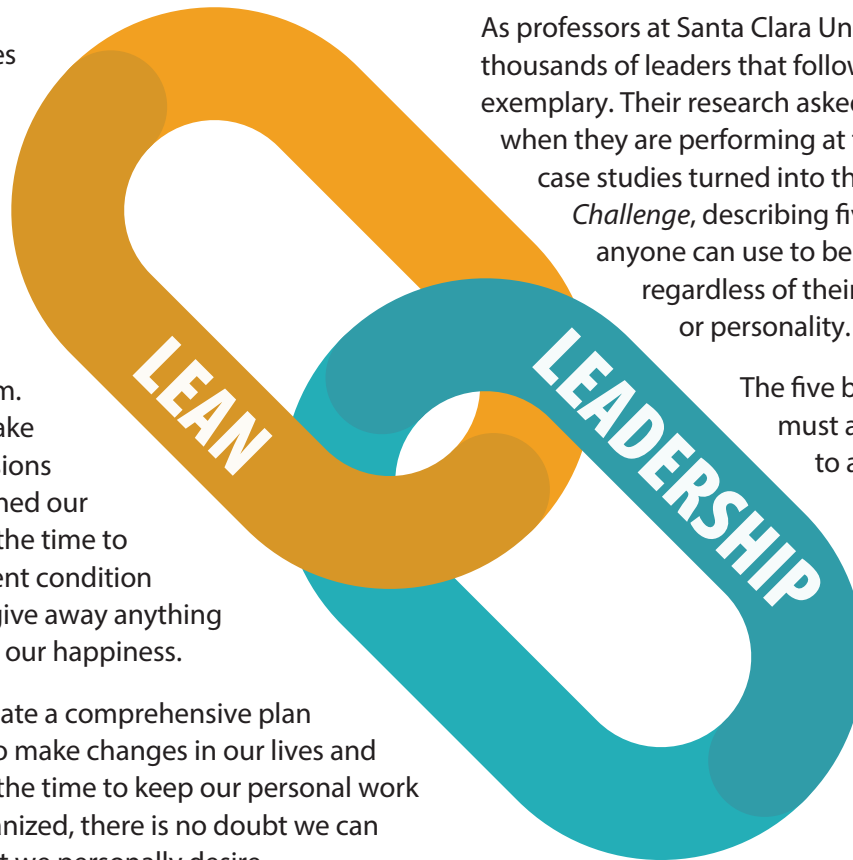
The five behaviors are a system and must all be embraced together to achieve success:

1. Model the way:

Leaders know that followers watch and duplicate their actions, not the words from speeches or motivational posters. This means that leaders must be clear and confident about

their own personal values so their unconscious actions are consistent with their words. "Titles are granted, but it's your behavior that wins you respect. Concentrating on producing small wins, leaders build confidence that even the biggest challenges can be met."

2. Inspire a shared vision: Leaders dream of a different future and then ignite enthusiasm for their vision in others by tapping into their followers' desire and motivation to contribute. "Leaders have a desire to make something happen. Leaders forge a unity of purpose by showing constituents how the dream is for the common good."



3. Challenge the process: Leaders are pioneers who are willing to step into the unknown and seek out personal challenges that go beyond their status quo. They often take risks based on the suggestions and feedback of peers, staff and customers. “As weather shapes mountains, problems shape leaders. They learn from their failures as well as their successes.”

4. Enable others to act: Leaders give away information, power and authority allowing the team to achieve extraordinary results, far beyond what can be achieved by the leader alone. “Those who are expected to produce the results must feel a sense of ownership. Leadership is a relationship, founded on trust and confidence.”

5. Encourage the heart: Leaders know that achieving great results takes a big commitment and long struggle, which can leave teams frustrated and exhausted. A leader recognizes individual efforts and team accomplishments to fuel excitement

and motivate followers through barriers. “Genuine acts of caring can uplift the spirits and draw people forward. Encouragement can come from dramatic gestures or simple actions.”

Over 30 years after *The Leadership Challenge* was first published, the five practices of exemplary leadership continue to be relevant today. Anyone can learn this model of easy-to-grasp practices if they are willing to step up and accept the challenge to lead.

Applying these leadership skills to your role

Specific roles require different skill sets. Future articles will provide suggestions for how K&P behaviors coordinate with Lean principles for leaders in any role. Regardless of whether you are an experienced executive, first-time manager, frontline supervisor, manager with a new team, or subject-matter expert with no formal management responsibility at all (an informal leader), this series of articles is for you. Watch this blog for those upcoming articles.

Annual report takes a 20/20 look at 2020

2020 has been a year unlike any other. However, we at the Office of the Washington State Auditor still have a responsibility to report on what we’ve done this year.

We invite you to click through our [interactive 2020 annual report](#). Learn about the amount and kinds of audits and investigations we have done, including some high profile cases, as well as some of what we have planned for 2021. Look at an overview of our budget and funding. And discover what other work our Office performs as we strive to increase government transparency and accountability.

This year’s report contains an important change from previous editions: We based the statistical information on the state’s fiscal year, which runs through June 30, instead of the calendar year. This shift will better align the report with similar reporting done by other state agencies.

We want to hear from you. Questions, comments or concerns? Email webmaster@sao.wa.gov.





EST. 1889

#ROOTED IN GOOD GOVERNMENT

2020 Annual Report

Office of the Washington State Auditor

A MESSAGE FROM THE AUDITOR

The public expects government transparency and accountability, especially as a health crisis puts unprecedented pressure on public resources.

During the COVID-19 pandemic, the Office of the Washington State Auditor has met the moment.

When the pandemic hit in early March, years of investment in technology paid off, as our 400 auditors and professional staff had had the equipment they needed to immediately begin working from home. We froze non-essential hiring and suspended contracts. And we got creative in how we obtained the information we needed for ongoing audits.

Our auditors usually work exclusively with governments near their homes, from one of 15 offices across the state. But as local staff adapted to lockdown, employees based in King County helped with audits of governments near Wenatchee and Pullman, while specialists in Olympia crossed teams to keep essential state audit work moving forward.

The role of the State Auditor's Office is to shine a light on how public money is spent. We did so before the crisis, during the crisis, and we'll continue to fulfill this essential role through our future recovery. It's work we've done for more than a hundred years – that's how you know we're Rooted in Good Government.



Audits and findings, by the numbers

Every year, we issue thousands of reports, reflecting the results of many different kinds of audits. Just a small percentage of the audits find a significant problem – in other words, a “finding.” Here’s what we did on the public’s behalf in fiscal year 2020:

“ We appreciated the auditors’ flexibility in completing the audit under the difficult circumstances of the pandemic.

– Shoreline School District No 412 ”

2,649 audits

July 1, 2019 -
June 30, 2020

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.

Financial audits



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

Federal audits



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

Whistleblower investigations



Whistleblower investigations are the result of state employees sounding the alarm on possible waste, fraud or abuse. The Office issued 23 reports, and seven of them revealed improper action by state workers.

Audits and findings, by the numbers *(continued)*

“ Even working off-site, the local auditors coordinated with us to prevent us from having to perform hours of document retrieval and scanning.

– City of Wenatchee ”

Fraud investigations



A fraud investigation results in a written report if we find significant misuse or theft of public money. In FY2020, 29 of our 61 investigations met this standard, identifying \$7,288,125 of misappropriated public funds and \$309,803 of questionable transactions.

Unauditable Governments



State law requires local governments to be audited and to submit annual financial reports. In fiscal year 2020, we issued two reports on governments that could not be audited. On Slide 13, we discuss our first capstone report on this issue, covering all of calendar year 2020.

Other engagements



This covers a variety of topics, including compliance with the Energy Act, assurance for National Transit Database reporting, reviewing and publishing the reports of private CPA firms, or verifying alternative learning experience enrollment reported by school districts.

Performance audits



Performance audits evaluate the efficiency and effectiveness of government programs with the goal of making them work better. These audits improve public services and provide valuable information to the public, program leadership and elected officials.

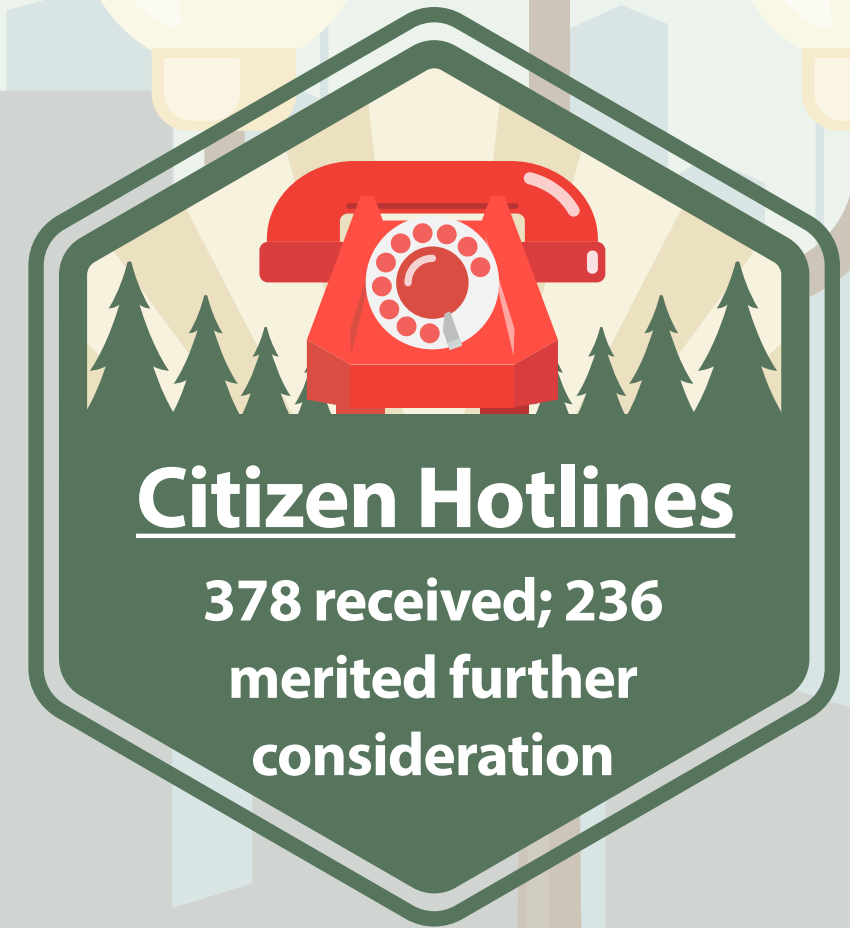
Cybersecurity audits



Cybersecurity audits are a type of performance audit that examine the security posture of specific state agencies and local governments. These audits look for weaknesses and propose solutions to help strengthen those systems. Cybersecurity audits are provided at no cost to the client.

Special investigations: Fraud

Here are highlights of our work in these areas for FY2020. Click the links to read the full report and related material.



An unauditible government opens its books:

From 2011 through 2017, the [Camas Washougal Economic Development Association](#) did not file required annual financial reports with our Office. Ultimately the City of Washougal prepared the Association's financial statements. The City noted unexplained purchases made by the Executive Director, and asked us to investigate. Our [investigation](#) showed the Executive Director spent \$19,311 on personal purchases including an advanced home air system and vehicle repairs. He also used bought items including a computer, hotel accommodations, fuel and meals. Another \$45,029 was spent on items that we couldn't tie to a clear business purpose.

Personal purchases and missing revenues:

The Washington Beef Commission noticed certain cattle assessments totaling \$12,120 were not deposited into the Commission's bank account but were instead deposited into the Office Manager's personal bank account. In addition, the Office Manager made \$22,877 in personal purchases on a Commission credit card. Our fraud investigation found that no one reconciled credit card transactions using original statements obtained directly from the bank, or reconciled expected revenues to actual receipts, in a timely manner.

Special investigations: Whistleblowers

Here are highlights of our work in these areas for FY2020. Click the links to read the full report and related material.

[Granting special privileges by hiring family members](#)

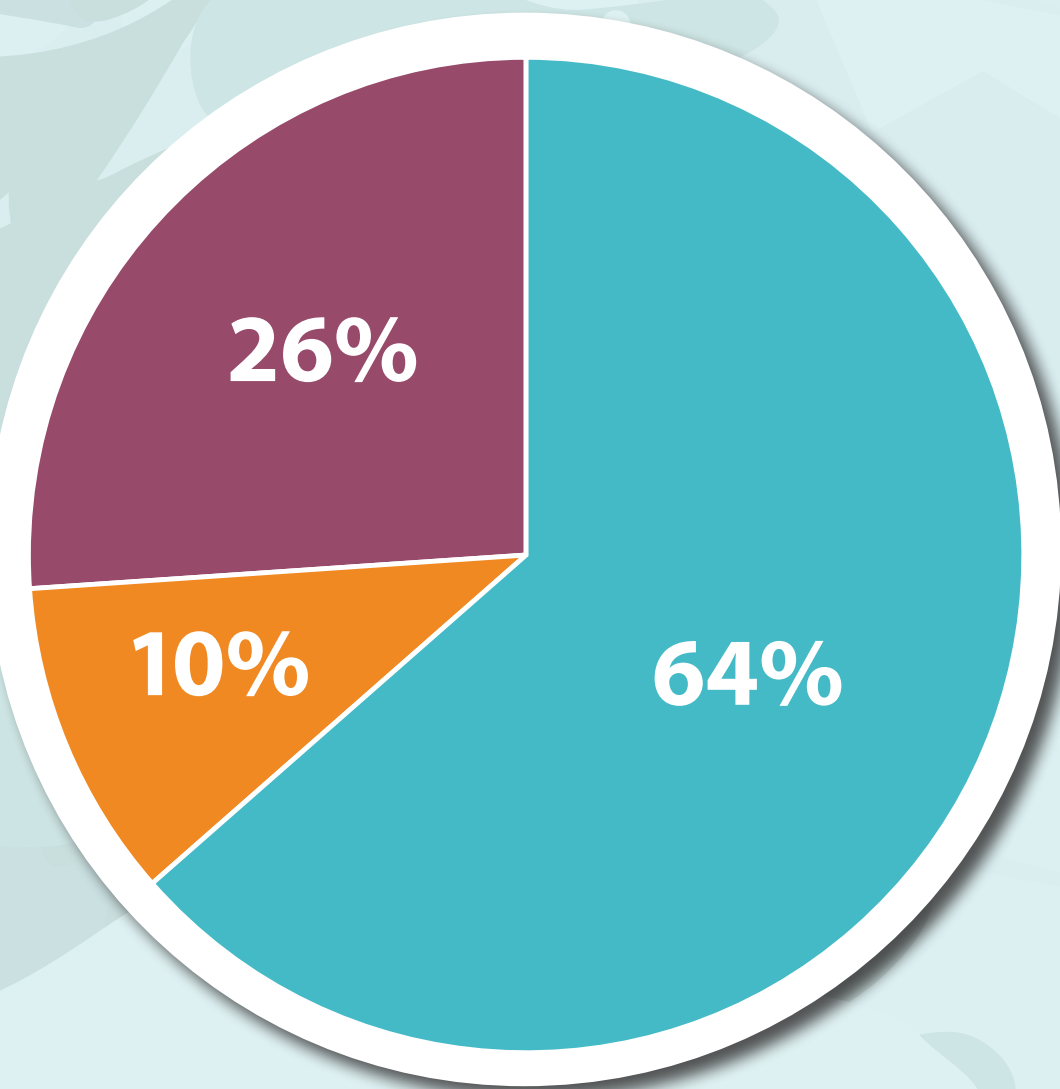
An Assistant Secretary of the Department of Social and Health Services -- a member of upper management -- granted a special privilege by hiring her daughter for a position inside the Assistant Secretary's own reporting structure. The Assistant Secretary also oversaw the hiring of a nephew, a relationship not classified as "a relative" by the agency and thus permissible, but doing so presented an appearance of privilege. Following our investigation, the agency clarified its hiring policies.

[Poor working relationships threaten effective IT support services](#)

The Division of Child Support (DCS, part of the Department of Social and Health Services) was contracted to provide IT system support to county prosecuting attorneys at the Washington Association of Prosecuting Attorneys-Support Enforcement Program. Between March 2017 and April 2019, we received multiple complaints that DCS was unable to provide adequate tech support. The Whistleblower investigation found the DCS employee failed to correct IT security vulnerabilities that were the state agency's responsibility to correct.

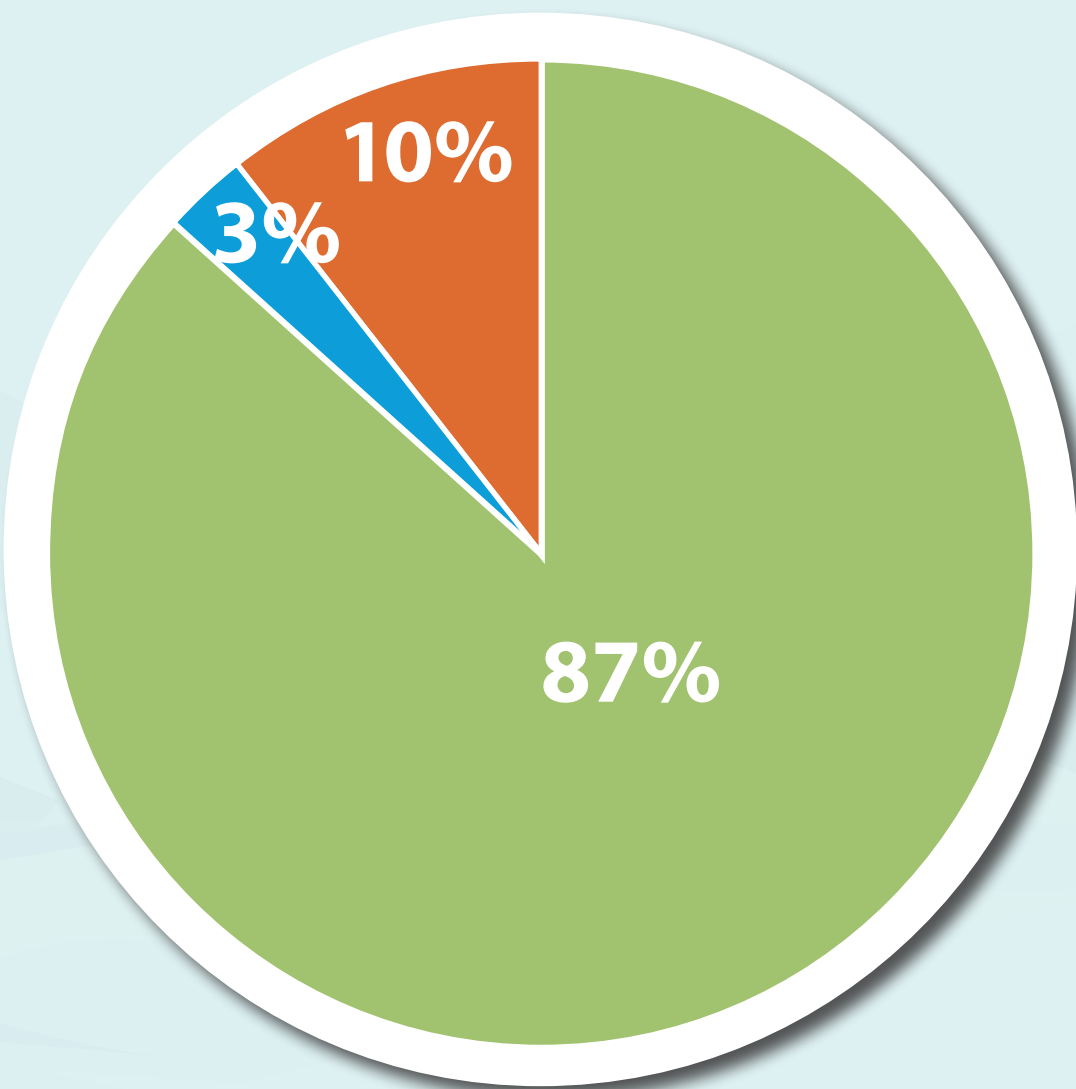
The auditor's FY2020 budget: \$51 million

Where does SAO's funding come from?



- \$32.4 million paid for by local governments
- \$5.3 million from the legislature for state agency audits
- \$13.3 million from sales tax for performance audits, cybersecurity audits, and school apportionment audits

Where does the money go?



- \$44.8 million in salaries and benefits
- \$1.4 million in contracting
- \$5.4 million in goods, services, equipment & travel

State lawmakers support essential audit work

Each year we work to assure the public that federal funds are spent appropriately, the state's financial statements are accurate, and that agencies are following state law, rule and their own policies. The Legislature appropriates funding for these audits.

Comprehensive Annual Financial Report (CAFR) – This report is the result of our independent audit of the state of Washington's financial statements. The outcome of this audit affects the state's credit and bond ratings. The audit report for the state's financial statements for a given year is published in December of that year. The 2020 CAFR will be released in December 2020, and will cover state expenditures of more than \$116 billion.

State of Washington Single Audit report (SWSA): This audit determines whether the state has properly accounted for the federal money it spends and has complied with federal requirements. The audit report for a given year is published the following spring. The 2020 SWSA will be released in spring 2021, and will examine \$26 billion in federal funds. This is \$8 billion more than Washington spent last year, mostly due to CARES Act funding to help the state cope with the pandemic.

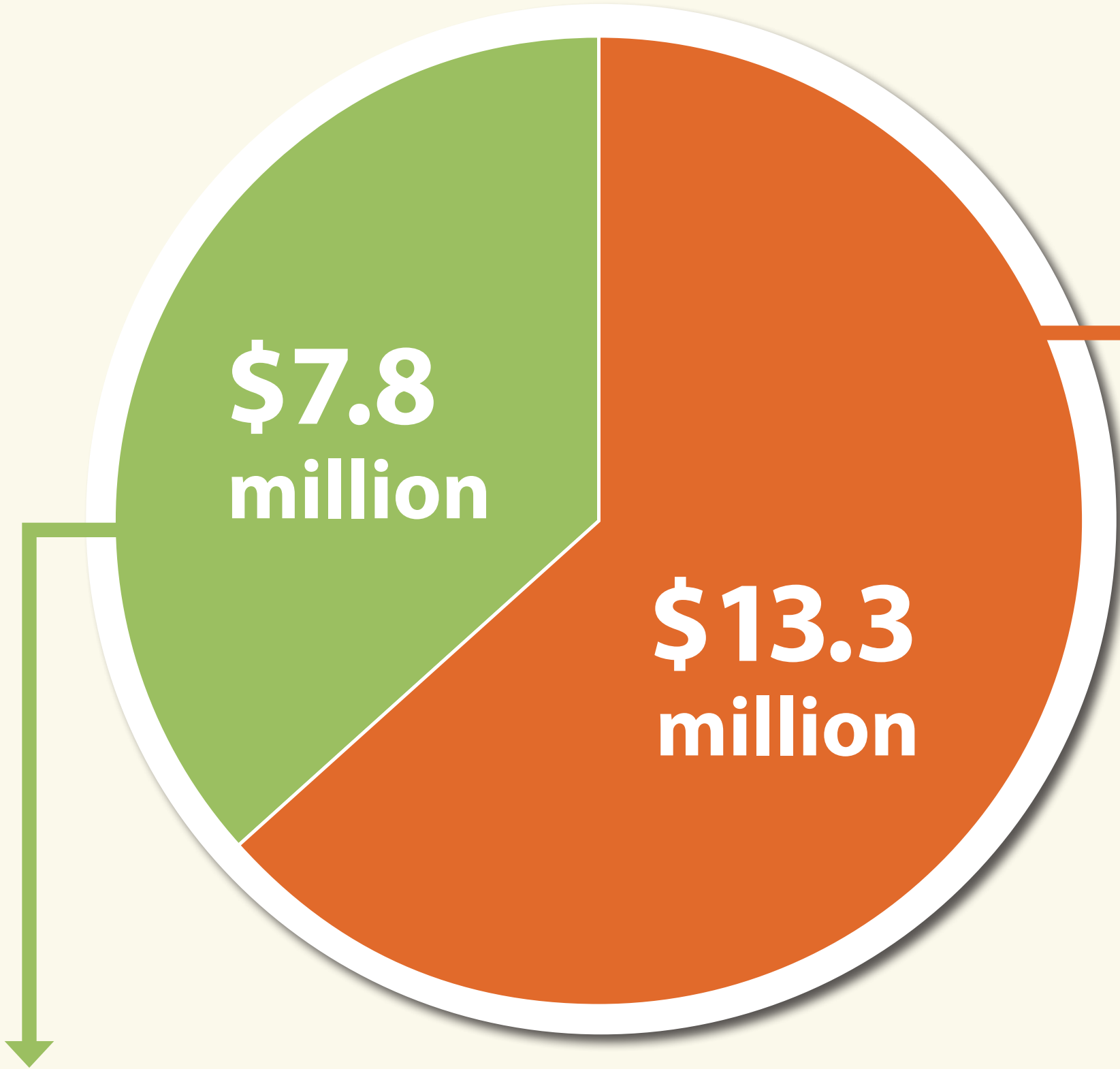
Accountability audits – These audits ensure public funds are accounted for and internal controls are in place to protect public resources from misappropriation or misuse. Notable recent findings at state agencies include issues with contract monitoring at the departments of Fish and Wildlife, Natural Resources and Ecology.



SAO's portion of I-900 funding helps state and local governments

I-900 Fund
\$21.1 million
FY2020

In 2005, Washington voters passed Initiative 900, which gave our Office authority to conduct performance audits. To pay for them, the initiative established the Performance Audits of Government Account and set aside a dedicated portion of the state sales tax as a funding stream. Several years ago, the PAGA account began funding other priorities as well. SAO currently receives just a portion of the fund. We use our portion of this fund to help state and local governments be fiscally accountable and high-performing organizations.



SAO: \$13.3 million*, which primarily funds:



Performance audits



Cybersecurity audits



Center for Government Innovation

- Joint Legislative Audit & Review Committee
- Legislative Evaluation and Account Program Committee
- Office of Financial Management, Office of the Superintendent for Public Instruction, and the Department of Natural Resources

** Also pays for school apportionment audits*

I-900 funding helps state and local governments *(continued)*



Traditional performance audits evaluate the efficiency and effectiveness of government programs with the goal of making them work better. Here are a few highlights from the past year.

Sound Transit Project Planning and Design

(June 2020) – This audit found Sound Transit could improve project planning and design with more upfront work to minimize costly change orders, particularly changes that address design deficiencies and unexpected soil and groundwater conditions. Sound Transit could also benefit from a formal lessons-learned process, which would likely result in consistent use of best practices and fewer repeated mistakes on future projects.

University of Washington School of Dentistry

(March 2020) – The School has long struggled financially, and by the end of fiscal year 2019 had accumulated almost \$40 million in debt. We identified a number of ways the School could make better financial decisions, as well as ways the University of Washington could improve its fiscal monitoring to reduce the risk of similar situations in other schools.

Child Support Payments

(September 2020) – The state has a number of tools it can use to collect past-due child support from non-custodial parents, including a program to intercept insurance claim payments. Participation in the program by insurance companies is currently voluntary, but we found making this program mandatory would increase collections of past-due child support by about \$1 million to \$3 million a year.

I-900 funding helps state and local governments *(continued)*



Specialized cybersecurity audits

examine state and local governments' IT systems to identify weaknesses and propose solutions to strengthen those systems against threats to confidential data and critical systems. Cybersecurity audits are a special

type of performance audit that aim to help improve a government's security posture through a detailed assessment of its security controls and real-time penetration tests of their systems. Since the program's inception in 2014 through the end of this fiscal year, we have published 28 audits addressing IT security issues at both state and local levels.

The expertise of our auditors and specialists also help local governments protect their IT assets through the Center for Government Innovation (more on the next slide). Our **#BeCyberSmart** campaign uses social media to point governments to our website, where we have tip sheets and more for the different roles in government.

CYBERSECURITY
is everyone's job.

I-900 funding helps state and local governments *(continued)*



The Center for Government Innovation expands the reach of I-900 by providing best practices and key results from performance audits in a manner tailored to local governments. Here are some examples of the services the Center offers:

- The [Resource Database Library](#) is a one-stop shop for checklists, tips and much more.
- [Lean training and facilitation](#) services help local government employees analyze existing processes to identify innovative ways to make existing work more efficient. This can lead to better customer service and cost savings.
- The [award-winning Financial Intelligence Tool \(FIT\)](#) is based on the annual financial information local governments are required by law to report to us. FIT repackages the data so they can conveniently analyze it for trends, or to benchmark themselves against other local governments. In 2019, we made FIT available to the public.



Transparency for special purpose districts



Special Report on unauditable governments: In June 2020, the Legislature passed a law establishing consequences for special purpose districts that do not comply with basic accountability requirements and therefore cannot be audited. The law requires us to notify the legislative authority of a county and the State Treasurer of any special purpose districts in their jurisdiction that we determine to be “unauditable governments”. In late December 2020, we will have issued the first capstone report required by this state law that showed only a few unauditable governments remain after a year-long outreach and education effort by the State Auditor’s Office.

Good government training

COVID-19 prevented in-person meetings but it did not dampen enthusiasm. From Skype to Zoom to Teams to WebEx, we met our clients where they were: Online! Here are our numbers for FY2020:

80
events

5,350
attendees

1,307
Helpdesk requests
answered



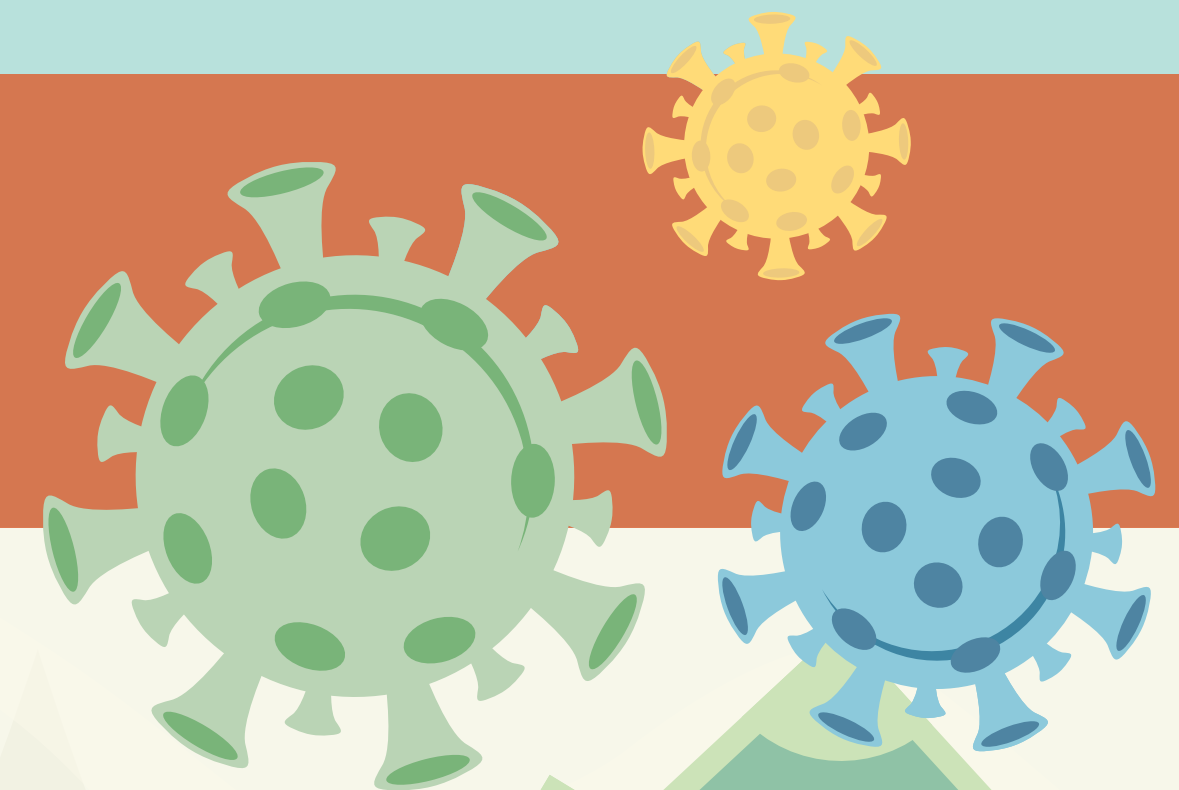
Coming in 2021

Coronavirus relief funding

The significant influx of federal money to address the COVID-19 pandemic will be a central focus of our auditing efforts in 2021 and beyond. The need for fast distribution of funds – almost \$3 billion to date – meant both local governments and state agencies sought much-needed guidance to ensure they spent the money appropriately for pandemic relief. That guidance is important to us, too: It is what we audit. SAO representatives joined forces with other states to encourage the federal government to make that guidance clear. And in Washington, we created a [COVID-19 Guidance Toolkit](#), a webpage we update regularly with the latest information on the use of pandemic funding.

In-depth look at Medicaid

We are participating in a national effort to take a more holistic look at how states account for Medicaid funding. The three-fold goal is to increase transparency into the single largest source of federal funding in Washington, to inform policymakers about our work, and to make recommendations on how to improve program management and operation. We will issue the first in a series of annual reports on Medicaid in the first quarter of 2021.



Coming in 2021 *(continued)*

Unemployment insurance fraud

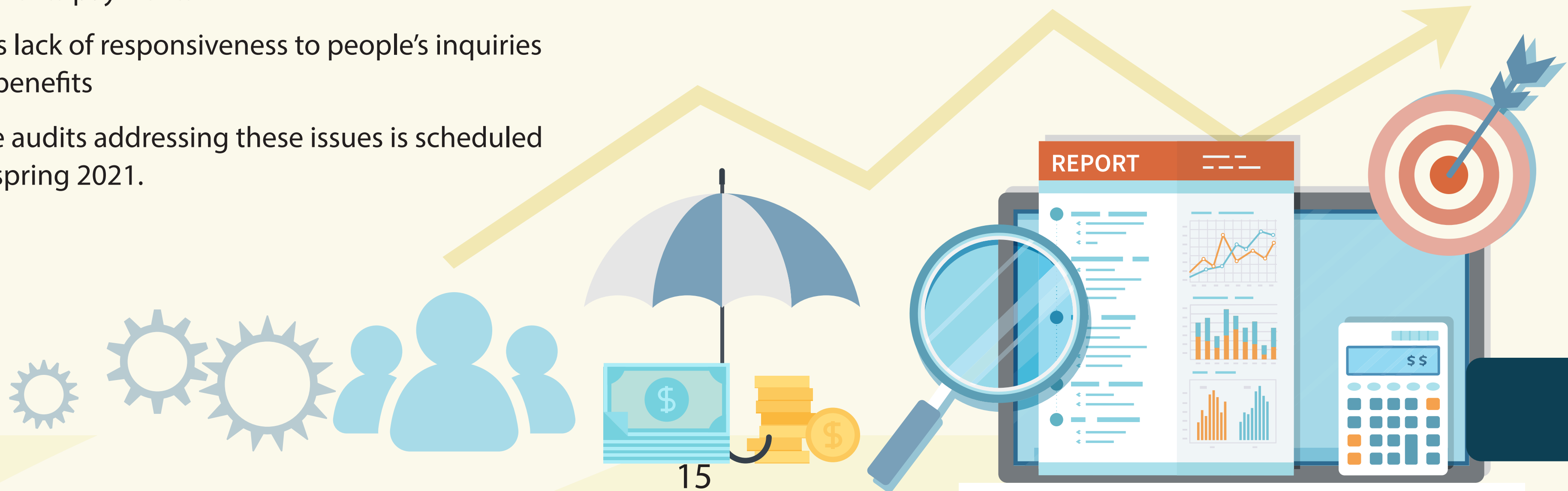
Cybercriminals targeted the state Employment Security Department in the spring of 2020, stealing hundreds of millions meant to help those suffering from unemployment because of the pandemic. We are conducting a series of audits to address three main areas of concern:

- The large-scale benefits fraud
- Delays in benefits payments
- The agency's lack of responsiveness to people's inquiries about their benefits

The last of five audits addressing these issues is scheduled for release in spring 2021.

Innovative audit on agency culture

In 2021, we will publish an in-depth analysis on the internal culture at the Department of Fish and Wildlife. Several incidents of sexual harassment, as well as concerns of stakeholders, suggested problems existed within the agency's workplace culture. This audit, using the flexibility and rigor of performance auditing, will identify how agency leaders can promote a more respectful and productive workplace so its employees can better serve the public.



“

I appreciated the consistent professionalism and communication from audit staff; and the flexibility and understanding during the shutdown (which scrambled all of our plans). Never once did the audit team seem to be unable or unwilling to flex to the new reality of remote working as it applied to our audit.

– Department of Agriculture

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