



Office of the
Washington
State Auditor
Pat McCarthy

Bridging Communication Gaps: How city councils can affect audits

*AWC annual conference
June 21, 2023*

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Innovation



SAO's mission



About SAO



**State Auditor
Pat McCarthy**



Session overview



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

Types of audits



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

1,124
audits

79 findings

Accountability audits

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

756
audits

72 findings

Financial audits

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

473
audits

117 findings

Federal audits

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

11
investigations

Fraud investigations

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

Audit process





Council's role in the audit process

Council responsibilities that auditors rely on:

Control environment & activities

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

Risk assessment

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

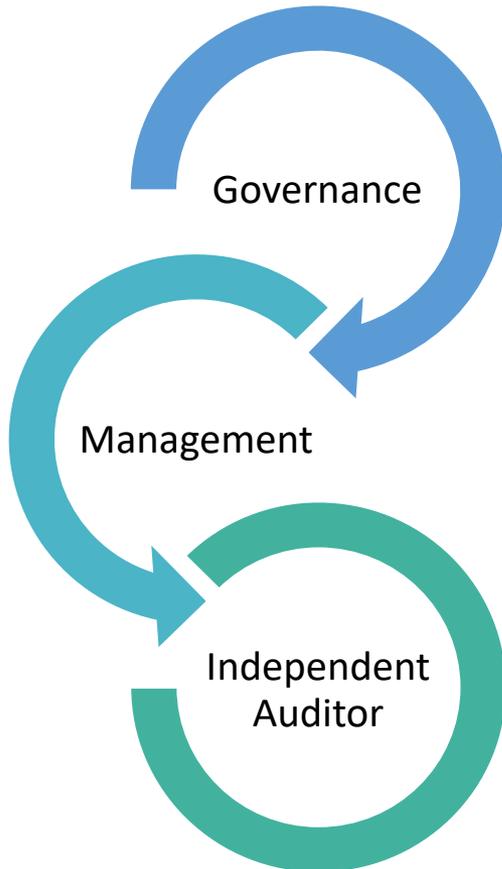
Monitoring

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

Mayor/council's role in the audit process



Working with the independent auditor:



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

Reporting levels for audit findings



Findings

Significant results that will be published in audit report

**Management
letter**

Important results that will appear in management letter

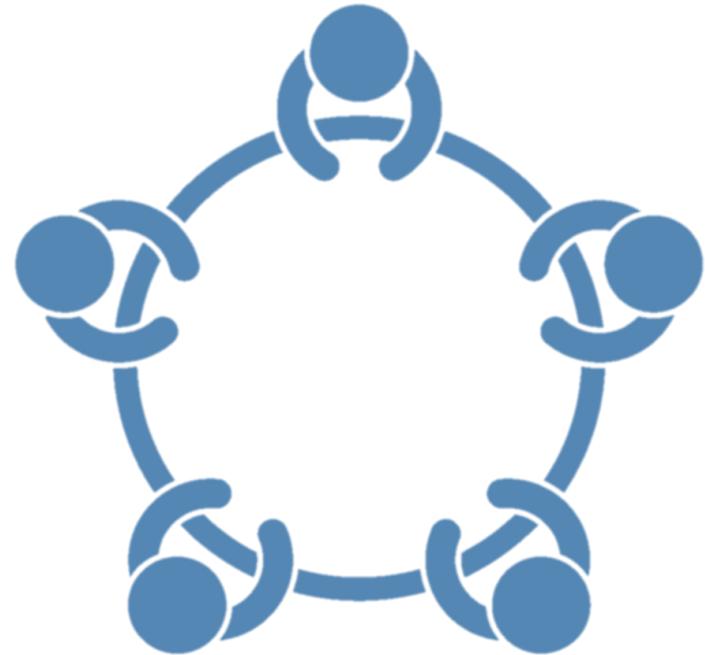
Exit items

Insignificant issues communicated to management

How city councils can help address audit recommendations



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



What auditors look for with open public meetings



Regular meetings:

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

Special meetings:

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



What auditors look for with open public meetings



Executive sessions:

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



Resources: Open public meetings

JUNE 2023

The Open Public Meetings Act

How it Applies to Washington Cities, Counties, and Special Purpose Districts



MRSC

OPMA – EXECUTIVE SESSIONS
Checklist FOR LOCAL GOVERNMENTS

The Open Public Meetings Act (OPMA) requires specific steps to be taken in order to hold an executive session. Use this checklist to guide your agency's compliance with the OPMA, as it applies to executive sessions. For more information and resources visit [mrsc.org/opma](https://www.mrsc.org/opma).

REQUIREMENT	COMPLETED
Meeting An executive session can only be held as part of a regular or special meeting.	<input type="checkbox"/>
Purpose The presiding officer announces in open session the purpose/topic of the executive session.	<input type="checkbox"/>
End Time The presiding officer announces in open session the time the executive session will end. Note: Announce a specific time – announcing a length of time is not sufficient.	<input type="checkbox"/>
Legal Counsel Legal counsel is present during the executive session, if required.	<input type="checkbox"/>
Confidentiality At the start of the executive session, participants are reminded that discussions are confidential.	<input type="checkbox"/>
Discussion topics for local governments as set forth in RCW 42.30.104. (See Notes for Specific Discussion Topics in Practice Tips section.)	
- Matters affecting national security (RCW 42.30.104(1)).	<input type="checkbox"/>
- Infrastructure and security of agency computer and telecommunications network (RCW 42.30.104(2)). Note: Requires presence of legal counsel.	<input type="checkbox"/>
- Consideration of site sale action or acquisition of real estate purchase or lease if likelihood that disclosure would increase price (RCW 42.30.104(3)).	<input type="checkbox"/>
- Consideration of the minimum offering price for sale or lease of real estate if there is a likelihood that disclosure would decrease the price (RCW 42.30.104(4)). Only minimum price may be discussed factors influencing price must be discussed in public session. See Columbia Development v. Port of Vancouver . Note: Final action selling or leasing public property must also be taken in open session.	<input type="checkbox"/>
- Complaints or charges brought against a public officer or employee (RCW 42.30.104(5)). Note: At respondent's request, discussion must be in open session.	<input type="checkbox"/>
- Qualifications of an applicant for public employment (RCW 42.30.104(6)).	<input type="checkbox"/>
- Performance of a public employee (RCW 42.30.104(7)).	<input type="checkbox"/>
- Qualifications of an applicant/candidate for appointment to elective office (RCW 42.30.104(8)). Any interviews or votes must be held in open session.	<input type="checkbox"/>
- Discussions with legal counsel regarding agency enforcement actions (RCW 42.30.104(9)).	<input type="checkbox"/>
- Discussion with legal counsel about current or potential litigation (RCW 42.30.104(10)).	<input type="checkbox"/>
- Discussion with legal counsel about legal risks of current or proposed action (RCW 42.30.104(11)).	<input type="checkbox"/>

OPMA – EXECUTIVE SESSIONS CHECKLIST AND PRACTICE TIPS FOR LOCAL GOVERNMENTS Page 4 of 4

OPMA – AGENCY OBLIGATIONS: A STARTING POINT
Practice Tips FOR LOCAL GOVERNMENTS

The basic requirement of the Open Public Meetings Act (OPMA) is that meetings of governing bodies be open and public. Use these practice tips to guide your agency's OPMA compliance. For more information and resources visit [mrsc.org/opma](https://www.mrsc.org/opma).

BASIC REQUIREMENTS

- All meetings open and public.** All meetings of governing bodies of public agencies must be open to the public, except for certain exceptions outlined in the OPMA (RCW 42.30.030).
- Quorum.** Generally, a gathering of the members of a governing body is subject to the OPMA when a quorum (majority) of the governing body is in attendance with the collective intent to take action, which includes discussion or deliberation as well as voting (RCW 42.30.020(2) & (3)).
- Attendees.** All persons must be permitted to attend and attendees cannot be required to register their names or other information as a condition of attendance. Disruptive and disorderly attendees may be removed (RCW 42.30.042 & 055).
- No secret ballots.** Votes may not be taken by secret ballot (RCW 42.30.052).
- Adoption of ordinances.** Ordinances, resolutions, rules, regulations, and orders must be adopted at a public meeting or they are invalid (RCW 42.30.060).

POSITION IN AGENCY	REQUIRED TO COMPLY
Member of a governing body* <ul style="list-style-type: none"> City or Town Councilmember or Mayor† County Commissioner or County Councilmember Special Purpose District Commissioner/Board Member 	Yes Yes Yes
Member of a subagency created by ordinance or legislative act, e.g.: <ul style="list-style-type: none"> Planning Commission Library Board Taxi Board Civil Service Commission 	Yes Yes Yes Yes
Member of a committee <ul style="list-style-type: none"> Committees that act on behalf of (exercise actual or de facto decision-making authority for) the governing body, conduct hearings, or take testimony or public comment Committees that are purely advisory 	No Yes
Agency staff	No, unless agency employee is a member of a committee that is required to comply

*In a body with a "strong" mayor, the mayor does not count towards a quorum and is only subject to the OPMA when presiding over a council meeting or serving on an executive. That is required to comply.

†In a body with a "strong" mayor, the mayor does not count towards a quorum and is only subject to the OPMA when presiding over a council meeting or serving on an executive. That is required to comply.

OPMA – AGENCY OBLIGATIONS PRACTICE TIPS FOR LOCAL GOVERNMENTS Page 1 of 2



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Top audit issues for cities

Most common:

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

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



Common audit issue: Financial reporting



How city councils can help:

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



Resources: Financial reporting



Center for Government Innovation

Internal Control Checklist for Cash Basis Preparers

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



Center for Government Innovation

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

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

Updated January 2023



Common audit issue: Federal grants

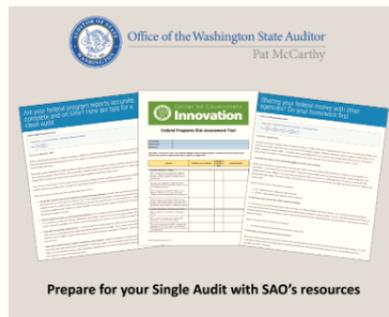


How city councils can help:

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



Resources: Federal grants blog posts



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

AUGUST 2, 2022

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



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

MAY 26, 2022

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



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Common audit finding: Procurement



How city councils can help:

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



Resources: Procurement

Buying and Bidding

Ensuring your government follows Washington purchasing laws

Brought to you by the Center for Government Innovation, a service of the Office of the Washington State Auditor
8/2022

Center for Government Innovation

Updated August 2022

Best Practices for Change Orders

Ensuring your government follows Washington purchasing laws

Brought to you by the Center for Government Innovation, a service of the Office of the Washington State Auditor
September 2020

Center for Government Innovation

Is this Bidder Responsible?

Evaluation checklist for public contracts

To qualify to be awarded a public contract, a bidder must be both responsive and responsible.

- A responsive bidder is one that has responded to all bid items and has included all required elements in their bid submitted - this is fairly straightforward
- A responsible bidder is one that meets a set of "responsibility criteria" as defined in state law and this can be complex to evaluate

To help you navigate whether your bidder meets the responsibility criteria, we have compiled a checklist that you may use to walk through this evaluation. We have also included answers to frequently asked questions that we receive. We hope that you find all of this information helpful in navigating this challenging topic!

April 2021

How to Evaluate Responsible Bidders | 1

Resources: Procurement

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

Piggybacking under Washington State Law



Brought to you by the Center for Government Innovation,
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April 2023



Updated April 2023



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



How city councils can help:

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



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



How city councils can help (continued):

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

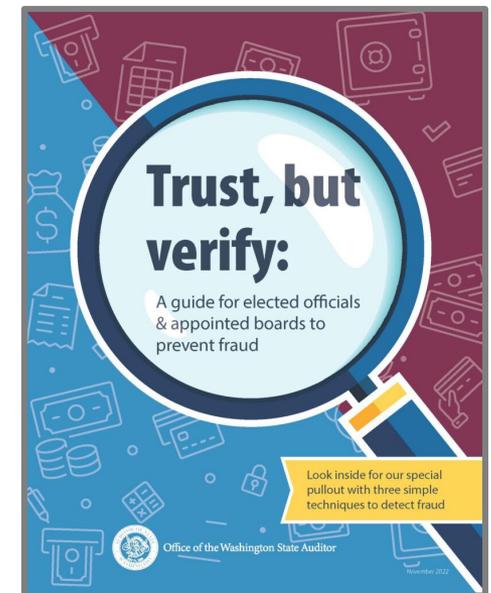


Fraud-prevention resource for elected officials and appointed board members



The guide is organized into three sections:

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



New Resources: Electronic payments

Best Practices for Sending Wire Transfers

Center for Government Innovation



Office of the Washington State Auditor
Pat McCarthy

Wire transfers move money from one bank account to another almost instantaneously. They are generally considered safe as long as the sender is confident the transaction is valid, and the wiring instructions are accurate. In today's environment, those 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 potentially to purchase property.



August 2022

Best Practices for S

Best Practices for ACH Electronic Payments

Center for Government Innovation



Office of the Washington State Auditor
Pat McCarthy

Governments are increasingly using Automated Clearing House (ACH) payments to pay employees and vendors, replacing more costly checks and warrants. These are electronic bank-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.

Today, bad actors target ACH transactions using social engineering or by having direct system access. In social engineering schemes, bad actors may pose as vendors to get employees to approve changes to contact and/or bank account information in order to divert payments. Employees and others 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.



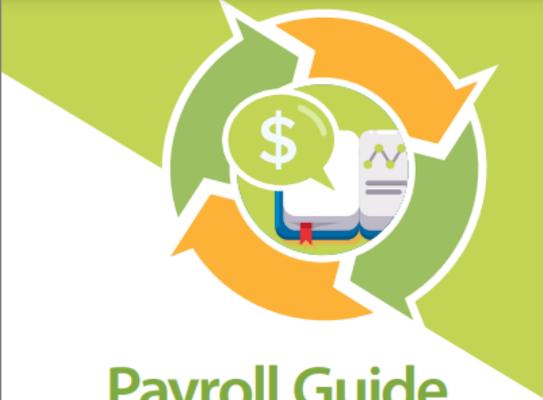
September 2022

Best Practices for ACH Electronic Payments | 1



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Resources: Accounts payable & payroll



Payroll Guide
Improving your processes:
Tips for leaders, managers, supervisors
and payroll clerks

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

First edition, September 2021




Leadership

Leadership

Improve your payroll policies today!

Payroll is a significant expenditure for most governments. That's why it's important to develop guidance that covers all aspects of compensating employees, as well as specific guidance for processing payroll. While it's not possible for this resource to cover every topic you should include in your personnel or payroll policies, here are some ideas to get you started.

Establish the rules for all employees

It's important to have up-to-date personnel policies for all matters that affect compensation and benefits. Your policies should address areas like:

- **Salary or wage setting** - Describe the documents you will maintain to support salaries, wage rates and changes to them. Designate who authorizes these key documents for the organization as a whole, for each position and for each employee.
- **Non-standard compensation** - Your policy should cover all types of compensation, even those that are infrequent or only paid out in specific circumstances.
- **Timekeeping expectations** - It's important to address who is expected to record time worked, how it should be recorded, and how it will be approved. If you decide exempt employees will not submit time records, your policy should address how time off will be reported and approved for those individuals.
- **Overtime** - This is an area where entities often struggle to align actual practice with policy. Take time to understand how overtime is calculated and paid by your organization, compare actual practice to your policy and then make policy updates if appropriate.
- **Underpayments and overpayments** - Describe your process for correcting errors.

The Municipal Research and Services Center (MRSC) has many examples of personnel policies on its website: <https://mrsc.org/lines/climate-topics/personnel-local-rules-and-policies/personnel-policy-manual.aspx>.



Payroll Guide | 4



Accounts Payable Guide
Improving your processes:
Tips for leaders, managers, supervisors
and accounts payable clerks

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Brought to you by the Center for Government Innovation,
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First edition, November 2021




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Know your city's financial health

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



Resources:

Financial Intelligence Tool



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



Accounts payable & receivable

Cash receipting

Payroll

Assets

Cybersecurity

Federal funds



Fraud prevention

Procurement

Public records & open meetings

GAAP & Cash financial reporting

Revenues & expenditures

Technology

SAO's online Resource Library





AUDITOR OF STATE WASHINGTON

In the **KNOW** with SAO

SAO's annual filing workshops are in March

SAO will provide an overview of the annual report's components and a walk-through of how to use the online reporting system in this **live, no-cost webinar** for cash basis and GAAP governments. If you're a new user or need a refresher, register today!
+ Cash webinars: March 7 and 28
+ GAAP webinars: March 9 and 29

[Register Now](#)

Update: BARS coding and accounting guidance for state opioid lawsuit revenue

Back in October, we provided guidance on the correct BARS coding for settlement payments from the state's opioid lawsuit. We've updated the article with additional accounting guidance for both cash basis and GAAP governments receiving these payments.

[Read More](#)

Are you in compliance with the Equal Pay and Opportunities Act? L&I can help

The Washington State Department of Labor & Industries (L&I) offers free customized consultations to help employers understand how the Equal Pay and Opportunities Act may affect their organization and employment practices.

[Read More](#)

Ethics for local public employees

Elected officials and their staff often face questions about

Two ways to sign up:

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

Subscribe to SAO's e-newsletter



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

#BeCyberSmart

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



Why get a checkup?

The Center's new checkups will help your government:

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



sao.wa.gov/becybersmart

Questions



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