



Office of the Washington State Auditor

Pat McCarthy

Entrance Conference: Mason County Fire Protection District No. 6

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 audit:

Accountability audit for January 1, 2020 through December 31, 2022

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:

- Procurement – purchases and public works
- Payroll – gross wages, overtime, leave balances and accruals and leave cash outs
- Self-insurance for unemployment
- Open public meetings – compliance with minutes, meetings and executive sessions
- Financial condition – reviewing for indications of financial distress

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 \$11,000, plus travel expenses.

Expected Communications

During the course of the audit, we will communicate with Heather Fredrickson, Office 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 Heather 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

Washington state law requires all state agencies and local governments to immediately notify SAO if staff know or suspect loss of public resources, or of other illegal activity including a cyber-attack if it resulted in a loss of public resources or potentially impacted financial records or systems. State and local government employees should alert us to suspected fraud through the online Report a Suspected Fraud or Loss form below. These notifications can be made on our website at www.sao.wa.gov/report-a-concern/how-to-report-a-concern/fraud-program/.

Cybersecurity Loss Reporting

State and Local governments may also be required to report cybersecurity issues to the Washington State Attorney General's Office (AGO) or to the State Auditor's Office, including security breaches and cyber fraud. To learn more about when to report cybersecurity issues, please visit our website at <https://sao.wa.gov/has-your-government-experienced-a-cybersecurity-issue-here-is-when-and-how-to-report/>.

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:

- Trust, but verify: A guide for elected officials and appointed boards to prevent fraud
- SAO Audit Connection newsletter - September 2023 contains a message from State Auditor, Pat McCarthy as well as useful information about cybersecurity, spotting cyber-fraud techniques, and new OPMA materials

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

Danae Welty, Assistant State Auditor - Danae has been the State Auditor's Office since May 2021. Prior to joining Team Port Orchard, Danae served in the US Army as a Military Police Soldier. She has led and assisted on audits of many different local government types. Phone: (360) 845-1489 or Danae.Welty@sao.wa.gov

Amy Strzalka, CPA, Program Manager – Amy has worked for the State Auditor's Office since 2013. In her role, she oversees Team Port Orchard, which performs financial, single and accountability audits for local governments in Kitsap, Mason, Jefferson, Clallam, and portions of Pierce and King Counties. She also oversees our Agency's audits of Fire Districts, Emergency Services Agencies and Trauma Care Councils. She previously served as an Assistant Audit Manager for the Port Orchard team and as the Agency Reporting Specialist for the Audit Support and Quality Assurance team. Amy has a Master's Degree in Accounting and is a Certified Public Accountant. Phone: (360) 845-1476 or Amy.Strzalka@sao.wa.gov

Tina Watkins, CPA, Assistant Director of Local Audit – Tina has been with the Washington State Auditor's Office since 1994. In her role as Assistant Director, she assists with statewide oversight and management of all the audits for local government. She served as an Audit Manager for six years prior to becoming an Assistant Director of Local Audit. Phone: (360) 260-6411 or Tina.Watkins@sao.wa.gov

Kelly Collins, CPA, CFE, 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



Trust, but verify:

A guide for elected officials
& appointed boards to
prevent fraud

Look inside for our special
pullout with three simple
techniques to detect fraud



Office of the Washington State Auditor

November 2022

Preventing fraud begins at the top

Fraud occurs when an employee is deliberately deceptive in order to attain personal or financial gain, and it costs businesses billions of dollars every year. While corporate fraud may dominate the headlines, in reality, smaller organizations—including local governments—are more vulnerable to fraud, and their average financial loss is twice that of larger organizations.

Employee fraud often comes as a shock to those charged with oversight of a government when it happens in their own agencies. It shouldn't. Just because fraud hasn't been discovered or possibly hasn't happened, does not mean that your agency is not vulnerable.

Not only can fraud damage your government's finances, assets and hard-earned reputation, it can also affect your government's ability to obtain funding, attract top staff and maintain public trust.

As an elected official or a member of an appointed board, you have a duty to understand your government's operations. You also have a key role to play when it comes to fighting fraud. Boards and other officials have the responsibility to lead by example, which demonstrates to employees that you are committed to preventing, detecting and responding to fraud.

The State Auditor's Office (SAO) created this resource to help you understand your role as an elected official or board member in fighting employee fraud. Throughout this resource, you will find tips for implementing policies and best practices that can help you prevent, detect and respond to fraud in your government.



Types of employee fraud

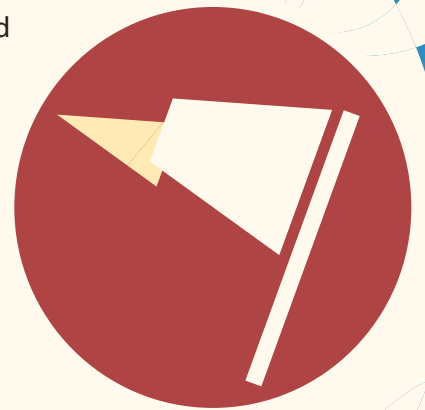
Employee fraud comes in many forms and appears at all levels within your government. An employee intending to commit fraud will often take their time to learn a process fully before they misuse it for personal gain. Examples of fraud schemes used by employees include:

- Pocketing cash or equivalent (inventory/equipment/supplies)
- Not properly recording vacation and sick leave used, and then cashing out leave
- Falsifying reporting of overtime or extra pay, or creating and adding fictitious employees to the payroll
- Changing vendor bank account information to their personal bank account
- Using agency credit cards and/or fuel cards for personal purchases
- Submitting reimbursements for expenses not incurred
- Using government assets for personal gain

Red flags

Employees who commit fraud often show certain behaviors—or red flags—that indicate they might be engaging in wrongdoing. While these red flags do not always mean that an employee is committing fraud, understanding and recognizing them can help your government more quickly detect fraud and mitigate any losses. For example, an employee who works long or odd hours and does not take sick leave or vacation may seem like a very dedicated public employee. However, that employee may also be taking advantage of business hours in which they are less likely to get caught committing fraud. Here are other behavioral red flags to be aware of:

- Living beyond their means
- Experiencing financial difficulties
- Excessive control issues or unwillingness to share duties
- Unusually close relationship with a vendor or customer



The ACFE 2022 Report to the Nations concluded that at least one of these red flags appeared in 92 percent of fraud cases. The ACFE also estimates that the average organization loses 5 percent of its annual revenue to fraud each year, causing a median loss of \$117,000 before it is detected.

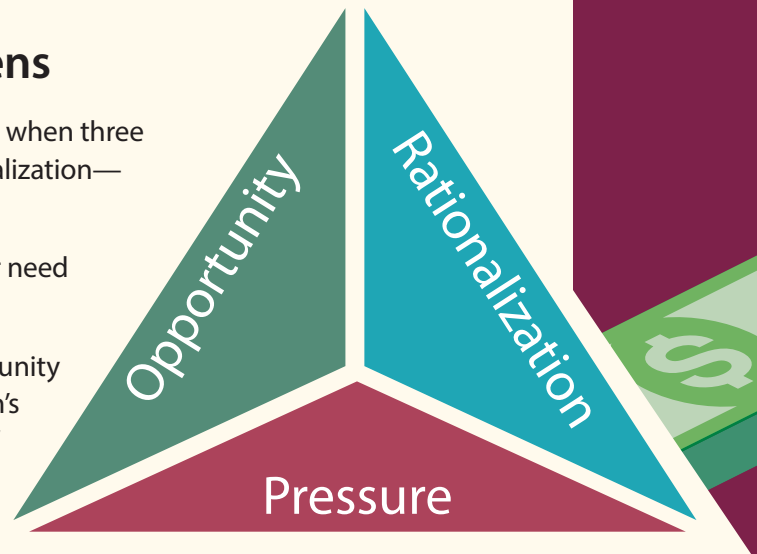
SAO investigates frauds in all types of governments, from large state agencies to small special purpose districts. We have found that people in all types of positions at every level of government, from administrative assistants to department heads and elected officials, perpetrate fraud. On average, our office reports \$3.8 million of public fund losses annually. No matter what type or size of government you oversee, fraud could happen to you.

How employee fraud happens

Usually, an employee chooses to commit fraud when three factors align: pressure, opportunity and rationalization—also known as the Fraud Triangle.

- **Pressure.** The employee has a motivation or need for money, often due to financial hardship.
- **Opportunity.** The employee has the opportunity to commit fraud because of the organization's poor internal controls. For example, a lack of segregation of duties allows an employee to commit and conceal the fraud at the same time.
- **Rationalization.** The employee convinces themselves that what they did was okay. For example, they rationalize that they deserve the additional compensation because they are underpaid and overworked.

An organization has little control over the pressures an employee may feel or the rationalizations they may make. To break the Fraud Triangle, governments instead must focus on reducing the opportunity for a fraud to occur.



Learn more

ACFE explains the Fraud Triangle in this short [video](#)

Preventing fraud

Your first line of defense in minimizing fraud risk is fraud prevention. Board members have a responsibility to develop an organization-wide framework that aims to prevent fraud. Here are tips to consider when designing your government's fraud-prevention framework:

- **Set the tone at the top.** A key responsibility of the board is to set the appropriate tone at the top through your attitudes, actions and communications. This tone helps define your agency's culture and influences the behavior of managers, employees, vendors, contractors and other stakeholders.
- **Set expectations for every employee as it relates to fraud.** Do not tolerate fraud at any level of the agency. Communicate this message—verbally and in writing—to all your employees. Ensure that management is encouraging ethical behavior and empowering employees, customers and vendors to insist that ethical standards are met every day.
- **Talk about fraud risks at your board meetings.** Have discussions at the board level about how fraud could occur, what internal controls your government has in place to prevent fraud, and how someone could override those controls.
- **Establish a fraud policy.** A well-crafted fraud policy is critical for communicating your agency's anti-fraud stance, the expected process for reporting fraudulent actions, and what happens to those who commit fraud. Your policy should focus on deterrence, detection, and correction of misconduct and dishonesty.
- **Be alert to the possibility of conflicts of interest.** It is not always possible to avoid conflicts of interest. Make sure that you identify and appropriately manage any potential, perceived or actual conflicts. For example, be aware of an employee—or even another board member—using their position to make financial decisions that result in an undisclosed personal gain.
- **Beware of the trusted employee syndrome.** The trusted employee syndrome occurs when boards and executives put full faith into someone and rely on their word because they trust them. It is great to have trusted employees in your agency, but you should also ask to see information from independent sources to verify their work, such as system-generated reports and actual bank statements. Remember: Trust is not an internal control.



Learn more

Sample fraud policies from

- > [Association of Certified Fraud Examiners](#)
- > [The Fraud Advisory Panel](#)



- **Attend meetings and interact with your external and internal auditors.** Do you understand the risks and issues auditors have identified relating to internal controls? SAO's auditors encourage board members to attend entrance and exit meetings for audits, and they will talk with you about risks your agency might encounter.
- **Perform a fraud risk assessment.** A risk assessment is a process for identifying your government's vulnerabilities to fraud and developing a plan to mitigate those risks before they cause damage. As board members, you can perform this assessment annually or hire a consultant to complete an independent assessment. Your insurance company may also provide this service for a small fee.

After you have completed your risk assessment, you will want to evaluate your government's insurance coverage for fraud loss. Make sure your agency has adequate coverage in the event a fraud occurs and that you regularly reassess whether it is enough. Also, take a close look at which employees you are bonding to minimize the agency's risk of misappropriation.

How to perform a risk assessment:

1. Identify and document risks

Start with identifying fraud risks, which should include consideration of all types of schemes and scenarios, incentives, pressures and opportunities to commit fraud.

2. Weigh the risks

Assess the relative likelihood of each fraud risk occurring. Interview staff and other key stakeholders to learn more about their roles.

3. Mitigate the risks

Decide what the response should be to address the identified risks. You may want to conduct a cost-benefit analysis of fraud risks to help determine which controls or specific fraud-detection procedures to implement.

4. Monitor the risks

Continually monitor the identified risks and conduct ongoing risk assessments to help mitigate them.

Keep in mind that executives and those higher up in management can cause the largest losses for an agency. Someone in your agency who is willing to steal likely knows the controls and operating procedures that are in place to prevent fraud—and they also know how to circumvent those controls and how to conceal their fraud. When evaluating the effectiveness of your controls, it is important to keep in mind the risk of management override.

Learn more

Watch this 6-minute video on how to conduct a [fraud risk assessment](#).

Detecting fraud

You can never fully prevent fraud, so it is important to have a process for identifying fraudulent activities or attempts. As a board member, you are ultimately responsible for ensuring management fulfills its internal control responsibilities.

Too often, smaller organizations—those with fewer than 100 employees—rely on external auditors to detect fraud. Yet, when it comes to detecting fraud, auditors typically identify only about 5 percent of fraud cases. Auditors should not be viewed as a substitute for your board's own ongoing monitoring and development of policies and procedures.

Top five ways perpetrators conceal their fraud

Are you hesitant to review documents and ask staff too many questions? Here are the most common methods—according to the ACFE—that employees use to conceal their fraud, which underscore why your board should pay attention.

SAO's [Segregation of Duties](#) guide describes how to separate conflicting duty assignments to protect your government's assets. It covers all types of financial processes from cash receipting to payroll and banking. The guide also includes additional internal control options for small governments or small operations within larger governments.

39%

created fraudulent physical documents

32%

altered physical documents

28%

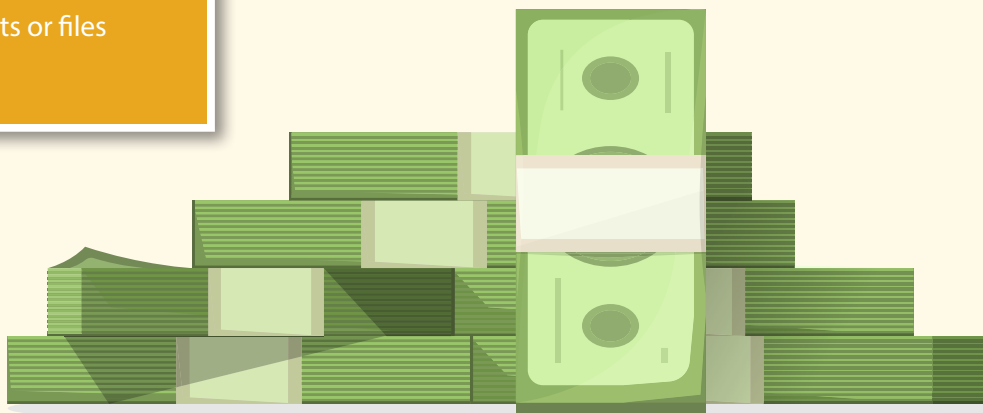
created fraudulent electronic documents or files

25%

altered electronic documents or files

23%

destroyed or withheld physical documents

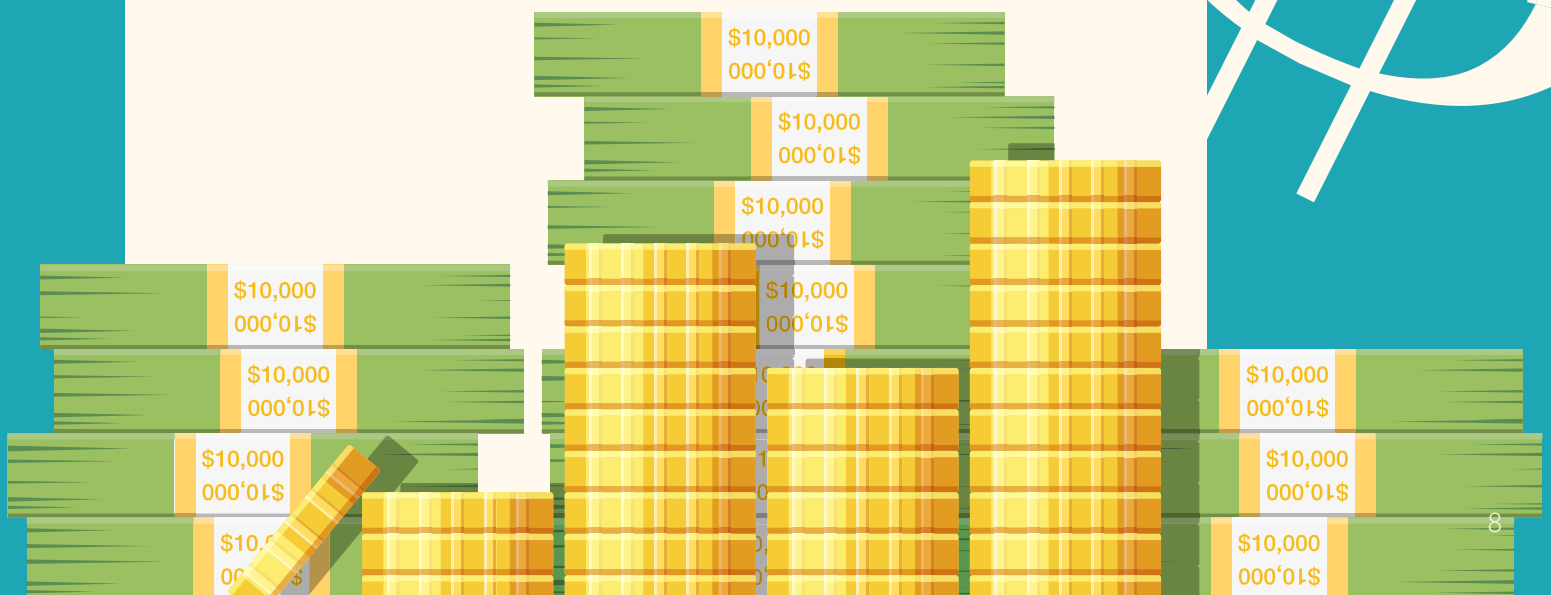


Here are tips for improving your board's ability to detect fraud:

- **Make sure your board is receiving accurate and timely financial information.** Most boards have fiscal responsibilities relating to budgeting or approving expenditures. For example, it is very important that you review actual documents and system-generated reports before approving expenditures.
- **Ask questions to ensure you understand what you are approving,** and make sure those answering your questions can provide adequate supporting documents.
- **Set up a tip hotline.** A tip hotline offers an anonymous way for people to report concerns via phone, mail or internet about suspected fraud. According to the ACFE, tips are the most common detection method by a significant margin—42 percent in the 2022 report—with more than half coming from employees and another 18 percent from customers. Many insurance companies or government risk pools may be able to help provide this service to your government at a very low cost. It is important to make sure that someone independent of operations, such as a board member, receives those tips.

If you do not know much about operations, consider first assessing your government's internal controls over financial reporting. This will help you understand how you can implement controls to mitigate risks. SAO has [a self-assessment tool](#) to help you get started.

On the next page, see SAO's list of the top three areas board members should review and monitor to detect fraud.



Three Simple Fraud Prevention & Detection Reviews

1

Review
expenditures
before you
approve them

DO NOT accept verbal presentations or answers when approving expenditures.

DO

1. Review original documents and system-generated reports before approving expenditures.
2. Ask questions to make sure you understand all expenditures paid, which will help to confirm and verify expenses are for legitimate business purposes.
3. Make sure the staff answering your questions can provide adequate, original documents to support their statements.

2

The **truth** lies
in the bank
statements

DO NOT ignore your agency's bank statements or think you do not have enough time to review them.

A simple 15-minute scan of the transactions could help you detect unusual activity, especially if you review the statements each month and develop a baseline expectation of activity level and type.

DO

1. Make sure you know the source of the bank statements. Are they original, or are they copies that an employee could have altered before providing them for review?
2. Independently review the bank statements. If the employee misappropriating funds is the same person reviewing the bank statements and performing the reconciliation, the loss of funds could go undetected for years.
3. Take the time to understand how money comes in and goes out of your agency. Failure to review the bank statement might seem like a small oversight, but it could have drastic consequences. Bank account activity is the core source of a government's money flow in and out.

3

Pay
attention
to payroll

DO NOT accept verbal presentations or answers when approving payroll amounts. Employee compensation is typically one of the largest operating expenses for governments.

DO

1. Request a detailed payroll report that shows compensation paid to each employee.
2. Review employee compensation by types of compensation paid, such as salaried amounts, overtime, stipends or extra pay.
3. Ask questions to make sure you understand any compensation paid that is beyond the normal salaried amounts.
4. Make sure employee compensation agreements are documented and clearly defined. Consider annually comparing actual amounts paid to employment agreements to confirm that the amounts paid align with agreements.

Responding to fraud

If your government has not experienced an employee fraud yet, it likely will at some point. Moreover, when fraud is suspected or confirmed, it can be a chaotic time for your government. Being prepared to respond to a fraud event is critical to your government's response time, recovery and overall credibility.

Preparing for fraud before it happens

- **Develop a fraud response plan.** Having a fraud response plan to follow will help your board navigate through the crisis effectively and efficiently. The plan should include important steps to follow when addressing a fraud concern and help with identifying important details around the suspected or confirmed fraud. It should include how to handle notifying others who need to know, such as legal counsel, law enforcement and SAO.
- **Plan for negative public and media attention before it happens.** As part of your fraud response plan, designate a spokesperson for your agency and develop a process for handling media inquiries. Consider media training for your board, too.

What to do when you discover fraud

Washington state law (RCW 43.09.185) requires all state agencies and local governments to notify SAO immediately if staff suspects or knows that a loss of public resources or other illegal activity has occurred.

In the unfortunate event that your government is victim to fraud, we recommend you take the following actions:

- Follow your fraud response plan.
- Report the loss to SAO using the form on our [website](#). Even if you do not have all the information yet, report the loss as soon as you can. You can always update a loss report when you have more information to share.

The 10 Rs of Crisis Management is a good road map for designing a plan to respond, manage and recover from employee fraud.

Make sure to formally document your fraud response plan and incorporate it into your fraud policy.

- Protect your agency's accounting records. Secure all original records related to the loss in a safe place until SAO has completed its investigation. For example, you should secure backup copies of computer records and original paper records related to the situation in a vault, safe or locked cabinet until the investigation is complete.
- Notify others who need to know. This may include other governing board members, department managers or financial officers, depending on the circumstances.
- Notify your legal counsel and file a police report with the local or state law enforcement agency, if appropriate.
- Do not enter into a restitution agreement with an employee before an investigation has established the amount of loss. Under state law (RCW 43.09.260), local governments must obtain written approval from SAO and the Attorney General's office before they make any restitution agreement, compromise, or settlement of loss claims covered by [RCW 43.09.185](#).

Learn more

Questions about fraud?
Contact SAO's Fraud
Investigations Team at
fraud@sao.wa.gov

Tips for responding to public and media attention

- **Act and respond quickly.** Designate a spokesperson (if you have not already). This can be an executive leader or an elected/appointed leader. Do your best to find someone who has had some media training.
- **Be transparent.** Try to have as many facts confirmed as possible before speaking publicly. Once you do speak publicly and you get a question that you do not have an answer to, it is okay to say that you do not have the information at the moment, but will find out.
- **Tell the truth the first time.** Make sure your facts are nailed down. Changing a series of facts after you have gone public with them breaks trust. If possible, tell the whole story at once. Try your best to avoid trickling out information.
- **Keep the audience as the focus.** Remember, reporters are trying to inform the same people you are. Do not argue with them. Ignore intentionally antagonistic people online. Do not block them, but do not engage with them either.

Additional resources

- [Suspect a loss of public funds?](#) This resource provides basic guidance on what to expect when working with SAO.
- [SAO's Resource Library](#) offers a variety of free guides, checklists and best practices to help Washington governments improve internal controls to prevent fraud.
- [SAO's Preventing Fraud webpage](#) contains multiple internal control assessment tools, guidebooks, free training links, and additional resources to help combat fraud.
- [Bank statements deserve your attention.](#) This article provides tips and best practices for what to look for when reviewing bank statements.
- [Fraud Prevention Checklist](#) – This checklist can help you test the effectiveness of your fraud prevention measures.
- The Association of Washington Cities (AWC) provides multiple educational resources and services for governments. Specific to risk management, we suggest looking at these pages:
 - > [Risk Management Service Agency \(wacities.org\)](#)
 - > [Elected officials essentials workshop \(wacities.org\)](#)
- [The Municipal Research and Services Center \(MRSC\)](#) provides good guidance on board responsibilities and practical tips for board members.

For assistance

This resource was developed by the Office of the Washington State Auditor. Please send any comments, questions, or suggestions to the Special Investigations Team at fraud@sao.wa.gov.

Disclaimer

This resource is provided for informational purposes only. It does not represent prescriptive guidance, legal advice, an audit recommendation, or audit assurance. It does not relieve governments of their responsibilities to assess risks, design appropriate controls, and make management decisions.





"Our vision is to increase **trust** in government. We are the public's window into how tax money is spent."

– Pat McCarthy, State Auditor

Washington State Auditor's Office
P.O. Box 40031 Olympia WA 98504

www.sao.wa.gov

1-564-999-0950



Office of the Washington State Auditor

The Audit Connection



Greetings

WASBO

2023

Spokane
May 3- 5

Welcome to WASBO 2023! The Office of the Washington State Auditor is delighted to see everyone in person again this year, and share all the ways we can work together on #GoodGovernment.

Check out our sessions

- SAO Audit Update
- Protect Your District's Data
- Strengthen Your Team
- Help With ASBs
- Managing Change With Lean

Stop by our exhibitor booth

- Come see your district's FIT profile
- Learn what trainings we offer
- Meet SAO staff and ask questions

McCarthy's Corner

I'm happy to present the 2023 edition of the schools-focused Audit Connection, just in time for the annual conference of the Washington Association of School Business Officials. We hope to see many of you there.

Continued on page 2



Have a peek inside

- 2 Lease accounting (GASB 87) and the capitalization threshold
- 3 Emergency Connectivity Fund program documentation challenges
- 4 Get familiar with FIT and school district data
- 5 How charter and tribal schools fare under public audit
- 7 Are your school district's finances ready for an earthquake?
- 10 New SAO resource to help protect district ACH payments
- 11 Learn about SAO's new fast, free and independent cyber checkups
- 12 An invitation to visit SAO's Center for Innovation's new webpages
- 13 What you need to know about ASB and cash receipting
- 14 How to evaluate your risk when making electronic disbursements

May 2023

I'm glad in-person conferences have returned after managing through the darkest days of the COVID-19 pandemic. But both school business officers and our auditors are still accounting for that historic time.

Everything about public education was unsettled, and major new federal programs were launched. We've seen that some school districts struggled to meet all the requirements of pandemic-related federal grants in the past year. They are not alone.

Many local governments, from small special purpose districts to large counties, found understanding and complying with federal expectations a challenge. We appreciate your collaboration as we work together through the continuing complexity of a historic period.

Looking to the future, an exciting set of changes is coming to our award-winning Financial Intelligence Tool, also known as FIT. As you may know, FIT allows local governments to monitor key metrics through their financial reports and compare themselves to peers on those measures.

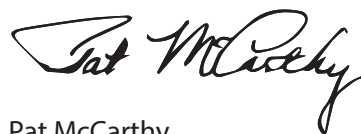
We now have three years of school data to display in FIT. Later this year, we plan to launch a mobile-friendly version of the tool. And starting in 2024, we will make FIT's school district data available to the public, just like data from other governments. We believe it is a positive way to demonstrate transparency and accountability, which in turn increases public trust.

No one knows more about schools' financial accountability than the members of WASBO. And this edition of the Audit Connection is packed with news you can use in your work.

Inside you'll find information on:

- Our new "cyber checkup" program
- Emerging audit issues
- ACH fraud, a growing concern for all governments
- Reminders about ASBs and fundraisers
- And much more

Finally, as a parent and former school board member, I know how important schools are to every community. Enjoy the WASBO conference! It's a pleasure to share ideas, hear about new issues, and visit our colleagues in public education.



Pat McCarthy

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

State Auditor Stewardship Awards

Don't miss lunch on Thursday, when leaders from the Office of the Washington State Auditor honor two recipients of the State Auditor Stewardship Awards.

Emerging issue: Lease accounting (GASB 87) and the capitalization threshold

As school districts follow GASB Statement No. 87, the new reporting requirement for leases, auditors have noticed a common theme: Districts need more clarity on establishing a capitalization threshold.

The goal of GASB 87 is to increase lease comparability across governments and provide financial statement users with better, more complete information by

establishing a single model for lease accounting. Districts have done well overall in implementing this standard for the year ending Aug. 31, 2022, which is currently under audit.

OSPI Bulletin No. 056-21 contains a general overview of the requirements. The bulletin states that districts may establish a lease liability threshold for leases that

Continued on page 3

are clearly insignificant individually and in the aggregate. The **Accounting Manual for Public School Districts** does not prescribe a specific dollar amount because districts of all sizes must be able to use the guidance.

Based on the number and size of leases they have, districts must determine a threshold that is both insignificant and a fixed number. If the threshold is too high, it might result in districts omitting leases beyond what is “clearly insignificant” in the aggregate. For

example, a percent of expenditures would not be a good threshold to apply to individual leases for reporting decisions because it would not be fixed and would result in a threshold that is significant. The threshold should be low, perhaps in the thousands of dollars, and be a fixed number rather than a percentage or a ratio.

If you have technical questions, remember you can ask SAO for guidance through our HelpDesk. Simply log into the **client portal** and follow the instructions.

Emerging issue: Emergency Connectivity Fund program documentation challenges

While auditing school districts’ federal programs this year, auditors have noted a challenge related to the Emergency Connectivity Fund (ECF) program. This program was part of the federal government’s COVID-19 relief package and intended to facilitate a fast conversion to remote learning.

The program often was not listed on districts’ Schedule of Expenditures of Federal Awards when it should have been. This appears to have happened because the federal funds were managed by districts’ information technology departments, bypassing their business offices where internal controls over federal programs are typically managed.

As a result, the program was not initially included in districts’ federal single audits when it likely should have been. Additionally, districts are having trouble providing the documentation the program requires.

To make sure we are interpreting the requirements correctly for audit purposes, we verified them with the Federal Communications Commission, the awarding agency.

Specific to the ECF grant, the documentation must show that award funds were used only to purchase equipment and services for students and staff with “unmet need,” meaning they did not have adequate resources to learn or work remotely.

The documentation must be:

- **Specific.** For example, it might consist of a list of each student or employee who checked out the equipment, along with information supporting the unmet need of each person.
- **Relevant and accurate at the time of reimbursement.** For example, counts or data from the initial grant application phase are likely neither relevant nor accurate at the reimbursement stage.

For more information about program requirements and a list of frequently asked questions, please refer to the FCC’s webpage dedicated to this program: <https://www.fcc.gov/emergency-connectivity-fund-faqs>.



Get familiar with FIT and school district data

We are excited to announce that our interactive Financial Intelligence Tool (FIT) now contains three years of school district financial data. FIT is a unique and powerful way to visualize and analyze the financial data of Washington's local governments.

Before school district data becomes visible to the public through FIT in January 2024, we are providing schools the opportunity to become familiar with the tool. We encourage you to look at your district's financial data, trend information, and data visualization of revenues and expenditures.

This is the first step to fully integrating school district data into FIT, which lets users search, filter, and compare financial data from across the state. In January 2024, FIT users like journalists, bond rating groups and lenders, legislators, the public and others will be able to explore and compare how school districts receive and spend public dollars.

How to access your data

To access your data in FIT, follow these simple steps:

1. Find FIT at portal.sao.wa.gov/FIT.
2. Read and accept the information window, which says that the application contains data submitted by local governments.
3. Click the login button near the top of the page. You should enter the credentials you use to submit your district's data to SAO.
4. Use the "Find Government by Name" menu on the left-hand side of FIT to find your school district and access its profile.

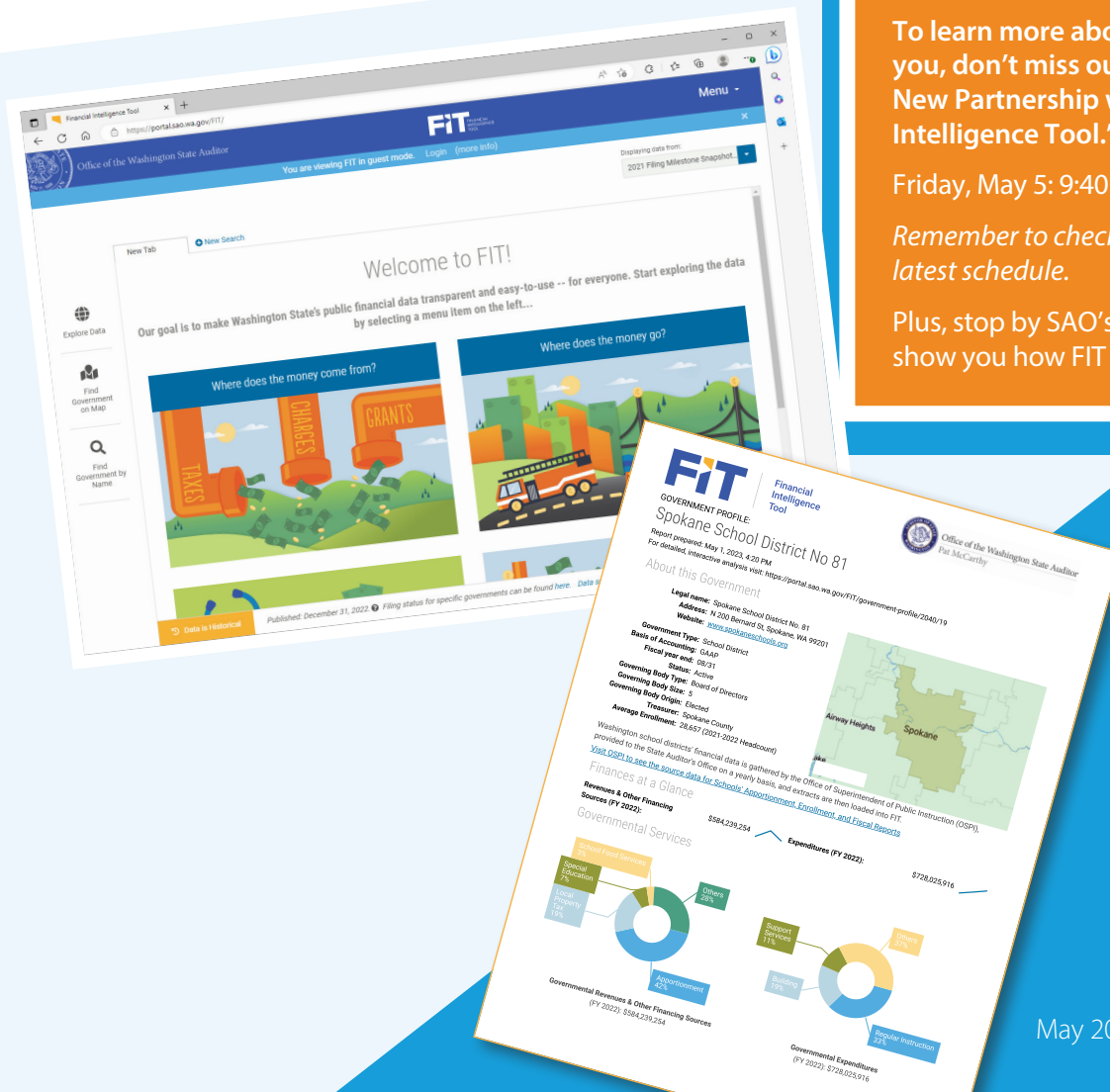
WASBO Session Alert

To learn more about how FIT can help you, don't miss our session, "Spark Up a New Partnership with SAO's Financial Intelligence Tool."

Friday, May 5: 9:40 a.m. – 10:30 a.m., Room 101

Remember to check the conference app for the latest schedule.

Plus, stop by SAO's booth any time and let us show you how FIT displays your district's data.



How charter and tribal schools fare under public audit

In the 2022-23 school year, Washington's charter and tribal schools served more than 7,000 students.

The Office of the Washington State Auditor examines the public funding each type of school receives. Recent audits of tribal schools have found that overall, the schools keep records to support revenue and expenditures, and have worked to implement audit recommendations.

Charter public schools began serving Washington students in the 2014-15 school year. Recent audits have found improvements in their compliance with Washington's legal requirements. Currently 16 charter schools operate in Washington, including four new schools that opened for the 2021-22 school year. Based on SAO audits, some key areas of continued focus for charter schools include:

- Documenting adherence to meeting requirements under the state's Open Public Meetings Act, including maintaining meeting minutes

- Keeping straightforward records to show they separate public and private transactions, and maintaining adequate supporting documentation
- Identifying and tracking public assets
- Following applicable procurement requirements for purchases and public works projects
- Employing Washington-certificated instructors and ensuring their certifications are current
- Documenting and reporting student enrollment in accordance with applicable requirements

SAO continues to encourage charter schools to work closely with their authorizer to ensure they comply with their charter contracts and receive relevant guidance to comply with Washington state law.



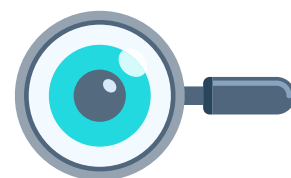
CHARTER SCHOOLS, AT A GLANCE 2022-23 school year: 16 charter schools served 5,042 students

School	Location	Grades	Students
Catalyst Public Schools	Bremerton	K - 8th	444
Rainier Valley Leadership Academy	Seattle	6th - 12th	146
PRIDE Prep	Spokane	6th - 12th	514
Rainier Prep	Seattle	5th - 8th	334
Spokane International Academy	Spokane	K - 9th	733
Summit Schools Olympus	Tacoma	9th - 12th	196
Summit Schools Sierra	Seattle	9th - 12th	375
Summit Schools Atlas	Seattle	6th - 12th	465
InnovationWillow Public Schools	Walla Walla	6th - 8th	56
Impact Public Schools-Puget Sound Elementary	Tukwila	K - 5th	595
Impact Public Schools-Salish Sea Elementary	Seattle	K - 3rd	338
Impact Public Schools-Commencement Bay Elementary	Tacoma	K - 2nd	331
Lumen High School	Spokane	9th - 12th	36
Pullman Community Montessori	Pullman	K - 5th	95
Pinnacles Prep	Wenatchee	6th - 8th	168
Whatcom Intergenerational High School	Bellingham	9th - 12th	72
Why Not You Academy	Des Moines	9th - 10th	144

TRIBAL SCHOOLS, AT A GLANCE 2022-23 school year: 7 tribal schools served 2,032 students

School	Location	Grades	Students
Chief Kitsap Academy	Suquamish Tribe, Suquamish	6th - 12th	78
Chief Leschi Schools	Puyallup Tribe, Puyallup	K - 12th	594
Lummi Nation Schools	Lummi Nation, Bellingham	K - 12th	385
Muckleshoot Tribal School	Muckleshoot Tribe, Auburn	K - 12th	556
Quileute Tribal School	Quileute Tribe, La Push	K - 12th	142
Wa He Lut Indian School	Frank Landing Indian Community, Olympia	K - 8th	136
Yakama Nation Tribal School	Confederated Tribes and bands of Yakama Nation, Toppenish	8th - 12th	141

Keep an eye out for these performance audits focused on local schools and districts

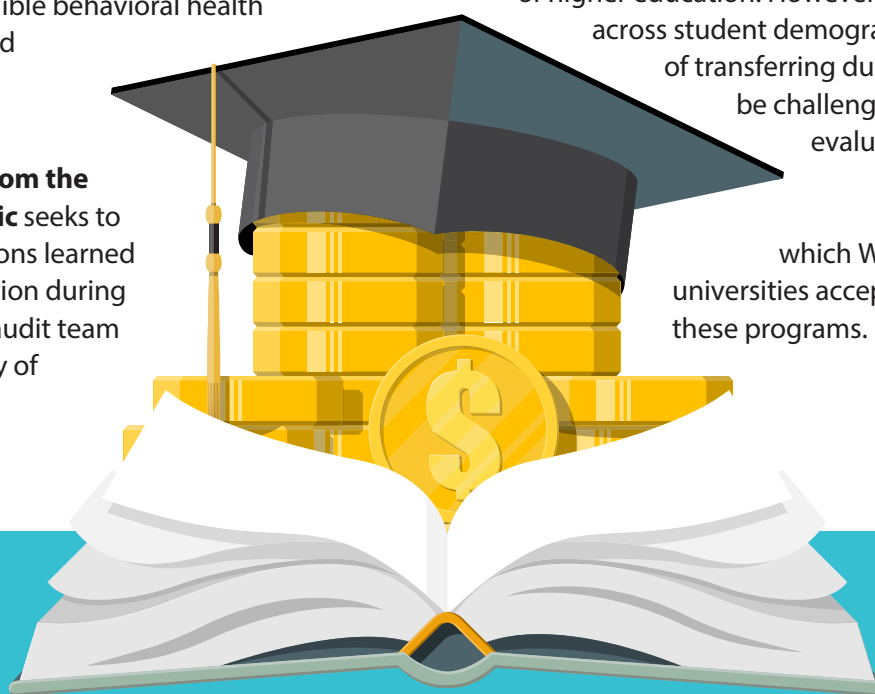


School Safety Planning Follow-Up revisited recommendations from the **2019 School Safety Planning** audit that were developed to improve regional cooperation through the work of Educational Service Districts (ESDs). The follow-up audit found that each of the nine ESDs has established a regional school safety center; all of them also provide training, resources and consultation to districts on safety issues. However, even though state law requires all ESDs to provide training and resources to help school districts learn how to bill Medicaid for eligible behavioral health services, only two did so regularly.

K-12 Education: Lessons Learned from the COVID-19 Pandemic seeks to identify the key lessons learned about public education during the pandemic. The audit team is designing a survey of

selected school districts, asking them about the innovative or nontraditional techniques they used to help teachers and students stay on course for educational goals when classrooms were closed to in-person learning.

Dual Credit Programs in Washington will examine the state's dual credit programs, which allow students to earn high school and college credit simultaneously. Benefits of these programs include giving students early exposure to college coursework and reducing the cost of higher education. However, participation varies across student demographics, and the process of transferring dual credits can sometimes be challenging. This audit may evaluate opportunities to close participation gaps, as well as examine the extent to which Washington's colleges and universities accept dual credits earned in these programs.



Are your school district's finances ready for an earthquake?

It was a dark and stormy night when the land shook, the waters receded, and the mountainsides tumbled down. Then came the great flood, destroying everything in its path. The epic battle between Thunderbird and Whale, creatures from the air and sea, was underway. This is one of several passed-down stories from Native Americans who experienced the last Cascadia Subduction Zone earthquake and tsunami on Jan. 26, 1700. Anniversaries of disasters are always an opportunity to focus on how we can prepare for future ones.



The Cascadia Subduction Zone (CSZ) is a large fault line stretching from northern California to southern Canada that is capable of producing the strongest of earthquakes. Stresses have been building along this zone for more than 300 years; experts believe that a giant earthquake, including one as high as a magnitude 9.0, followed by a large tsunami, has a **15 to 25 percent chance** of occurring in the next 50 years. However, this is only one of many earthquake risks in our state.

As a school district leader, you should be aware of your earthquake risks and take steps to ensure that your district is in a position to minimize losses and continue operating after a disaster. A major earthquake is going to be very costly if your area is directly affected, and even more so if your district is unprepared.

The Washington State Department of Natural Resources (DNR) has information that can help school districts assess their risk. DNR reports on earthquake risk for the

CSZ and **19 other potential scenarios** in our state that could affect counties like Yakima, Douglas, Chelan and Walla Walla. The agency also recently **evaluated** 561 public school buildings across the state and found that nearly all of them are at risk of partial or total collapse during an earthquake.

Here are some steps you can take to financially prepare your school district.

Address infrastructure risks now

- **Assess capital asset vulnerabilities.** You should know each of your building's risks and the estimated cost to make it safe, and then establish priorities and timelines for any needed construction projects. The Office of Superintendent of Public Instruction (OSPI) offers natural hazard assessment grants to help you gather building information (such as a structural assessment). Contact your OSPI regional coordinator for more information. You can also learn more about your district's buildings by viewing the pre-disaster mitigation section in the **Information Condition of School Inventory System (ICOS)**. This system tracks information about each school district's buildings, including potential natural hazards for each site and historical building hazard assessment results.
- **Learn about state funding programs.** In 2022, the Legislature formally established the school seismic safety grant program with Senate Bill 5933, and approved \$91 million in funding to begin this program. OSPI oversees these funds and is prioritizing

Continued on page 8



Continued from page 7

schools along the coastal region that face a dual risk of earthquake and tsunami. Schools can use funds for planning and construction for relocation, a retrofit or a tsunami evacuation structure. OSPI is working directly with at-risk coastal districts to coordinate projects. Once the coastal region has been served, there will be a funding opportunity for other high-risk buildings in districts across the state.

- **Explore federal grants for preparedness and mitigation.** Federal grants are available to help you prepare before disaster strikes, such as the [Emergency Management Performance Grant](#), the program for infrastructure preparedness called [Building Resilient Infrastructure and Communities](#), and the [Hazard Mitigation Grant Program](#). These opportunities are available to local jurisdictions as subrecipients to the state. You can find more information at <https://mil.wa.gov/grants>.

Improve your post-disaster financial resiliency

- **Ensure that you have a business continuity plan.** As part of your continuity of operations planning, your district should be prepared for your financial services to function after an earthquake emergency. This plan needs to work even if you have no internet, power or phone service. Staff should be trained on how to access the plan in case of an emergency. This plan should be a component of your [statutorily required](#) comprehensive school safety plan, sometimes referred to as an emergency operations plan.

- **Form your financial risk management strategy.** Know your insurance options and coverage details, as well as your insurer's size and financial standing. For those participating in a risk pool, this would include the pool and all excess insurers. One thing to consider is an emerging tool called [parametric risk insurance](#). This type of product provides a set payout based on the earthquake's magnitude rather than the extent of damage. It also can pay out within days, whereas traditional earthquake policies may take months or even one to two years to pay.
- **Consider the adequacy of your emergency cash reserves.** Depending on the size of the earthquake, an event of this nature could be costlier than you ever imagined, and your emergency cash reserves should reflect your estimated need. Consider the extra costs to support the school community, the potentially high costs for materials and supplies to carry out repairs, the additional costs to resume operations after the disaster, and the overall estimated length of recovery.



Take action now to ensure recovery funding later

- **Make sure your district has a current hazard mitigation plan.** Each school district must have a plan in place before a disaster occurs in order to access Federal Emergency Management Agency (FEMA) funding after a disaster. School districts can choose to annex to their county's plan or adopt their own. If you want to learn more about creating a hazard mitigation plan, read [FEMA's guidance](#). If you are looking for funding to help you develop a plan, two grant programs are available: the [Building Resilient Infrastructure and Communities](#) and the [Hazard Mitigation Grant Program](#).

Continued on page 9

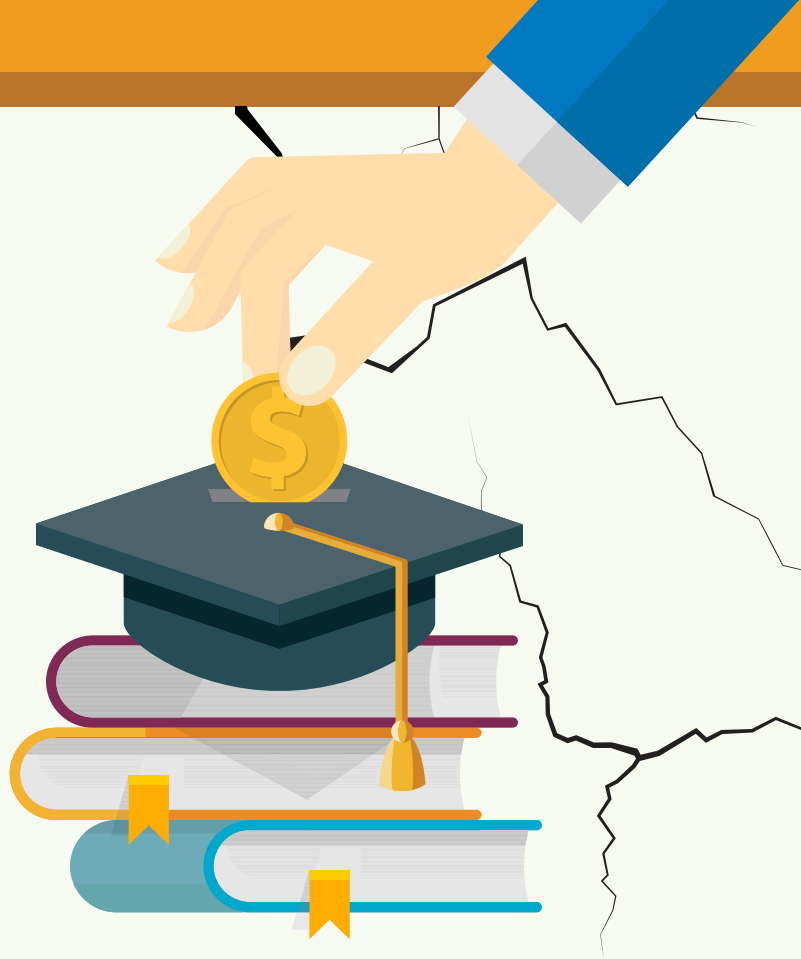
Continued from page 7

- **Qualify your school district for recovery-based grants now.** Learn about recovery-based grants and the steps you need to take now to qualify for grant funding after a disaster. Recovery-based grants can have prequalifying conditions or requirements for maintaining eligibility. Talk with your local emergency management department, the Washington State Department of Commerce, and the Washington State Military Department for help identifying potential programs.
- **Prepare to manage federal grant(s).** You will need people with special skills to apply for and manage federal grant money. They should be familiar with local and federal procurement rules, as well as grant regulations and local grant policies. Evaluate your capacity to manage an influx of grant funds and what steps you will need to take if the need exceeds the capability of your resources. You'll want to think about how you would meet those financial management obligations and what that process may entail (for example, expedited hiring). If you do not manage these grants properly and maintain the appropriate documentation, you may have to repay grant funds years after receiving them.

Given the potentially hefty price tag of an earthquake disaster and the risk to student safety, you should be informed about the extent of risk facing your school district and actively help shape the path forward.

Learn more about the earthquake risks in Washington

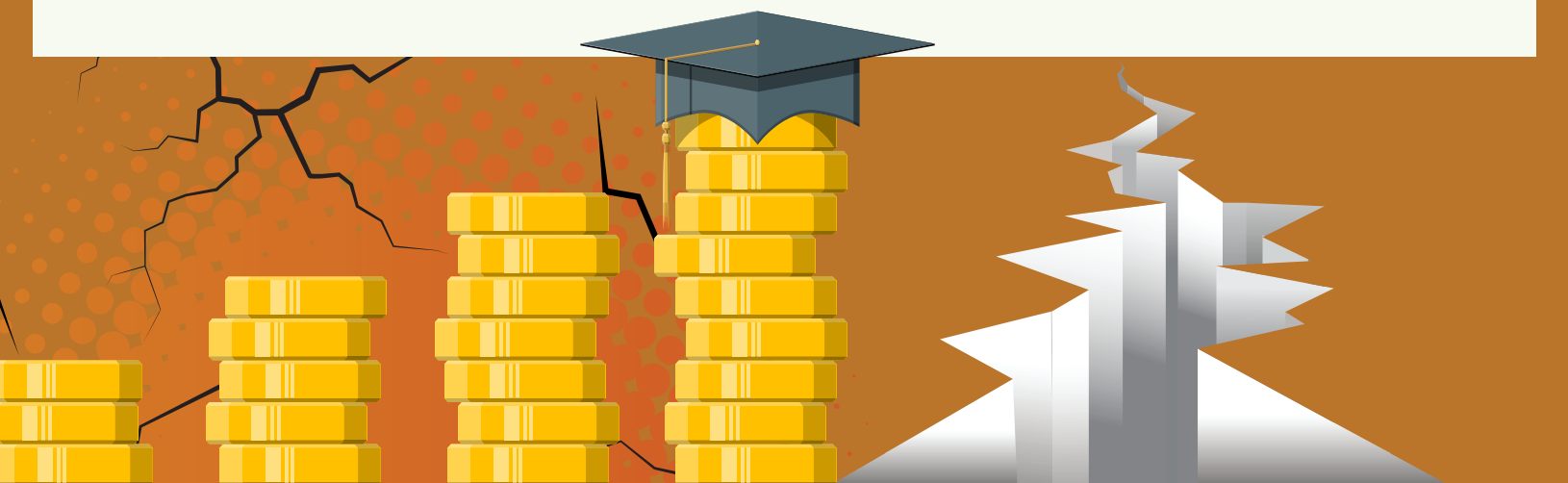
- **What to Expect When you are Expecting an Earthquake** (1 hour 30 minutes; video provides detailed information about earthquake risk in Washington)



- **Dr. Erin Wirth – Understanding Cascadia’s next Great Earthquake** (1 hour)
- **Tsunami Escape – Washington’s Uphill Battle**, a TVW documentary (20 minutes)

If you have questions or comments, email center@sao.wa.gov or contact Team School Programs at (509) 726-1874.

*Earthquake probability statistics were obtained from the Pacific Northwest Seismic Network, which were adapted from the United States Geological Survey. Read more in the **School Seismic Safety Project 2019-2021 Legislative Report** (see Figure 1, page 11).*



Are your ACH internal controls strong enough to protect your district from fraudsters? SAO has a new resource to help you



Do you remember the Nigerian prince scheme—that long-running internet fraud where the bad actor drains your bank account after convincing you to share your personal information? Scammers made \$703,000 in 2018 alone on that one. While some fraudsters are still working that old con, others have moved on to impersonating your employees and vendors to redirect Automated Clearing House (ACH) payments meant for payroll direct deposits or vendor payments. In fact, Washington governments reported \$4.7 million lost to these schemes in 2020 and 2021.

How do these bad actors target your ACH payments? They typically start by emailing one of your employees, perhaps asking to update contact information first. This allows them to change bank account information months later without raising alarms. Once they persuade staff to change banking information, vendor or employee payments will go straight to the scammers. Really slick operators may hack into a vendor's actual email account, and wait until they see a large payment is due to go out before making their move.

Your own employees can also perpetrate ACH fraud. If employees have the right system access, it only takes a few keystrokes to change a vendor's banking information to a personal account.

You should know that once you send an ACH payment, the money is gone. Your bank, as the originating bank, can request the receiving bank return the funds. However, the receiving bank is under no obligation to do so—and in many cases, it's not even possible if the fraudsters have already moved the money out.

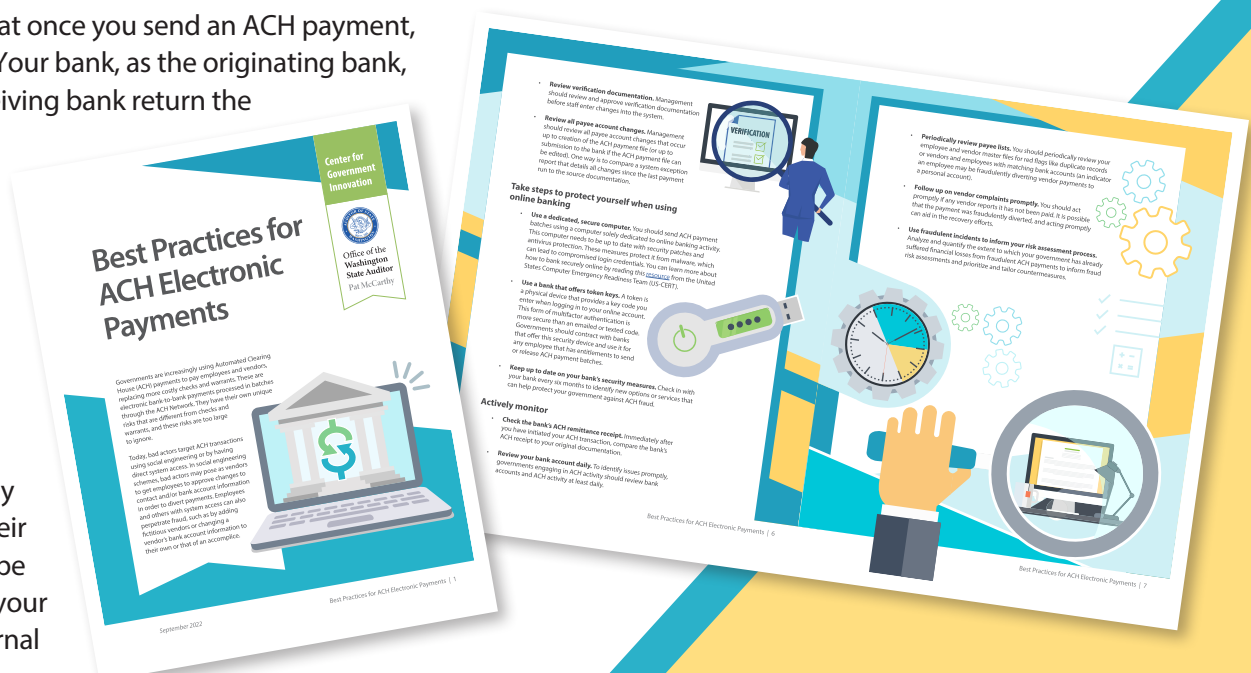
Fraudsters constantly refine and evolve their scams, so you must be vigilant and ensure your school district's internal

controls evolve, too. To help you, SAO has developed a new resource: **Best Practices for ACH Electronic Payments**. This new resource has:

- Tips to help you develop and maintain policies for your ACH payment process
- Key areas to address in your ACH employee fraud training to help employees become “responsibly suspicious” and learn how to spot red flags
- Recommendations about how to segregate duties to reduce your fraud risk—an important practice for preventing and detecting ACH payment fraud
- Advice to help you establish a verification process for new payee information or requested changes to existing contact information, mailing addresses or banking information
- Guidance for managers on how to monitor for and prevent unauthorized payee account changes in the vendor master and ACH payment files

Interested in additional resources?

All our guidance is available online at no cost. We have a lot of great information to share, so spend a few minutes in **SAO's Resource Library** to see what we have to offer!



Smart school districts know cyber health is key. Talk to SAO's Center for Government Innovation today about a free checkup!

Cybercriminals find school districts very attractive targets due to the vast amount of sensitive data about employees and students they maintain. To keep pace with the constantly evolving threats and tactics, it's essential that you understand how to minimize your district's risk of attack.

That's why SAO's Center for Government Innovation is excited to launch **new cyber checkups**, as part of its #BeCyberSmart program. The Center's checkups provide a fast, free and independent assessment of your district's vulnerability to common threats.

The Center's checkups draw on the framework developed by the Center for Internet Security (CIS) in its **Critical Security Controls, Version 8.0**. The CIS Controls—developed by a consortium of private companies, government agencies and universities—are a list of highly effective defensive actions organizations can take to improve their cybersecurity.

A cyber checkup will help you:

- Understand cybersecurity safeguards and why they're important
- Identify cybersecurity gaps and prioritize improvements
- Begin building a cybersecurity program if you don't have one already
- Connect to free and low-cost resources to improve your cyber health

To learn more about the Center for Government Innovation's new cyber checkups, visit the [Center's webpage](#) or contact the Center at 564.999.0818 or Center@sao.wa.gov.



WASBO Session Alert

To learn more about how SAO's new cyber checkups, be sure to attend our session, "How to Extinguish a Hacker's Passion for Your District's Data."

Thursday, May 4: 10:30 a.m. – 11:20 a.m., Room 203

Remember to check the conference app for the latest schedule.

Check out SAO's Center for Government Innovation webpage to find helpful tools and resources

When's the last time you visited the [Center for Government Innovation's web page](#)? It's chock-full of tools and resources to help your district solve problems and improve operations.

Cyber Checkups – Get a fast, free and independent assessment of your district's vulnerability to common cybersecurity threats. It includes actionable steps you can take to improve your overall cyber health. Schedule your checkup online today!

Lean Services – Want to streamline tasks and workflow? Whether it's payroll, purchasing or any other area, the Center's Lean specialists can help your school district optimize efficiency, quality and customer service.

Teambuilding & Leadership Workshops – Strengthen your team, increase trust and productivity, even promote workplace harmony and employee satisfaction with the Center's CliftonStrengths workshops.

Online Resource Library – Browse our free guides, best practices and checklists addressing topics as varied – and essential – as internal controls, operations, cybersecurity, technology and more.

Financial Intelligence Tool (FIT) – Visualize your district's data in a whole new light on the Center's interactive FIT tool.

Technical Advice – Get guidance on how to incorporate leading best practices into your district's internal controls, processes, cybersecurity and more.

Connect with the Center for Government Innovation today!



WASBO Session Alert

To learn more about how to strengthen your team and relationships, don't miss "Calling All Super Heroes: Ignite the Power and Strength of Your Team."

Thursday, May 4: 2:40 p.m. – 3:30 p.m., Room 206D

Remember to check the conference app for the latest schedule.

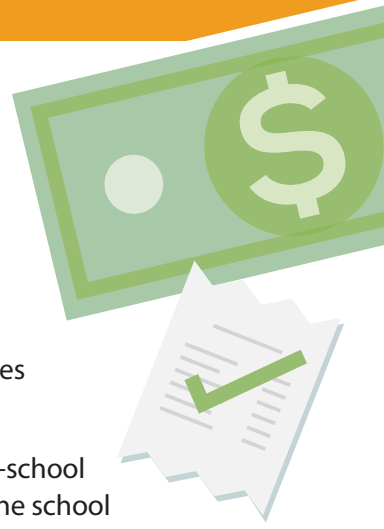
WASBO Session Alert

To learn more about how to manage change using the principles of Lean, attend "Create a Spark to Ignite a Brighter Future."

Thursday, May 4: 9:00 a.m. – 9:50 a.m., Room 206C

Remember to check the conference app for the latest schedule.

Small-dollar transactions, big responsibilities: What you need to know about ASB fundraising and cash receipting



Whether from yearbook sales, prom tickets or direct donations, **the money raised by Associated Student Body (ASB) groups are public funds.**

State law (RCWs [28A.325.020](#) and [.030](#)) makes plain that ASB funds are designated as public funds of the school district. This means districts must safeguard and account for ASB funds the same way they guard levy dollars or apportionment funds. It also means if ASB funds go missing or are stolen, you must report the loss to SAO.

Since fundraisers often involve lots of transactions for small dollar amounts being collected by students, they are a high-risk activity that call for strong controls and oversight. Ensuring you have strong cash handling procedures in place will go a long way to protecting these public funds. Here are some key steps to take for every fundraiser.

1. **Document all the money you receive as soon as you receive it.** Lots of methods can achieve this goal: cash register receipts, reports from a point-of-sale system or old-fashioned receipt books. (If you use receipt books, just make sure they're printed with the district and school name on them as a fraud-prevention measure.) If you have to void a receipt, two people must witness and sign it.
2. **Do a cash count.** If it's a multi-day event, do it at the end of each day. At one high school, SAO auditors conducted their own cash count and found the ASB fund was \$1,161 short. A school official was aware of the shortage, but did not quickly report it to management. That meant the loss of public funds was not reported to law enforcement or SAO as required by state law.
3. **Deposit the funds each day,** in the same cash or check composition noted on the receipts and cash counts. (To deposit less frequently requires a waiver from your County Treasurer (RCW [43.09.240](#).) SAO auditors once discovered an ASB holding more than \$15,000 in the ASB

office. This substantially increases the risk of fraud or loss.

- Money collected at an after-school event should be locked in the school safe or deposited in the night drop at the district's bank.

4. **Ensure the fundraising receipts are reconciled** to the fundraising documents and revenue projections at the end of the event.

Other best practices include ensuring you provide annual training for ASB staff and students on the role of ASBs; establish procedures for activities that involve goods or money; and have rigorous staff oversight of ASB activities to ensure everyone follows district policies and procedures.

SAO offers resources and an on-demand training to make sure your cash handling procedures are strong:

Cash Receipting Guide and Checklist: Find tips and best practices for managing your cash collections. The guide includes a suite of short, one-to-two-page resources for leaders, managers, supervisors and payroll clerks. You can print the guide in sections, and customize the checklist to meet your needs.

Cash Receipting: Fraud Prevention and Internal Controls on-demand training: Follow an actual fraud case while learning about important best practices for internal controls.

WASBO Session Alert

To learn more about how to account for the public funds used by your Associated Student Body group, don't miss "Surviving an ASB Audit."

Friday, May 5: 9:40 a.m. – 10:30 a.m., Room 206A

Remember to check the conference app for the latest schedule.

How to evaluate your risk when making electronic disbursements

The disruptions caused by the COVID-19 pandemic resulted in increased dependence on technology and electronic payment networks. This shift has created new opportunities for bad actors to steal public resources and assets from your government. By using various cyber fraud schemes, such as fake email addresses or compromised email accounts, bad actors are successfully tricking governments into rerouting electronic disbursements to their own accounts. And the fraudsters are raking in a hefty profit. Between 2019 to October 2022, Washington's governments have reported more than \$21.8 million in estimated cyber losses to our Office.

Unfortunately, we hear frequently of organizations in both the public and private sector falling victim to these cyber frauds. Between 2019 to October 2022, our Office has received 175 reports of cyber frauds from governments in Washington state. Considering governments are increasingly using electronic disbursements, including Automated Clearing House (ACH) payments and electronic funds transfers (EFTs), it is important to understand what factors might be increasing your risk of experiencing a cyber fraud. Based on our own investigations of cyber-related fraud, here are some key risks to be aware of:

- **Personnel changes** – Whether employees are retiring or seeking new opportunities, staff changes have been happening everywhere, especially in government. With staff turnover comes the risk that newer employees may not be aware of the processes and controls your government has in place to combat these frauds. Remember to educate and train your staff on your expected policies and procedures, and to be vigilant on these cyber schemes.
- **Remote working environments** – While technology makes it easier for remote employees to perform their duties and stay connected, remote work environment also bring several cybersecurity challenges. It's important to stay on top of these potential vulnerabilities to prevent cyber frauds, such as phishing or malicious software being installed for deceitful purposes. Our Office has some tips and tricks available on how to protect your data in this [October 2022 blog post](#).



- **Operational adjustments** – Your government's operations may have shifted since the onset of the COVID-19 pandemic, and now you may be using electronic payments more frequently than physical checks or warrants. This is ripe for bad actors to take advantage of, as they hope that you will fall for their scheme and wire these payments directly into their bank accounts. Check out some best practice tips regarding these [ACH payments](#) and [wire transfers](#).
- **The "everything is okay" trap** – Your government's staff and management may have a mindset that you won't experience a cyber fraud, especially if you have strong policies established, clean audits, haven't experienced a fraud yet. This potentially false sense of security may heighten the risk of your employees and managers letting their fraud-prevention guard down, and that's one trap you don't want to fall into. It's always a good practice to revisit your policies and procedures, and we recommend bookmarking our [Segregation of Duties Guide](#) to help you evaluate your current environment.

At the end of the day, no government is immune from these risks, and fraud can absolutely happen to you. But just because fraud can happen, doesn't mean you have to let it. You can prevent electronic disbursement frauds if you take proactive action now by establishing strong controls and monitoring.

More resources

Our Office has other excellent resources available on internal controls and best practices to consider implementing, to prevent cyber frauds from happening to you. Check out our [#BeCyberSmart page](#), [Resource Library](#), and new [Preventing Fraud page](#).


Setting the tone at the top: SAO's fraud-prevention resource for elected officials and appointed boards

Publicly elected school directors have a responsibility to understand their district's operations. They also have a key role to play when it comes to preventing, detecting and responding to employee fraud. That's why we developed **Trust, but Verify: A Guide for Elected Officials & Appointed Boards to Prevent Workplace Fraud** to help leaders better understand their role in creating a fraud-prevention culture.

Preparing your district's annual report? SAO can help

Before you file your financial statement with OSPI, download our [**Checklist for Preparing and Reviewing School District Financial Statements**](#). This handy self-assessment checklist will help you ensure that you don't miss a step when preparing your financial reports. This year's checklist includes updated guidance on lease accounting and recording transactions.





Center for Government Innovation

Checklist for Preparing and Reviewing School District Financial Statements

Date completed:	
Completed by:	
Key recommendations:	

Instructions: Use this checklist to help prepare and review school district financial statements in accordance with the *Accounting Manual for Public School Districts in the State of Washington* (Accounting Manual). Complete this optional checklist before filing your district's annual report with the Office of Superintendent of Public Instruction (OSPI).

Question	Yes	No	N/A	Comments
Journal entries				
Did someone ensure that all adjusting journal entries were recorded?				
Did someone (other than the preparer) review the journal entries for accuracy and support? Was the reviewer technically proficient so that they could be effective in their review?				
Modified accrual Did someone record the journal entry to reflect updated calculations and adjustments for the district's ending fund balance? (See cell comment for a link to fund balance calculation tool.)				
Modified accrual Did someone evaluate whether the offsetting entry for certain balances was appropriately classified as revenue or unavailable revenue? (See comment for the Accounting Manual reference.)				
Did your staff refrain from accruing revenues or expenditures that are not routine transactions? (See cell comment for a quick way to check routine transactions)				
Did your district have any large capital projects outstanding at year-end? Properly record retainage payable, accrue contractor billings for the fiscal year-end (even if billing occurs in the subsequent year), and review?				

1 District Financial Statements
Page 1 of 5

Coming soon: Updated OPMA resources

Only a few years ago, people could show up to watch school board members conduct district business in person, with a microphone for public comment perched in front of them. The pandemic changed many things, including how local governments comply with Washington's Open Public Meetings Act (OPMA). Almost overnight, public meetings shifted to virtual environments and staff were scrambling to make it all work.

Three years later, districts are returning to in-person meetings and events, but the OPMA will continue to require governments to provide a virtual option. Since failure to comply with the OPMA could expose schools to legal liability, SAO's Center for Government Innovation is partnering with the Municipal Research and Services Center (MRSC) to update their OPMA resources.

The new updates will include:

- Guidance on the latest OPMA-related court decisions and state legislation
- Practical tips on how to hold hybrid meetings
- Robust information for elected officials when they communicate through social media, messaging and shared documents
- Tips on emergency meetings during extreme weather



Look for the new resources by the end of June on SAO's and MRSC's websites. If you'd like to be notified when they're published, sign up for SAO's e-newsletter at

Stay In the
KNOW
with **SAO**

SCAN CODE





How to print this report:

- Move your mouse cursor to the bottom of your browser window. A bar will appear with several icons. Click the "download PDF" button.
- Open the downloaded PDF, and choose the "print" option from your PDF reader.
- Consider "printing on both sides, flip on short edge" to save paper.
- Finally, decide whether you want full color or grayscale – we know folks rooted in #GoodGovernment are judicious with printer ink.

