



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Accountability Audit Report

Board of Volunteer Fire Fighters and Reserve Officers

For the period July 1, 2012 through June 30, 2013

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Washington State Auditor Troy Kelley

December 22, 2014

Ms. Brigitte Smith, Executive Secretary
Board of Volunteer Firefighters and Reserve Officers

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for Board operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the Board's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

TROY KELLEY
STATE AUDITOR

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AUDIT SUMMARY

Results in brief

In most areas we audited, Board operations complied with applicable requirements and provided adequate safeguarding of public resources. The Board also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we identified areas in which the Board could make improvements.

We recommended that the Board develop and follow effective internal control procedures over cash receipting. These procedures will allow the Board to detect errors and losses in a timely manner. These should include:

- Segregation of duties over the receipting, depositing, and approval process.
- Independent review over adjustments.
- Reconciliation of receipts in the database to deposit amounts in AFRS.
- Restrictions on key data fields.
- Independent review and monitoring over any additions, edits or deletions to the pension database.
- Review over an audit trail showing entries and corrections made to the database.
- Prior approval before setting up a new employee's pension in the system.
- Reconciliation of disbursements posted in the database to the Human Resource Management System (HRMS).

These recommendations were included in our report as a finding.

About the audit

This report contains the results of our independent accountability audit of the Board of Volunteer Firefighters and Reserve Officers from July 1, 2012 through June 30, 2013.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the Board's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Cash receipting
- Pension disbursements
- Database security

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

1. The Board for Volunteer Fire Fighters and Reserve Officers does not have adequate controls over its cash receipting and pension tracking system.

Background

The Board is responsible for administering the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Act. Its primary business is collecting pension contributions and distributing pension benefits to members.

The Board uses a database to track its pension and disability claims and payments. The database contains approximately 76,000 volunteer fire fighters' and reserve officers' individual records. These records contain members' personal information, annual pension and disability fees paid, service credit information and benefit payments.

The Board's database does not directly communicate with the statewide financial accounting system, Agency Financial Reporting System (AFRS), or the state's payroll system, Human Resource Management System (HRMS), so data is manually entered by the Board's staff.

During fiscal year 2013 the Board collected approximately \$1.1 million in pension and disability fees and made disbursements of more than \$12.7 million to pensioners and beneficiaries.

Description of Condition

We reviewed the Board's cash receipting procedures, database management and pension disbursement processes.

The following control weaknesses were identified:

Cash Receipting

- There is not adequate separation of duties between receipting, depositing, and approving for three employees.
- Staff can make adjustments to receipts after a receipt has been issued without an independent review.
- Individual receipts posted to the database do not agree with deposit amounts posted in AFRS.

Pension System Tracking Database

- Key data fields are not restricted to ensure data is not deleted.

- An independent person does not approve or monitor additions, edits, or deletions to the database.
- There is an audit trail showing entries or corrections to the database. However, it is not utilized by Board management.

Pension Disbursements

- HRMS does not have the ability to set up a secondary approval level. Payment continues until the Board has identified the member as deceased.
- The Board does not reconcile disbursements posted in the database to HRMS to ensure only approved pension benefits are paid.

Cause of Condition

The Board did not fully understand the prior audit recommendations regarding cash receipting and the pension tracking system. The Board prioritized adding new steps to the process and policies rather than changing the internal control environment. Additionally, the Board has insufficient staff to ensure that policies and procedures are always followed and monitored.

Effect of Condition

The lack of segregation of duties, monitoring and reconciliations increases the risk that benefits collected could be misappropriated and that misappropriation would not be identified quickly.

Recommendation

We recommend that the Board:

- Establish adequate segregation of duties over the receipting and depositing process.
- Ensure adjustments to receipts are independently reviewed.
- Reconcile receipts in the database to deposit amounts in AFRS.
- Establish written policies and procedures over the pension system tracking database that include restrictions for certain data fields.
- Ensure entries and changes made to data within the database are monitored. We further recommend that an independent person review changes made in the database such as additions, edits or deletions.

- Establish controls, such as an audit trail, to ensure that changes cannot be made to key data fields in the database, specifically after a receipt has been issued.
- Establish controls requiring prior approval before setting up a new employee's pension in the system.
- Perform reconciliations of disbursements posted in the database to the Human Resource Management System (HRMS).

Board's Response

The Board appreciates the hard work provided by the Auditor's Office and understands the concerns raised regarding cash receipting and the pension tracking system. We do not concur with the overall finding that The Board for Volunteer Firefighters and Reserve Officers does not have adequate controls over its cash receipting and pension tracking system. There are a few bulleted items that we agree with, however.

We acknowledge we that we received a similar finding several years ago, and we have since implemented numerous checks and balances to improve our internal controls and believe that our controls, at minimum, meet those outlined in the State Administrative & Accounting Manual (SAAM). Where we couldn't segregate duties further due to our small size and limited staff, we implemented new policies and procedures to adopt preventative and detective activities to ensure that we have adequate controls over cash receipting and the pension tracking system.

- ***There is not adequate separation of duties between receipting, depositing, and approving for three employees.***

Duties are as segregated as reasonably as possible in a small three person office. In accordance with SAAM Sections 85.250.10.b, 85.20.10.c, and 20.258.30.b, the agency maintains a daily cash receipt record that reflects all daily receipts by account and source. The money received is counted and reconciled daily with cash receipt records and local account deposit slips. Each day, the mail is opened by two employees, one of which is usually the Executive Secretary. Mail is never opened unless it can be done in the presence of at least two employees. All money received is logged and totaled in the presence of both employees before being receipted by another employee. Although the deposit is prepared by the receipting employee, all work is reviewed by a non-receipting employee to verify that there are no differences between the intake mail log, the receipts, and the deposit. Any differences are investigated and resolved. Additionally, each day's log, CJ Report, and local deposit slip is reviewed and approved by the Executive Secretary. So, although duties are not as segregated as they are in larger agencies, more active oversight is provided by management.

- ***Staff can make adjustments to receipts after a receipt has been issued without an independent review.***

Staff can only void receipts after a receipt has been entered and voiding a receipt is a checked field within the receipt. All original data is retained within the database and both the original and duplicate receipts are kept. If the staff altered a receipt, it would also change the CJ Report generated and the receipts, the CJ, the deposit, and the mail log would not balance. These items are reviewed, reconciled, and approved on a daily basis by the Executive Secretary. As per SAAM Section 20.25.10, the Board has a daily detective activity process in place to provide control in this area.

- ***Individual receipts posted to the database do not agree with deposit amounts posted in AFRS.***

As stated above, the Board staff reconciles individual receipts posted to the database with actual bank deposits and amounts posted in AFRS each day. We are unclear as to why the SAO noted a difference and will be meeting with them to review their generated reports and try to determine whether or not a condition exists.

- ***Key data fields are not restricted to ensure data is not deleted and an independent person does not approve or monitor additions, edits, or deletions to the database.***

We concur that most data fields in the database are not restricted to ensure that data is not deleted. However, there is an audit trail showing entries, corrections, and deletions to the database. We have already addressed the concerns regarding receipting. Regarding pension records, all records are reviewed by independent employees, the retirees, the five member local boards of trustees, the five member state board, and the Executive Secretary to ensure accuracy before any payments are made.

- ***There is an audit trail showing entries to the database. However, it is not utilized by Board management.***

We concur with this statement. The tracking reports ceased to work. The Board management has since brought in an IT contractor to correct the issues and will now monitor the reports.

- ***HRMS does not have the ability to set up a secondary approval level. Payroll continues until the Board has identified the member as deceased.***

HRMS is a Department of Enterprise Services (DES) controlled and developed system. The Board concurs that HRMS does not have the ability to set up a secondary approval level. However, the Board has absolutely no control over, nor any ability to correct this problem.

The Board regularly checks the social security numbers of all benefit recipients against the Social Security Administration to identify any that have recently passed away so that payments can be stopped. These checks are performed by independent employees and the Executive Secretary monitors to ensure that pensions cease for deceased members as soon as they are identified.

- ***The Board does not reconcile disbursements posted in the database to HRMS to ensure only approved pension benefits are paid.***

The Board will review this bullet point more in depth to see if there is a change that could be reasonably, and safely, made to the database to address this audit concern. The pension tracking database was developed to track pension service records, not pension payments or disbursements. So, it is currently not possible to reconcile disbursements posted in the database to HRMS. The Board cannot reconcile something that is not tracked, nor was the database ever developed to track it. Section 20.05.20 of the SAAM states that “Management should build control activities into business processes and systems as the processes and systems are being designed”. Since the pension tracking system was built in the 1990’s and HRMS was implemented just a few years ago, this was not something that could have been anticipated at the database’s development.

According to SAAM, “Control activities can be preventative or detective: Preventive Activities are designed to deter the occurrence of an undesirable event...Detective Activities are designed to identify undesirable events that do occur.” Internal control activities can be in the form of policies, procedures, sequences or combinations of procedures, physical arrangements, or a separation of duties. Internal control activities do not have to be in the form of segregation of duties and can take other forms. The Schedule of Audit Findings states that “the Board prioritized adding new steps to the process and policies” instead of segregating duties further. In a small three person office, segregating duties any further would impede productivity. For example, giving only one staff member the ability to release a batch would segregate duties, but it would also mean that any time the staff member is absent, no bills or benefits could be paid. Section 20.25.20 states that “for any given risk, there may be multiple appropriate control activities that can be put into place...”. So, in areas where the Board could not create a larger separation of duties, it created a combination of preventive and detective activities to ensure an adequate level of control activities. These activities included authorization, review and approval, verification, reconciliation, physical security, education, training, and coaching. Segregation of duties is one type of a control activity, but it is not the only one that SAAM recognizes.

SAAM further states that the agency should “provide reasonable assurance that an organization will accomplish its objectives” (20.20.20.b). The “concept of reasonable assurance recognizes that the cost of an internal control activity should not exceed the

benefit derived therefrom. Reasonable assurance equates to a satisfactory level of confidence given considerations of costs, benefits, and risks” (20.20.20.b). “Management defines the level of risk that the organization is willing to accept and strives to maintain risks within those levels” (20.20.20.c). “It is recognized that some small to medium sized operations may not be able to institute internal control procedures on the same level as larger, more complex agencies” (20.20.60.e). “Control activities, no matter how well designed and executed, can provide only reasonable assurance regarding achievement of objectives” (20.20.70.b).

Our agency has taken reasonable measures, given the level of risk, to institute internal control procedures to mitigate risks. The Board recognizes the limitations of its small staff and has tried, and will continue to try to ensure that it has adequate controls over its cash receipting and pension tracking system. We concur that the 20+ year old tracking system is not optimal, that HRMS does not have secondary approval requirements, and we cannot create enough separation of duties in AFRS. However, we believe that we have adequate controls over our cash receipting and pension tracking. Where we cannot have a great enough separation of duties, we have tried to implement other control activities to prevent and detect fraud. We appreciate the State Auditor’s concerns and diligence in its review, and we look forward to working with the SAO to further review some of the conditions above and try to find solutions where needed.

Auditor’s Remarks

We appreciate the Board’s response and recognize that the Board is improving its internal controls; however, we continue to reaffirm our audit finding regarding cash receipting and pension tracking. We agree with the Board’s statement that they have a limited number of staff and are making attempts to mitigate the risks associated with a lack of segregation of duties.

We agree with the Board’s position that a new tracking system for pensions is desirable. The current access database allows for many internal control weaknesses at the Board.

We wish to thank the Board’s staff and management for their cooperation and assistance during our audit. We look forward to working with the Board on this issue and will follow up on it during the next audit.

Applicable Laws and Regulations

RCW 41.24.290, State board for volunteer fire fighters and reserve officers – Powers and duties, states in part:

The state board shall . . . Maintain such records as may be necessary and proper for the proper maintenance and operation of the principal fund, including records of the names of every person enrolled under this chapter

The Office of Financial Management's *State Administrative and Accounting Manual* (SAAM), states in part:

Section 20.15.30.a *Who is responsible for internal control?*

The agency head or authorized designee is ultimately responsible for identifying risks and establishing, maintaining, and reviewing the agency's system of internal control. If the agency head delegates this responsibility, the designated person should have sufficient authority to carry out these responsibilities. Normally, this person is a senior agency manager who does not serve in the internal audit function.

Section 20.15.40.c *Control Activities*

Control activities help ensure risk responses are effectively carried out and include policies and procedures, manual and automated tools, approvals, authorizations, verifications, reconciliations, security over assets, and segregation of duties. These activities occur across an agency, at all levels and in all functions, and are designed to help prevent or reduce the risk that agency objectives will not be achieved. Managers set up control activities to provide reasonable assurance that the agency and business unit objectives are met. An example of a control activity is something as simple as listing tasks assigned to staff members and then periodically checking the list to verify that assignments are completed on time. Refer to Section 20.25 for further discussion of control activities.

Section 20.15.40.e *Monitoring*

Things change and, by monitoring the risks and the effectiveness of control measures on a regular basis, an agency can react dynamically to changing conditions.

Monitoring evaluates the effectiveness of an agency's internal controls and is designed to ensure that internal controls continue to operate effectively. Monitoring is effective when it leads to the identification and correction of control weaknesses before they materially affect the achievement of the agency's objectives. An agency's internal control is most effective when there is proper monitoring, results are prioritized and communicated, and weaknesses are corrected and followed up on as necessary.

There are two types of monitoring: ongoing and periodic. Ongoing monitoring occurs in the course of operations. It includes tasks such as supervisory reviews of reconciliations, reports, and processes. Periodic monitoring includes tasks such as periodic internal audit sampling and annual reviews of high-risk business processes. Internal control deficiencies uncovered by monitoring should be reported to higher levels of management.

Section 85.20.10.b *Record of Cash Receipts*

Agencies are to maintain daily cash receipt records reflecting all daily receipts by account and source. Where cash registers or automated cashiering systems are used, this could be the machine generated control tape or electronic daily transaction register.

Section 85.20.10.c *Reconciliation of Cash Receipts*

On a daily basis, collections are to be counted and reconciled with cash receipt records and local account deposit slips. Any differences between the deposits and records of receipts are to be investigated and resolved.

RELATED REPORTS

Financial

We perform an annual audit of the statewide basic financial statements, as required by state law (RCW 43.09.310). Our opinion on these financial statements is included in the Comprehensive Annual Financial Report (CAFR) prepared by and available from the Office of Financial Management.

The CAFR reflects the financial activities of all funds, organizations, institutions, agencies, departments and offices that are part of the state's reporting entity. That report is issued by the Office of Financial Management in December of each year and can be found at www.ofm.wa.gov.

A summary of the audit for the period ending June 30, 2013 can be found at: www.sao.wa.gov/generalinfo/Documents/2013_CAFR_Report_Final.pdf#search=CAFR

Federal programs

In accordance with the Single Audit Act, we annually audit major federal programs administered by the state of Washington. Rather than perform a single audit of each agency, we audit the state as a whole. The results of that audit are published in a report issued by the Office of Financial Management in March of each year.

INFORMATION ABOUT THE BOARD

The State Board for Volunteer Firefighters and Reserve Officers (BVFF) administers the Volunteer Firefighters' and Reserve Officers' Relief and Pension Act (under RCW 41.24) to more than 76,000 members and retirees. The Board consists of five members, at least three of whom are not receiving relief or retirement pension payments. No two members may be from the same congressional district. The Board Members are appointed by the Governor to serve overlapping, six-year terms. The Board is located in Olympia, Washington and has no other field offices.

The Board appoints an Executive Secretary to handle day-to-day responsibilities of administering the Act. Under the direction of the Executive Secretary there are three additional employees to assist with these responsibilities.

Since the Board is responsible for administering the Volunteer Firefighters' and Reserve Officers' Relief and Pension Act exclusively, its primary business is collecting pension contributions and distributing pension benefits to members. The Board is also responsible for providing worker's compensation benefits, collecting fees and distributing benefits. Nearly 100 percent of the Board's revenue sources are from employer and member pension contributions and more than 95 percent of this revenue is distributed for pension benefits. The operating budget for the 2011-2013 biennium was \$1,043,000.

Contact information related to this report

Address:	Board of Volunteer Fire Fighters and Reserve Officers 605 11th Avenue S.E. Olympia Forum Bldg., Suite 112 P. O. Box 114 Olympia, WA 98507-0945
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Information current as of report publish date.

Audit history

You can find current and past audit reports for the Board of Volunteer Firefighters and Reserve Officers at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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