



Washington State Auditor's Office

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Examination Report Spokane County

For the period July 1, 2014 through June 30, 2015

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Washington State Auditor's Office

September 26, 2016

Board of Commissioners
Spokane County
Spokane, Washington

Tracy Guerin, Director
Department of Retirement Systems
Olympia, Washington

Examination Report

The Washington State Department of Retirement Systems (DRS) administers eight public retirement systems, comprising 15 different retirement plans for state and local government employees. These systems serve nearly 700,000 current and former public employees. Both public employers and their eligible employees contribute to the retirement plans based on a percentage of the employee's pay.

State and local governments are responsible for reporting accurate and complete pensionable wage and contribution information to DRS in accordance with the applicable retirement plan's requirements set forth in Title 415 of the Washington Administrative Code. This information, which is referred to as "census data," is the basis for future determinations of retirement eligibility and payments for employees. It is also used to estimate the plan's pension liabilities to inform contribution rates and other funding decisions. Significant elements of census data may include: date of birth; date of hire or years of service; marital status; eligible compensation; class of employee; gender; date of termination or retirement; spouse date of birth; and employment status (active, inactive, or retired).

Please find attached our examination report on census data reporting by Spokane County.

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

INDEPENDENT ACCOUNTANT'S REPORT

Spokane County July 1, 2014 through June 30, 2015

Board of Commissioners
Spokane County
Spokane, Washington

Tracy Guerin, Director
Department of Retirement Systems
Olympia, Washington

We have examined Spokane County management's assertion that pensionable wages and contributions reported to the Washington State Department of Retirement Systems (DRS) for the year ended June 30, 2015 are accurate and complete in accordance with applicable retirement plan requirements set forth in Title 415 of the Washington Administrative Code.

The County's management is responsible for the assertion. Our responsibility is to express an opinion on the assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Accordingly, it included examining on a test basis, evidence supporting management's assertion and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As described in the accompanying Schedule of Findings and Responses as Finding 2015-001, our examination disclosed that the County incorrectly reported compensation amounts by \$4,044 total, for six of the 12 employees tested.

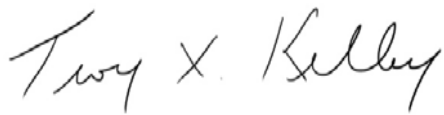
In our opinion, except for the deviations from the criteria described in the preceding paragraph, pensionable wages and contributions reported to DRS are fairly stated, in all material respects, for the year ended June 30, 2015, based on the applicable retirement plan requirements set forth in Title 415 of the Washington Administrative Code.

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the County's pensionable wages and contributions reported to DRS or management's assertion thereon; and any other instances that warrant the attention of those charged with governance, and noncompliance with provisions of contracts or grant agreements, and abuse that have a material effect on the County's pensionable wages and contributions reported to DRS or management's assertion thereon. We are also required to obtain and report the views of management concerning the findings, conclusions, and recommendations, as well as any planned corrective

actions. We performed our examination to express an opinion on management's assertion and not for the purpose of expressing an opinion on the internal control over compliance and other matters; accordingly, we express no such opinions.

Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards* and those findings, along with the views of management, are described in the accompanying Schedule of Findings and Responses as Finding 2015-001.

The County's response to the findings identified in our examination is described in the accompanying Schedule of Findings and Responses. The County's response was not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the response.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

September 1, 2016

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Spokane County July 1, 2014 through June 30, 2015

2015-001 The County should improve internal controls to ensure pensionable wages and contributions reported to the Department of Retirement Systems are accurate and complete.

Background

Spokane County participates in retirement systems administered by the Washington State Department of Retirement Systems (the Department). It is the responsibility of the County to design controls to ensure member data reported to the Department is consistent with requirements over reportable hours, wages and contributions.

Description of Condition

Our examination noted the following:

- The County does not report all hours and compensation as earned by calendar month.

This concern was first identified by the Department in 1988. We noted the same concern in this examination. The Department is currently conducting a compliance audit of the County, which includes this concern in its scope. The Department has not yet issued its report.

We consider this deficiency in internal controls to be a material weakness.

Cause of Condition

The County's payment and reporting procedures are designed for compliance with its union agreements and County policy. It reports hours and compensation to the Department in the month the employees are paid. The Department requires hours and compensation to be reported in the month the compensation is earned. The County's approach produces inaccurate reporting to the Department when compensation is paid subsequent to the month in which it was earned.

Effect of Condition

As a result of the conditions noted above, contributions and future benefits could be incorrect.

The County did not correctly report information to the Department for six of 12 employees tested. The County underreported compensation in total by \$4,044. Based on our testing, we project that this issue could potentially impact over 1,100 employees.

Without complete time sheet and payroll records, auditors cannot verify that reported compensation and hours are accurate.

Recommendation

We recommend the County:

- Improve internal controls to ensure pensionable wages and contributions reported to the Department of Retirement Systems are accurate and complete.
- Continue working with the Department to resolve items noted.

County's Response

Spokane County is committed to strong internal controls and accurate reporting. This finding highlights a condition that we have been attempting to resolve for several years. In the last 5 years, the County has explored several options to move the pay dates to correct this weakness; none of the options have proven feasible. We are continuing to evaluate possible solutions to this issue. Our goal is to develop a reasonable process to ensure timely and accurate reporting of hours and compensation data to the Department while still complying with the numerous negotiated labor agreements and County policy.

Auditor's Remarks

We appreciate the County's commitment to resolve this finding and thank the County for its cooperation and assistance during the audit. We will review corrective actions taken during our next examination.

Applicable Laws and Regulations

WAC 415-108-445(2), Reportable Compensation, states in part:

- (c) An employer must report compensation for the month in which it was earned. Compensation is earned when the service is provided, rather than when payment is made.

WAC 415-106-205, What is reportable compensation, states in part:

(2) Your employer must report all of your reportable compensation to the department. Your employer must report compensation for the month in which it was earned. Compensation is earned when the service is provided, rather than when payment is made.

Example: Bill is paid in July for work performed during June. The employer must report his compensation to the department as "June earnings."

WAC 415-104-360, How is basic salary for LEOFF Plan II determined, states in part:

(2) Basic salary is earned when the service is rendered, rather than when payment is made.

RCW 41.40.010, Definitions, states in part:

(8)(b) "Compensation earnable" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude nonmoney maintenance compensation and lump sum or other payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

"Compensation earnable" for plan 2 and plan 3 members also includes the following actual or imputed payments, which are not paid for personal services:

(i) Retroactive payments to an individual by an employer on reinstatement of the employee in a position, or payments by an employer to an individual in lieu of reinstatement in a position which are awarded or granted as the equivalent of the salary or wage which the individual would have earned during a payroll period shall be considered compensation earnable to the extent provided above, and the individual shall receive the equivalent service credit;

(ii) In any year in which a member serves in the legislature, the member shall have the option of having such member's compensation earnable be the greater of:

(A) The compensation earnable the member would have received had such member not served in the legislature; or

(B) Such member's actual compensation earnable received for nonlegislative public employment and legislative service combined. Any additional contributions to the retirement system required because compensation earnable under (b)(ii)(A) of this subsection is greater than compensation earnable under (b)(ii)(B) of this subsection shall be paid by the member for both member and employer contributions;

(iii) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and 72.09.240;

(iv) Compensation that a member would have received but for a disability occurring in the line of duty only as authorized by RCW 41.40.038;

(v) Compensation that a member receives due to participation in the leave sharing program only as authorized by RCW 41.04.650 through 41.04.670; and

(vi) Compensation that a member receives for being in standby status. For the purposes of this section, a member is in standby status when not being paid for time actually worked and the employer requires the member to be prepared to report immediately for work, if the need arises, although the need may not arise.

Government Auditing Standards, December 2011 Revision, paragraph 5.20 states:

5.20 When performing GAGAS examination engagements, auditors should report, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the subject matter or an assertion about the subject matter and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the subject matter or an assertion about the subject matter of the examination

engagement; and (4) abuse that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement. Auditors should include this information either in the same or in separate report(s).

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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