



Davis Accounting Tax & Audit Services

312 4th Avenue E, First Floor
Olympia, WA. 98501

September 25, 2013

To the Board of Trustees
LEOFF Plan 2 Retirement Board

We have audited the schedule of expenditures of Law Enforcement Officers' and Fire Fighters Plan 2 Retirement Board (LEOFF) for the year ended June 30, 2013, and have issued our report thereon dated August 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 19, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by LEOFF are described in Note 1 to the schedule of expenditures. No new accounting policies were adopted and the application of existing policies was not changed during year. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. There were no accounting estimates that we believe are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. However, we did encounter some difficulties in performing our audit procedures due to the lack of documentation related to differences between LEOFF's original documentation and actual postings of accounting transactions into AFRS by The Department of Enterprise Services (DES) due to the change to a "paperless" environment. We were ultimately able to satisfy ourselves that the AFRS records were materially correct through expanded audit procedures.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no such misstatements.



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Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 30, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We identified the following matters, which although not significant enough to affect our opinion on the schedule of expenditures, were deemed important enough to report to management.

1. We identified instances where credit card purchases were not supported by a detail receipt that provides sufficient information about the transaction to demonstrate compliance with certain state regulations. Specifically, we noted four instances where credit card charges to restaurants were only supported by the signed credit card receipt but not by an itemized sales receipt. Such an itemized receipt is required in order to demonstrate no alcohol or other prohibited purchases occurred.
2. We noted numerous transactions which were posted to the incorrect expenditure code in AFRS. In most cases, this incorrect posting did not impact the financial statements (posted to wrong detail account which rolls up into a summary account on the schedule of expenditures. Since this did not impact the amounts reflected on the schedule of expenditures this did not impact our opinion on the schedule. However, this incorrect posting could have a negative impact on the "transparency" of LEOFF's expenditures. The most common examples include:
 - 20 expenditures for Temporary contract staffing were charged to "Other Contractual Services". This had no impact on the schedule of expenditures, but the misclassification could be significant to someone interested in evaluating the total cost of LEOFF staff whether it be employee or contract related.
 - Six Expenditures for cost of food and beverages at LEOFF meetings which were generally posted to "Employee Professional Development/Training" or to "Travel Subsistence". These costs should be reflected as "Light meals & Refreshments". This distinction could be significant to someone who wishes to evaluate how much LEOFF spends on meals and refreshments at meetings.

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- Three expenditures for "Dues and Subscriptions" were recorded as "Employee Professional Development/Training"
3. We noted an employee's reimbursement for tuition towards a college degree program was not treated as a taxable fringe benefit on the employee's W-2. This appears to be due to the standardized form used to report the expenditure to DES does not include a place to identify such tuition as either taxable or non-taxable. We recommended to management and to DES, that an amended W-2 be filed. This will also require the employee file an amended tax return.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of Board of Trustees and management of LEOFF and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



DAVIS ACCOUNTING TAX & AUDIT SERVICES

**LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS
PLAN 2 RETIREMENT BOARD**

AUDITED SCHEDULE OF EXPENDITURES

**For the Year Ended
June 30, 2013**

**LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS
PLAN 2 RETIREMENT BOARD
For the Year Ended June 30, 2013**

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INDEPENDENT AUDITOR'S REPORT

To the Board
Law Enforcement Officers & Firefighters Plan 2 Retirement Board
PO Box 40918
Olympia, WA 98504-0918

I have audited the accompanying schedule of expenditures and related notes to the schedule of expenditures (schedule and notes) of the Law Enforcement Officers & Firefighters Plan 2 Retirement Board for the year ended June 30, 2013.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the schedule and notes in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule and notes that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on schedule and notes based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the schedule and notes are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule and notes. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule and notes, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule and notes in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule and notes.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

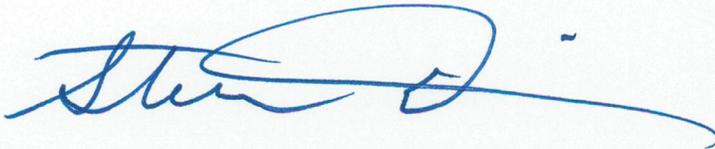
In my opinion, the schedule and notes referred to above present fairly, in all material respects, the expenditures of the Law Enforcement Officers and Firefighters Plan 2 Retirement Board for the year ended June 30, 2013 in accordance with accounting principles generally accepted in the United States of America.

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Other-Matter

My audit was conducted for the purpose of forming an opinion on the schedule of expenditures and related notes as a whole. The supplementary information presented on pages 7 and 8 is presented for purposes of additional analysis and is not a required part of the schedule of expenditures. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the schedule of expenditures. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the schedule of expenditures or to the schedule of expenditures itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the schedule of expenditures as a whole.



DAVIS ACCOUNTING TAX & AUDIT SERVICES

Olympia, WA
August 30, 2013

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD
SCHEDULE OF EXPENDITURES - BUDGET ALLOTMENT TO ACTUAL
For the Year Ended June 30, 2013

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Salaries & wages	\$ 471,110	\$ 475,596	\$ (4,486)
Employee benefits & payroll taxes	126,826	95,635	31,191
Personal service contracts	45,000	28,003	16,997
Goods & services - supplies & materials	10,584	5,864	4,720
Goods & services - communications	7,928	8,493	(565)
Goods & services - utilities	6,520	5,697	823
Goods & services - rentals & leases	52,760	45,954	6,806
Goods & services - repairs & maintenance	2,000	0	2,000
Goods & services - printing & reproduction	20,620	21,293	(673)
Goods & services - employee development	10,900	27,681	(16,781)
Goods & services - furniture & equipment leases	6,108	5,340	768
Goods & services - subscriptions	1,143	800	343
Goods & services - facilities & related services	5,635	5,788	(153)
Goods & services - data processing	6,854	5,341	1,513
Goods & services - Attorney General's Office	13,596	15,735	(2,139)
Goods & services - insurance	50	25	25
Goods & services - other purchased services	160,253	140,407	19,846
Other goods & services	5,915	5,612	303
Travel, lodging & subsistence	44,724	31,209	13,515
Capital outlays	24,996	28,928	(3,932)
Grants, benefits & client	(1,000)	0	(1,000)
Total Expenditures	<u>\$ 1,022,522</u>	<u>\$ 953,401</u>	<u>\$ 69,121</u>

The accompanying notes are an integral part of this schedule of expenditures.

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD
NOTES TO SCHEDULE OF EXPENDITURES
For the Year Ended June 30, 2012

Note 1 – Summary of Significant Accounting Policies

The Law Enforcement Officers & Fire Fighters Plan 2 Retirement Board (the Board) was created through a taxpayer initiative approved by voters in November 2002. The schedule of expenditures – budget allotment to actual of the Board has been prepared in conformity with generally accepted accounting principles as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity, Background & Activities:

An eleven-member board, appointed by the Governor of the State of Washington, governs the Board. Board members are appointed from the following groups of individuals:

- Three must be active law enforcement officers who participate in the plan (Beginning with the first vacancy before or after January 1, 2007, one of the members must be a retired law enforcement officer who is a member of the plan).
- Three must be active fire fighters who participate in the plan (Beginning with the first vacancy before or after January 1, 2007, one of the members must be a retired fire fighter who is a member of the plan).
- Three must be representatives of employers
- One must be a member of the State House of Representatives
- One must be a member of the State Senate

The Board is empowered to oversee the Law Enforcement Officers & Fire Fighters Plan 2 Retirement system (LEOFF 2). They do not maintain custody or manage the investments of the plan. The custody and investment management function is the responsibility of the Washington State Investment Board (SIB). The Board is required to 1) adopt actuarial tables, assumptions and cost methodologies; 2) adopt contribution rates for LEOFF Plan 2; as well as other related duties. Some specific duties relating to the expenditures of the Board are;

Professionals & technical advisors:

- Retain Professionals & technical advisors necessary to accomplish the board's duties.

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD
NOTES TO SCHEDULE OF EXPENDITURES
For the Year Ended June 30, 2012

Note 1 – Summary of Significant Accounting Policies, Continued

Actuary:

- Consult with an enrolled actuary retained by the board (The state actuary shall provide assistance when the board requests.)
- The actuary used must provide the State Actuary with copies of its valuations, assumptions and cost methodology for a reasonableness review.
- If the two actuaries do not agree, a third actuary must be appointed by the board and state actuary.

Other Costs:

- Engage administrative staff and acquire office space
- Board members shall be reimbursed for travel and education expenses as provided in RCW 43.03.050 and 43.03.060

B. Basis Of Accounting And Reporting:

All payroll, reporting and accounting functions are handled by the Office of Financial Management's Small Agency Client Services (SACS) and recorded in the State of Washington's Accounting & Financial Reporting System under Agency #341.

The Board uses the modified-accrual basis of accounting with a measurement focus on current financial resources. Therefore, the purchase of non-current assets such as property, plant and equipment is not deemed to be an asset for financial reporting purposes. Instead, these costs are reflected as an expenditure in the year they are incurred.

C. Subsequent Events Evaluation:

Management has evaluated for subsequent events through August 30, 2013, the date the financial statements were available to be issued. No material subsequent events were identified by management.

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD
NOTES TO SCHEDULE OF EXPENDITURES
For the Year Ended June 30, 2012

Note 1 – Summary of Significant Accounting Policies, Continued

D. Budgetary Process:

The Board must develop an annual budget consistent with the requirements of chapter 43.88 RCW. This budget draws funding from the investment income of the LEOFF Trust fund held by the State Investment Board.

The Board's budget is subject to the OFM allotment process but is not subject to legislative appropriation. Allotments may be adjusted on a quarterly basis. Monthly allotments are not binding but are used as a tool to ensure the total biennium budget is not exceeded.

The Board's operating expenses are paid from a sub-account of the LEOFF Plan 2 Retirement Fund (the expense fund).

E. Expenditure Authority (RCW 41.26.732):

The authority to establish all policies relating to the expense fund, other than the investment policies of the SIB, resides with the Board. With the exception of investments by, and expenses of, the SIB, disbursements from the expense fund may be made only on the authorization of the board.

The expense fund may be spent only for the purposes of defraying the expenses of the Board. Expenses include, but are not limited to:

- Salaries and expenses of personnel
- Lease payments
- Travel
- Goods & services
- Audits
- Other general costs of conducting board business

SUPPLEMENTARY INFORMATION

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD
COMPARATIVE SCHEDULE OF EXPENDITURES
For the Biennium Ended June 30, 2013

	Year Ended <u>06/30/2012</u>	Year Ended <u>06/30/2013</u>	Biennium Ended <u>06/30/2013</u>
Salaries & wages	\$ 398,446	\$ 475,596	\$ 961,419
Employee benefits & payroll taxes	334,150	374,029	235,076
Personal service contracts	26,241	28,003	38,322
Goods & services - supplies & materials	3,868	5,864	6,836
Goods & services - communications	19,690	8,493	26,596
Goods & services - utilities	5,744	5,697	9,869
Goods & services - rentals & leases	45,954	45,954	91,908
Goods & services - repairs & maintenance	0	0	601
Goods & services - printing & reproduction	9,826	21,293	7,119
Goods & services - employee development	16,873	27,681	37,610
Goods & services - furniture & equipment leases	5,618	5,340	11,797
Goods & services - subscriptions	677	800	1,170
Goods & services - facilities & related services	6,186	5,788	8,625
Goods & services - data processing	2,986	5,341	6,862
Goods & services - Attorney General's Office	25,967	15,735	22,585
Goods & services - personnel services	0	0	762
Goods & services - insurance	25	25	50
Goods & services - other purchased services	140,185	140,407	258,218
Other goods & services	655	5,612	4,088
Travel, lodging & subsistence	38,032	31,209	49,041
Capital outlays	699	28,928	6,583
Grants, benefits & client	0	0	119
Total Expenditures	<u>\$ 1,081,822</u>	<u>\$ 1,231,795</u>	<u>\$ 1,785,256</u>

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD
SCHEDULE OF BIENNIUM EXPENDITURES - BUDGET TO ACTUAL
For the Biennium Ended June 30, 2013

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>OVER (UNDER) BUDGET</u>
Salaries & wages	\$ 953,169	\$ 874,043	\$ (79,126)
Employee benefits & payroll taxes	247,100	196,214	(50,886)
Personal service contracts	86,342	54,244	(32,098)
Goods & services - supplies & materials	18,000	9,732	(8,268)
Goods & services - communications	29,856	28,182	(1,674)
Goods & services - utilities	12,025	11,440	(585)
Goods & services - rentals & leases	98,720	91,908	(6,812)
Goods & services - repairs & maintenance	4,000	0	(4,000)
Goods & services - printing & reproduction	34,141	31,119	(3,022)
Goods & services - employee development	45,900	44,555	(1,345)
Goods & services - furniture & equipment leases	12,216	11,458	(758)
Goods & services - subscriptions	1,861	1,477	(384)
Goods & services - facilities & related services	12,170	11,975	(195)
Goods & services - data processing	9,983	8,327	(1,656)
Goods & services - Attorney General's Office	40,600	41,702	1,102
Goods & services - personnel services	381	0	(381)
Goods & services - insurance	75	50	(25)
Goods & services - other purchased services	290,759	280,591	(10,168)
Other goods & services	10,705	6,267	(4,438)
Travel, lodging & subsistence	86,005	69,242	(16,763)
Capital outlays	49,992	29,627	(20,365)
Total Expenditures	<u><u>\$ 2,044,000</u></u>	<u><u>\$ 1,802,153</u></u>	<u><u>\$ (241,847)</u></u>