



Office of the Washington State Auditor
Pat McCarthy

Schedule Audit Report

Law Enforcement Officers and Fire Fighters Plan 2 Retirement Board

For the period July 1, 2017 through June 30, 2018

Published December 3, 2018

Report No. 1022443





**Office of the Washington State Auditor
Pat McCarthy**

December 3, 2018

Mr. Steve Nelsen, Executive Director
Law Enforcement Officers and Fire Fighters Plan 2 Retirement Board
Olympia, Washington

Report on the Schedule

Please find attached our report on the Law Enforcement Officers and Fire Fighters Plan 2 Retirement Board's Statement of Expenditures – Budget Allotment to Actual for the fiscal year ending June 30, 2018.

We are issuing this report in order to provide information on specific financial activity of the Board.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER SCHEDULE REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF SCHEDULES
PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

**Law Enforcement Officers and Fire Fighters Plan 2 Retirement Board
July 1, 2017 through June 30, 2018**

Mr. Steve Nelsen, Executive Director
Law Enforcement Officers and Fire Fighters Plan 2 Retirement Board
Olympia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the Schedule of Expenditures – Budget Allotment to Actual of the Law Enforcement Officers and Fire Fighters Plan 2 Retirement Board, for the year ended June 30, 2018, and the related notes to the schedule (the schedule), and have issued our report thereon dated October 18, 2018.

As described in Note 1, the schedule is prepared for the purpose of complying with the reporting requirements of the Revised Code of Washington, Section 41.26.720, and is not intended to be, and is not, a complete presentation of the Board's assets, liabilities and revenues, and is not a complete set of financial statements in accordance with the accounting principles generally accepted in the United States of America.

INTERNAL CONTROL OVER SCHEDULE REPORTING

In planning and performing our audit of the schedule, we considered the Board's internal control over schedule reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the schedule, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Board's schedule will not be prevented, or detected and corrected on

a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Board's schedule is free from material misstatement, we performed tests of the Board's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy
State Auditor
Olympia, WA

October 18, 2018

INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE

Law Enforcement Officers and Fire Fighters Plan 2 Retirement Board July 1, 2017 through June 30, 2018

Mr. Steve Nelsen, Executive Director
Law Enforcement Officers and Fire Fighters Plan 2 Retirement Board
Olympia, Washington

REPORT ON THE SCHEDULE

We have audited the accompanying Schedule of Expenditures – Budget Allotment to Actual of the Law Enforcement Officers and Fire Fighters Plan 2 Retirement Board, for the year ended June 30, 2018, and the related notes (the schedule).

Management's Responsibility for the Schedule

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

Auditor's Responsibility

Our responsibility is to express an opinion on the schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's

preparation and fair presentation of the schedule 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 Board's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant account estimates made by management, as well as evaluating the overall presentation of the schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the schedule referred to above presents fairly, in all material respects, the budgeted and actual expenditures of the Law Enforcement Officers and Fire Fighters Plan 2 Retirement Board, for the year ended June 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

We draw attention to Note 1 to the schedule, which states the schedule was prepared for the purpose of complying with the reporting requirements of the Revised Code of Washington, section 41.26.720, and is not intended to be, and is not, a complete presentation of the Board's assets, liabilities, or revenues, and is not a complete set of financial statements in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the schedule as a whole. The Other Information - Prior Year Comparison is presented for purposes of additional analysis for the Board and is not a required part of the schedule. Such information has not been subjected to the auditing procedures applied in the audit of the schedule, and accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2018 on our consideration of the Board's internal control over schedule reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant

agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over schedule reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over schedule reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over schedule reporting and compliance.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

October 18, 2018

FINANCIAL SECTION

Law Enforcement Officers and Fire Fighters Plan 2 Retirement Board July 1, 2017 through June 30, 2018

SCHEDULE

Schedule of Expenditures – Budget Allotment to Actual
Notes to Schedule of Expenditures

OTHER INFORMATION

Other information – Prior Year Comparison

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD
SCHEDULE OF EXPENDITURES - BUDGET ALLOTMENT TO ACTUAL

For the Year Ended June 30, 2018

<u>Line Item:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
Salaries & Wages	\$635,508	\$620,061	\$15,447
Employee Benefits & Payroll Taxes	\$209,530	\$200,029	\$9,501
Professional Service Contracts	\$23,000	\$12,603	\$10,397
Supplies and Materials	\$300	\$7,229	(\$6,929)
Communications/Telecommunications	\$19,090	\$20,832	(\$1,742)
Utilities	\$5,640	\$5,829	(\$189)
Rentals and Leases - Land & Buildings	\$45,960	\$45,954	\$6
Repairs, Alterations & Maintenance	\$0	\$223	(\$223)
Printing and Reproduction	\$6,650	\$7,045	(\$395)
Employee Prof Dev & Training	\$31,077	\$52,559	(\$21,482)
Rental & Leases - Furn & Equipment	\$4,220	\$5,178	(\$958)
Subscriptions	\$1,200	\$1,858	(\$658)
Facilities and Services	\$38,996	\$39,427	(\$431)
Data Processing Services (Interagency)	\$10,432	\$7,296	\$3,136
Attorney General Services	\$22,284	\$15,050	\$7,234
Personnel Services	\$5,628	\$6,459	(\$831)
Insurance	\$115	\$25	\$90
Other Contractual Services	\$110,144	\$110,222	(\$78)
Archives & Records Management Svcs	\$156	\$160	(\$4)
Software Licenses and Maintenance	\$8,784	\$11,138	(\$2,354)
Other Goods and Services - Note 1 Section B	\$180	(\$3,340)	\$3,520
Travel, Lodging & Subsistence	\$42,000	\$59,304	(\$17,304)
Noncapitalized Assets	\$0	\$523	(\$523)
Total Expenditures	\$1,220,894	\$1,225,664	(\$4,770)

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD
NOTES TO SCHEDULE OF EXPENDITURES
For the Fiscal Year Ending June 30, 2018

Note 1 – Agency Description & Summary of Significant Accounting Policies

A. Agency Description, Background & Activities

The Law Enforcement Officers and Fire Fighters Plan 2 Retirement (the board) was created through taxpayer initiative 790 in November of 2002. In 2003 the board was created as a state agency governed by its board of trustees. The board exists to research, develop and execute broad policies beneficial to the members of the Law Enforcement and Firefighters Retirement Plan 2 Pension Fund's present and future recipients. The board employs seven full time employees to act as administrative, technical, and advisory experts to aid in carrying out the board's mission.

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

- Three must be active law enforcement officers who participate in the plan and one of the members must be a retired law enforcement officer and a member of the plan.
- Three must be active fire fighters who participate in the plan and one of the members must be a retired fire fighter that participates in 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 and Fire Fighters Retirement System (LEOFF 2). They do not maintain custody or manage the investments in the plan. The custody and investment 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, (3) and other related duties. The other related duties the board activity incurs expenditures for include:

Professionals & Technical Advisors – Retain professionals and technical advisors necessary to accomplish the board's duties.

Actuary – Consulting 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 actuary do not agree, a third actuary must be appointed by the board and state actuary.

Other Costs – Retain administrative staff and acquire office space for operations. Process travel reimbursements for board members as provided by RCW 43.03.050 and 43.03.060.

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD
NOTES TO SCHEDULE OF EXPENDITURES
For the Fiscal Year Ending June 30, 2018

B. Basis of Accounting and Reporting

The expense account used by the LEOFF 2 Plan Board is a governmental fund. The Board uses the modified-accrual basis of accounting with a measurement focus on current financial resources. The Schedule of Expenditures-Budget and Actual is not intended to be a complete presentation of the Board's assets, liabilities, and revenues nor does it constitute a complete set of financial statements in accordance with generally accepted accounting principles.

All of the Board's general accounting, reporting, payroll and budget functions are managed by the Washing State Department of Enterprise Service's Small Agency Financial Services and Human Resources Teams. All accounting data is maintained in the statewide Accounting & Financial Reporting System (AFRS) under agency 341.

The board relies heavily on the State Administrative and Accounting Manual (SAAM) in the development and execution of its accounting related policies.

Note for negative expenditure data: The "Other Goods and Services" category is reporting a negative balance for actual fiscal year 2018 results. This negative amount is caused by expense reimbursements from the U.S. Bank Purchase Card Rebate program. Rebate amounts are based on a fraction of expenditures from various expense categories and are consolidated into this category for reporting purposes.

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 only with the authorization of the board.

Expenditures of the board are paid out of a singular operation account (LEOFF Plan 2 Board Expense Account / Account Number: 548). This expense account is administered by the state treasury. The board retains no other accounts for official board business.

Expenditures from the expense account may only be used in the execution of board duties. Allowable expenses include, but are not limited to:

- Salaries, benefits and related payroll costs of personnel.
- Lease Payments
- Travel
- Good & Services
- Audits
- Other general and reasonable costs of conducting board business

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD
NOTES TO SCHEDULE OF EXPENDITURES
For the Fiscal Year Ending June 30, 2018

C. Budgetary Process

The board must develop an annual budget consistent with the requirements of chapter 43.88 of the Revised Code of Washington. The budget for the board is funded from the investment income of the LEOFF Trust fund held by the State Investment Board.

The budget for the agency is subject to the allotment process directed by the Office of Financial Management but is not subject to legislative appropriation. Allotments maybe updated as needed however, they are non-binding and are used an expense monitoring tool so that biennial budgets are not exceeded.

Note 2 Commitments & Non-Current Liabilities

D. Major Lease Payments and commitments

The board, acting through the Washington State Department of Enterprise Services, entered into an operating lease for office space until April 30, 2019. The agreement calls for monthly lease payments of \$3,829.50. In addition to the monthly lease payments the agency is also required to pay the landlord for its prorated share (currently 5.36%) of water, sewer, garbage and restroom supplies as well as the cost of electricity and natural gas directly attributable to the office space occupied.

Upon expiration of the lease term the agency may renegotiate the lease for another five (5) year term, allow the lease to become a month-to-month lease, or vacate the space. The board currently intends to renew its lease at the current location. The lease expense incurred for fiscal year 2018 is \$45,954 with projected payments of \$38,295 expected for the remainder of the current lease agreement.

E. Compensated Absences

Consistent with statewide employment practices the board maintains an ongoing cost of compensated absences for employees that accrue sick and vacation leave on a monthly basis. Costs associated with compensated absences are not recorded as expenditures until absences are taken and annually the agency records the future liability related to compensated leave. The below table summarized the changes in compensated absences expenses for the year ended June 30, 2018 and reflects the potential cost of compensated leave.

LAW ENFORCEMENT OFFICERS & FIRE FIGHTERS PLAN 2 RETIREMENT BOARD
 NOTES TO SCHEDULE OF EXPENDITURES
 For the Fiscal Year Ending June 30, 2018

Compensated Absences Summary	Vacation Leave Liability	Sick Leave Liability	Total
Current Year Opening Balance	\$36,940	\$23,476	\$60,415
Net Increase in Liability for the Year	\$24,552	\$6,110	\$30,662
Balance at year ending June 30,2018	\$61,492	\$29,586	\$91,078

Note 3 – Related Party Transactions

The board obtains a significant amount of goods and services from other agencies within the state of Washington in the form of interagency agreements. The cost of these agreements are developed during the State’s budget process and are generally structured to recover the cost of providing goods and services. The following table summarizes the most significant agreements/services provided with other state agencies and the cost of these agreements in fiscal year 2018.

Interagency & Central Billing (State Rendered Services)

Agency	Service	FY18 Charges	% of Total
Office of the State Actuary	Actuary Services	\$ 109,658.04	32.9%
Department of Enterprise Services	Multiple Services**	\$ 64,865.48	19.5%
Office of the Attorney General	Legal Services	\$ 15,050.44	4.5%
Total		\$ 189,573.96	56.9%*

*Note % of total is a comparison of all goods and services expenditures for FY18.

**Department of Enterprise Services charges includes charges for: Financial Services, Training Services, Real Estate Contracting Services, Statewide systems charges, Mail Services, Parking Services, and Risk Management Services.

LAW ENFORCEMENT OFFICERS FIRE FIGHTERS PLAN 2 RETIREMENT BOARD
 NOTES TO SCHEDULE OF EXPENDITURES
 For the Fiscal Year Ending June 30, 2018

Supplemental Report
 Prior Year Comparison

Line Item Expenditure	FY 2018	FY 2017	Variance
Salaries & Wages	\$620,061	\$615,306	\$4,755
Employee Benefits & Payroll Taxes	\$200,029	\$192,221	\$7,808
Professional Service Contracts	\$12,603	\$55,827	(\$43,224)
Supplies and Materials	\$7,229	(\$83)	\$7,312
Communications/Telecommunications	\$20,832	\$20,586	\$246
Utilities	\$5,829	\$6,078	(\$249)
Rentals and Leases - Land & Buildings	\$45,954	\$45,954	\$0
Repairs, Alterations & Maintenance	\$223	\$15	\$208
Printing and Reproduction	\$7,045	\$8,688	(\$1,643)
Employee Prof Dev & Training	\$52,559	\$24,692	\$27,867
Rental & Leases - Furn & Equipment	\$5,178	\$4,138	\$1,040
Subscriptions	\$1,858	\$804	\$1,054
Facilities and Services	\$39,427	\$3,950	\$35,477
Data Processing Services (Interagency)	\$7,296	\$6,142	\$1,154
Attorney General Services	\$15,050	\$24,769	(\$9,719)
Personnel Services	\$6,459	\$6,051	\$408
Insurance	\$25	\$25	\$0
Other Contractual Services	\$110,222	\$139,668	(\$29,446)
Archives & Records Management Svcs	\$160	\$0	\$160
Software Licenses and Maintenance	\$11,138	\$0	\$11,138
Other Goods and Services	(\$3,340)	\$7,725	(\$11,065)
Travel, Lodging & Subsistence	\$59,304	\$44,696	\$14,608
Noncapitalized Assets	\$523	\$4,614	(\$4,091)
Grants & Benefits	\$0	\$200	(\$200)
Total	\$1,225,664	\$1,212,066	\$13,598

Notes:

In FY18 payments to DES Small Agency Financial Services were coded to Facilities and Services while in FY17 expenditures were coded to Other Contractual Services.

Fiscal year 2017 figure excludes \$1,957.50 in unaudited transactions that occurred after the fiscal year 2017 financial statement audit.

Negative expenditures in "Other Goods and Services" category is the result of expense reimbursements from the U.S. Bank Purchase Card Rebate program. Rebate amount is based on purchases coded to various categories and consolidated to this category for reporting purposes.

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.

Contact information for the State Auditor's Office	
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