



# The Audit Connection

## Troy Kelley sworn in as Washington State Auditor

Since being sworn in as Washington's tenth State Auditor, Troy Kelley has committed to build on the agency's strengths and use the transition in leadership as an opportunity for innovation.

In his first month in office, Troy made some structural changes, utilizing suggestions of recognized audit and management experts. He also approved the training of 20 leaders in Lean Six Sigma tools to improve agency processes and deliver more value in the final audits and recommendations.

Troy anticipates extending the reach of the new Local Government Performance Center. In its pilot phase, the LGPC demonstrated results like cutting county permit processing times in half, reducing government's cell phone bills and engaging citizens in setting priorities for tight city budgets. Efforts that help local governments deal with financial distress and streamline services benefit everybody by ensuring that governments run efficiently and produce measurable results.



During his three terms in the State's House of Representatives, Troy chaired the Joint Legislative Audit and Review Committee. As a legislator, he advocated for fiscally responsible public policy and government transparency. He fought to reduce the state's cost of doing business and improve accountability.

"As auditor, I have requested legislation of my former colleagues that will return subpoena power to our agency, cutting our costs and speeding up our

investigations," Troy said. "I am committed to restoring our agency's full funding during this legislative session, because what we do helps all levels of government work better and smarter."

Since 1984, Troy's career has focused on the business of moving families into homes. Working his way up from the mailroom, he served as the president of the largest tax exchange company in the country. For more than a decade, he owned and operated a business that tracked recorded documents. The use of performance measures ensured profitability and productivity across multiple offices.

Early in his career, Troy served in the federal prosecutor's office (Western District, New York) concentrating on white collar crime. Later, he worked as an attorney for the Securities and Exchange Commission, leading teams focused on regulatory audits of energy companies.

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*The Insurance Building on the State Capital Campus in Olympia houses the Headquarters of the Washington State Auditor's Office.*

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# Alternative Learning Experience (ALE) audit results

During 2011, school accountability audits focused on Alternative Learning Experience (ALE) programs. This was driven by results of past audits and legislative concerns regarding the funding of these programs. We examined compliance with requirements in Washington Administrative Code 392-121-182, including:

- Existence and content of individual written student learning plans approved by a certificated teacher.
- Student contact by certificated staff.
- Documentation of student progress.

For 2011, we audited 67 school districts for ALE compliance. We found issues in 52 of these audits, and questioned costs of nearly \$27 million. Most of the latter resulted from noncompliance with WAC 392-121-182. However, we found two other major issues during the audits.

- Districts that operated programs that did not offer a course of study leading to graduation. Districts can offer programs that do not lead to graduation, but they cannot claim them for state funding.
- Non-resident students wishing to participate in an ALE program offered by several districts as part of a cooperative agreement were not released to the district claiming funding for and serving that student. State school choice regulations state that non-resident students must be released by the resident district to the district claiming the student for funding before the latter claims funding.

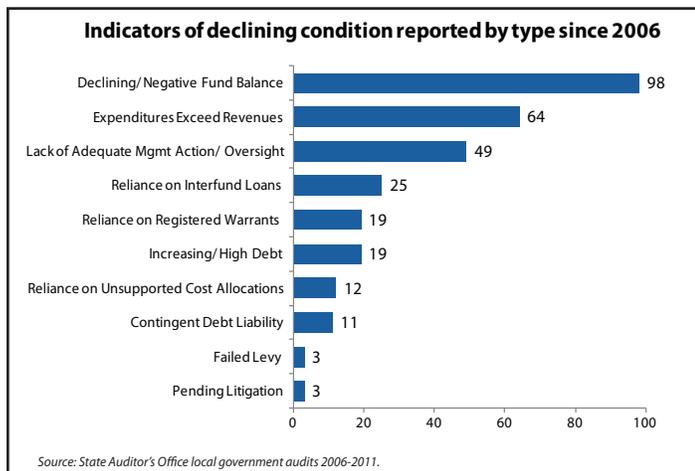
We issued a [summary report](#) in February. We also plan to do more work in this area during the upcoming audit cycle, as regulations change and add new requirements.

## Two special reports address local government issues

The Washington State Auditor's Office has issued two special reports relating to local governments.

### Local Government Financial Condition

A small but growing number of Washington's cities, towns, and other governments are showing signs of declining financial condition that affect their ability to serve residents. The most common areas of concern are dwindling or negative fund balances, spending that exceeds revenues, and lack of adequate management action or oversight.



The State Auditor's Office plays an important role in monitoring the financial condition of local government. Knowing what we look for and what we have reported can help government at all levels improve financial performance and identify potential issues before they become significant.

When residents, taxpayers, and government leaders understand the financial concerns, they can take steps toward regaining a sound financial condition.

We issued this report November 21, 2012. The report is available on our website, [Audit Report Number 1008675](#).

### Public Development Authorities and Public Facility Districts

The Washington Legislature authorized the creation of public development authorities (PDAs) in the 1970s and Public Facility Districts (PFDs) in the late 1980s. Thirty-eight PDAs and 25 PFDs provide facilities and services including convention centers, sports and event centers, museums, housing, and economic development. The law allows them to combine public money and private donations to complete projects and maintain operations.

As entities that receive public dollars, they are subject to audit. During these audits, we found that many PDAs and PFDs are effective in their roles serving the public. However, our audits found common themes among the issues we noted, such as inadequate monitoring by the entities that create PDAs/PFDs, inadequate governance, declining or distressed financial condition, and failure to comply with laws and regulations.

We issued this report January 3, 2013. It is available on our website, [Audit Report Number 1008676](#).

## Troy Kelley sworn in

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Troy Kelley holds a B.A. from the University of California at Berkeley, and a J.D. and M.B.A. from the State University of New York at Buffalo. He is a member of the state bars of Washington, New York, California and the District of Columbia. A nineteen-year Army JAG officer, he currently serves as a lieutenant colonel in the National Guard and previously taught at the Army JAG School. He is a past president of the Escrow Association of Washington.

He and his wife Diane live in Tacoma with their two sons, where Troy enjoys coaching the boys' football and baseball teams.

## Kelley brings final members to executive team

The new State Auditor has brought some fresh faces and assignments to the executive offices in the Insurance Building.

**Julie Cooper**, previously with the Special Investigations Division, accepted Troy's assignment as the Auditor's Executive Assistant responsible for providing administrative support. Julie worked in the banking industry before joining the Office in 1999 as the Chief of Staff's Confidential Secretary.

**Matt Miller** worked with Troy during his last term in the House of Representatives and is on board as Deputy Auditor with an array of responsibilities during the transition. Matt's experience includes internships in the White House and in the State Auditor's office. He spent two years in the Federated State of Micronesia working on education policy and providing technical assistance on public health and agricultural issues.

Troy has retained former colleague, retired State Representative **Deb Eddy** as Transition Policy and Communications Advisor through June 2013. Eddy has 20 years of experience in public affairs, program assessment, project management and policy development as an elected official at the state and local level, executive director of a government association and a private-sector consultant. Her work in the legislature largely focused on technology, energy, regulated industries and transportation issues.

These three will join Chief of Staff Doug Cochran and Directors Larisa Benson and Chuck Pfeil in developing a new strategic vision and communications plan for Troy's first term in office.

"Transitions in leadership offer the opportunity for organizational change, but it takes a strong and dedicated leadership team to ensure success," Eddy said. "This agency has existing expertise and enormous future potential. I'm pleased to have the opportunity to help launch Troy's first term on a positive note."



*From left: Julie Cooper, Matt Miller, and Deb Eddy*

### **Local Government Guidance: How long should local governments retain documents that support financial transactions?**

Local governments are responsible for keeping track of all manner of documents that are needed to prove the validity of every transaction relating to the receipt, use, and disposition of public funds or property (RCW 43.09.200). This requirement extends to all accounting entries, including interfund transactions or allocations of overhead costs. The BARS Manual (Accounting, Original Supporting Documentation) sets out the complete requirements.

These records are also covered by the Local Government Common Records Retention Schedule (CORE). "Financial Transactions-General" are covered by Disposition Authority Number (DAN) GS2011-184; it states that a local entity must retain records documenting all resources it received and spent for six years after the end of the fiscal year.

Since there are many different categories of accounting records, each with different retention time periods, local government employees with responsibility for maintaining accounting records should carefully review the CORE schedule and check for updates. [The CORE schedule](#) can be viewed online.

# Performance Audit news

Recent audits by the Performance Audit division brought attention to the Auditor’s Office and to the solutions or identified best practices. Often, agencies execute the recommendations on their own; in some cases, legislators write bills that implement ideas by putting them into law. Many bills won’t make it all the way through the system on their first try, but many of the ideas will persist and re-appear. Sen. Curtis King (R-Yakima), co-chair of the Senate Transportation Committee, introduced a bill that included changes in policy identified by the ferry construction audit and the recommended best contracting practices. Sen. King was quoted in *The Olympian* and *The Everett Herald* as saying that “We need to have a conversation about this. Why do we pay what we pay?”

## More ways to get in touch with the State Auditor’s Office

**Press or legislator question?** Who to call? While communications responsibilities are being identified and assigned, direct questions about current audits, reports or legislative matters to Deputy Auditor Matt Miller, matt.miller@sao.wa.gov or 360-902-0364.

**Want to receive automatic email notices?** Visit the [website](#) and **create an account** to receive email notices about audit and investigation reports; local government budget, accounting, and reporting requirements; State Auditor’s annual reports, job openings, and news releases.

### Contact information for the State Auditor’s Office

<b>Headquarters in Olympia</b>	<b>www.sao.wa.gov</b>	<b>360-902-0360</b>
<b>State Auditor Troy Kelley</b>	<b>troy.kelley@sao.wa.gov</b>	<b>360-902-0360</b>
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Steve Wendling, State Team Audit Manager	steven.wendling@sao.wa.gov	360-725-5351

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<i>Bellingham</i> New manager to be confirmed		360-676-2165
<i>Cascadia</i> Ivan Dansereau	ivan.dansereau@sao.wa.gov	253-372-6250 x109
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