

# Washington State Auditor 2012 Annual Report



Thank you, citizens of Washington, for the opportunity to serve as your State Auditor for 20 years. As we prepare to leave office, I am very proud of advocating and working for my values of an open, accessible and accountable government. We have had a significant positive effect on state and local government as a result of that effort in the public's behalf.

As our office transitions to a new State Auditor, this is our final annual report to you. So on these pages, we review the progress and achievements we made on issues of accountability, and we offer ideas and perspective on governance issues. We hope these thoughts will be helpful and useful for those who follow us and others who serve in government.

I have long said that there is only one issue for the State Auditor's Office, and that is accountability. I define accountability as a government that is open, accessible, responsible and responsive; a government that listens to people and when it talks to them, it tells the truth.

More than any other state elected office, the State Auditor can have a greater and broader effect on holding governments accountable to the citizens they serve and on ensuring those governments act as good stewards of taxpayer dollars. We believe that this is what the state's founders - populist in nature - intended when they established the State Auditor's Office and put it in the Constitution.

We are uniquely positioned to deliver good value to citizens because we perform financial and compliance audits of every state agency and every school district, city, county and all other local government entities in Washington.

Also, our authority to conduct performance audits - granted by citizens Initiative 900 in 2005 - has enabled us to evaluate the effectiveness of government activities and actions.

But our audit work should not be and has not been driven by a "gotcha" mentality. We have worked independently yet cooperatively with governments to help them improve operations. In that way, the public is better served.

In 1992, there was a popular theme of reinventing government, identifying ways to make it work faster, cheaper, better. I viewed this Office as a critical part of that effort.

That's why we raised the visibility of the Office and transformed the way we report our audit work. It's why we actively promoted open, transparent government and directed audits to ensure compliance with state public access laws. It's also why we long advocated for performance audit authority in an environment averse to change. And it's why we advanced an idea for government to engage citizens and determine what they truly want from their government.

The opportunity to serve the public for 40 years in elective office - 20 years as your State Auditor - has been an honor and an extraordinary opportunity. That opportunity came with a responsibility to make a difference. Thanks to you, we have.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag".

**BRIAN SONNTAG, CGFM**

WASHINGTON STATE AUDITOR

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## A CALL FOR FINANCIAL REFORM

With all the technological, cultural and social changes over the past half-century, consider this: State government's financial system generally has remained the same.

Since the Budget and Accounting Act of 1959 was enacted, only modest changes have been made to state financial management. While the Office of Financial Management (OFM) has functioned soundly, it has taken on a role of preparing the budget, providing policy analysis and giving fiscal support to individual agencies that handle their own financial management.

The state needs to transform its financial management into a modernized system with strong central financial leadership and enterprise-wide oversight.

Since the State Auditor's Office is charged constitutionally with conducting regular evaluations of the state's financial statements and accountability, we are well positioned to offer ideas and recommend ways for government to work better.

In November, we sent a research paper to the incoming governor with suggestions that would significantly strengthen the state's financial system to meet the fiscal challenges ahead. We called for the state to engage in long-term strategic and financial planning across state government rather than simply leaving individual agencies and departments to do it on their own.

## KEEP WASHINGTON'S PUBLIC ACCESS LAWS STRONG

Public access to government actions and information is fundamental to accountability.

And it was this concern for accountability that compelled Washington's populist-oriented founders to entrust The State Auditor's Office with the constitutional authority to hold government answerable to citizens.

That's why we consistently audit for compliance with the state Open Public Meetings and Open Public Records acts. Oversight of these public access laws is – and should continue to be – an inherent part of the office's responsibility.

During 2012, we identified more than 250 open government related issues among local governments. Most of these problems were one-time or infrequent occurrences, such as inadequately recording and maintaining public meeting minutes. We were able to resolve them simply by reminding those governments what the laws require.

**250**  
open government  
issues identified in  
local government

More significant issues reflected inadequate notification of special meetings and executive sessions, failure to consistently keep meeting minutes, and board and council members discussing business and reaching consensus via email rather than in an open meeting.

Beyond audit, this office is best positioned to advocate for strong public access laws, which citizens themselves secured through successful statewide initiatives in 1974.

In the past 20 years, we have seen continuous assaults on open government laws. For example, the number of exemptions to the Open Public Records Act, originally just 10, is nearly 400.

And currently, local government associations intend to seek authority during the Legislature's coming session to expand government's ability to block access to public records. This must not be allowed to happen.

The State Auditor's Office should continue to lead efforts to protect and strengthen citizens' right to access their government. Among unfinished business is the need for government to record closed-door sessions, to continue regular review of exemptions to the Public Records Act and to establish a mediation process to resolve public records disputes.

This Office also needs to continue working with the Washington Coalition for Open Government and other organizations dedicated to preserving public access laws.

Public officials must remember whose government it is. It is never wrong to open the doors and let the people in.

## GOVERNMENT MUST LISTEN TO CITIZENS

We've often said that government doesn't do a very good job of listening to people.

When citizens feel left out of decisions and believe their voices are not heard, they distrust government. We have seen a consequence of this distrust in the litany of successful citizen initiatives to impose spending caps and tax limitations.

Government has a critical responsibility to involve the public and give them an ongoing role in shaping policy decisions.

In 1999, following overwhelming citizen approval of the Initiative 695 tax-rollback measure, we suggested a way to engage citizens in a fundamental, long-term look at how government provides services. We called it a Citizens Alliance for Accountability.

At the time, we proposed assembling a brain trust of Washington's top leaders and best thinkers to develop a process to hold a fundamental discussion with citizens to learn what they want from their government. It was important that this effort be on a scale that would result in policy decisions to change the way state and local governments do business.

The Alliance generated strong support from the public, newspaper editorials and legislators from both sides of the aisle. Legislation was introduced, and while it ultimately fell short of passage, it prompted state agencies to involve the public in their policy development efforts.

The Alliance idea is as fresh and relevant now as it was then. It should be rekindled as a first step to break the crust of public cynicism toward government. Whatever form it takes, it should create a continual process for engaging citizens in governance issues at all levels.

People want to be informed and heard. When citizens are better informed, they will have something to say. And when they speak, government needs to listen.

**"Credit State Auditor Brian Sonntag with a proposal that could break the crust of cynicism and suspicion that is smothering state government."**

~ *The Seattle Times*, 1999

# MAKE GOVERNMENT WORK BETTER

Voter approval of Initiative 900 in 2005 – giving the State Auditor’s Office performance audit authority – marked one of the most significant changes to auditing in state history.

We had advocated for that authority since the beginning of my term in office with limited success in an environment averse to change. The initiative moved Washington from having a law specifically prohibiting our Office from doing performance audits to having the most extensive authority in the nation.

We are very proud to have used that tool effectively, holding state and local governments accountable and changing the way government does business. Since launching our performance audit program, we have conducted 50 audits that have identified nearly \$1.3 billion in potential savings, unnecessary spending and potential additional revenue. And we have made more than 1,500 recommendations to improve operations.

We’ve seen positive results. In our state government performance audits, agencies collectively have carried out 85 percent of our recommendations and have achieved actual savings and new revenue of \$830 million.

One example of our success was a 2008 performance audit that looked at nearly \$650 million in uncollected delinquent debt among the state’s largest departments. In that audit, we concluded that the state could get roughly half of it simply by following industry standards and collection methods.

Since that audit, agencies implemented our recommendations that saw collections of delinquent debt increase 26 percent annually. So far collections have been \$330 million more than was anticipated.

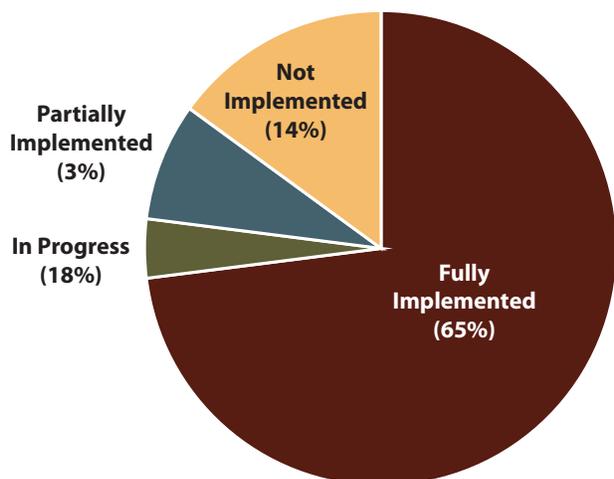
During 2012, we produced a number of performance audits that offered significant improvements to state government.

Highlights include:

- One audit aimed at keeping children safe from sex offenders identified 15 instances where such offenders worked or had access to children at schools, foster care homes or in-home child care. These cases were not discovered until our audit identified them. Responsible state agencies took action and worked with local law enforcement to prevent any harm from being done.
- We looked at how much money school districts spent on educating kids and how effectively they used the funds needed for non-instructional expenses. We found that 60 cents of each dollar is spent in the classroom. The remainder is used for expenses such as building maintenance, transportation, food services and administration. We concluded that every one percent reduction statewide in non-instructional spending would provide \$100 million – enough to pay for 1,000 classroom teachers.
- Another audit assessed myriad state regulations affecting businesses and identified nearly 1,400 separate licenses, permits and inspections administered by 26 state agencies. We found the state does not yet operate a theme “one-stop” business licensing website. Our recommendations focused on streamlining rules giving businesses better online access to information and permits they need.

Certainly, citizens throughout the state appreciate the relevance of our performance audits. We have proven the value that our audits provide to agencies and policymakers as they face major financial challenges.

## Overview of Recommendation Status February 2007 - June 2012



**Total Recommendations = 1,549**

**Total Savings and Revenue Possible:  
\$1.3 Billion\***

**Actual Savings Reported by Agencies:  
\$833 Million**

*Source: Reports submitted to the State Auditor’s Office by the audited entities. We did not independently verify recommendation status.*

*\*Note: Based on five-year projected savings.*

## PUTTING THE EMPHASIS ON FRAUD

Rooting out and preventing fraud has been a major focus on our audit work. Since we took office 20 years ago, the office has investigated, identified and reported more than \$21.1 million in misappropriations in state and local governments.

In 2012, we investigated 40 cases of real and suspected instances of fraud and found \$3.3 million in losses. One of the investigations – at \$1.7 million with another \$1 million of questionable transactions – was the largest single case of fraud in the history of the office.

It involved a former public works department official in Franklin County. He is scheduled to go on trial next year for allegedly submitting invoices from a company that at one time had done business with the county but had gone out of business. He is accused of pocketing the invoice payments.

Our office also received a prestigious award from the National State Auditors' Association in 2012 for our extensive investigation that found more than \$600,000 in property excise

taxes misappropriated from the Clallam County Treasurer's Office. A former office clerk was subsequently found guilty of the fraud and sentenced to 12 years in prison and ordered to pay \$607,000 in restitution.

We also have administered the State Employee Whistleblower Program since 1982, giving public employees an avenue to report instances of suspected improper government activities and to do so with protection against retaliation.

Over the past three years, we received more than 800 assertions from whistleblowers ranging from gross waste of public funds to actions that violated state law.

One example in 2012 was related to a Department of Social and Health Services contract with the City of Seattle. We found a misappropriation and questionable expenses totaling nearly \$133,000 at a nonprofit organization that the City subcontracted with to carry out the service.

### Fraud History of Last 10 Years

This table shows the amount lost by year reported by our office.

Year	Investigations	Misappropriation Reported	Year	Investigations	Misappropriation Reported
2003	62	\$2,253,394	2008	35	\$548,855
2004	47	\$331,803	2009	53	\$2,055,775
2005	57	\$258,960	2010	75	\$1,864,652
2006	33	\$611,711	2011	50	\$1,352,396
2007	24	\$1,722,207	2012	40	\$3,330,695

## USING A RISK-BASED APPROACH AUDIT

Over the past 20 years, we transformed the way we audit, making our Office a nationally recognized model for holding government accountable to citizens it serves.

First, we shifted from an overemphasis on auditing financial statements to a risk-based approach, focusing on areas where taxpayer dollars were most vulnerable to misuse and abuse. Our risk-based approach came before national auditing standards caught up to focus on vulnerable areas.

We completely changed how we report our work, writing reports in plain english and adding perspective to explain complex issues and make them more understandable and clear. We automated our audit work papers, leading to greater transparency and faster responses to public records requests.

We established a quality assurance program to ensure our work continued to meet audit standards, supported our conclusions and met our rigorous internal tests for relevance.

Our audits in 2012 provided evidence of our continued emphasis on accountability. Here are a few:

- One audit found that the state overpaid licensed child care providers an estimated \$74 million in subsidies and paid an additional \$35 million based on questionable documentation.
- We found that King County lacked adequate internal controls to ensure that spouses, domestic partners and dependents of county employees were eligible to receive health insurance benefits. After our finding, the county pursued the issue and in 2012 found 1,300 ineligible dependents or partners. It saved the county \$2 million.
- Another audit examined the \$227 million in student tuition waivers awarded by the state's colleges and universities. We found that more than \$28 million of those waivers lacked adequate documentation to support the eligibility of the students who received them.