



# Washington State Auditor's Office

Government that works for citizens

## 2015 Annual Report

March 9, 2016

### **Message from Deputy State Auditor Jan Jutte:**

*The year 2015 was one of unprecedented challenge at the State Auditor's Office as we dealt with intense media coverage of issues that were separate from the performing of our audits.*

*But what will be clear as you review this report is that our focus continued to be on our mission of holding state and local government accountable for the use of public resources, and our goal of government that works better, costs less, delivers higher value, and earns greater public trust – government that works for citizens.*

*Guiding us toward this vision are our organizational values of objectivity, independence, respect, accountability, integrity and transparency.*

*Playing an indispensable role are the results of our Performance Audits, which the voters of Washington approved and funded through Initiative 900. The voters dedicated a portion of the state sales tax to ensure that Washington's taxpayers are getting their money's worth from state and local governments. It was a wise choice, resulting in a solid return on investment in more efficient and effective government. That investment is enhanced by the series of IT security audits our Performance Audit team is providing to state agencies and local governments. The risks of inadequate cybersecurity are huge, both in financial terms and in terms of protecting confidential information about the individual citizens government serves.*

*We hold ourselves accountable for our use of public resources by pursuing a culture of continuous quality improvement. We use Lean principles to streamline our administrative and audit processes, and to efficiently manage data, using it to measure and improve our performance.*

*State and local governments provide essential services and opportunities for individuals, families, organizations and businesses across Washington. Public trust is built on the knowledge that government is operating as efficiently, openly and successfully as possible. That's why we are proud that our Office offers the unique value of an independent auditor providing expertise, transparency and accountability in government.*

Jan M. Jutte, CPA, CGFM  
Deputy State Auditor

# Table of Contents

---

2015 Continuous Quality Improvement	3
2015 Key Outcomes	4
Performance Audit	7
Performance Center Continues to Help Governments Work Better, Cost Less	9
Local Government	12
2015 audit highlights in local government	12
Audits of school district	
Alternative Learning Experience programs	13
Energy audits	13
Special Report – Local Government Financial Reporting: Increased Transparency and Accountability	14
Attestation Engagements: GASB 68 Census Data	15
State Government	16
Investigations	18
Quality Assurance	19

## ***The mission of the Washington State Auditor's Office***

The State Auditor's Office holds state and local governments accountable for the use of public resources.

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. We provide training and technical assistance to governments and have an extensive quality assurance program.

For more information about the State Auditor's Office, visit [www.sao.wa.gov](http://www.sao.wa.gov).

## ***Americans with Disabilities***

In accordance with the Americans with Disabilities Act, this document will be made available in alternative formats. Please email [Communications@sao.wa.gov](mailto:Communications@sao.wa.gov) for more information.

## ***State Auditor's Office contacts***

### **State Auditor Troy Kelley**

360-902-0371, [Auditor@sao.wa.gov](mailto:Auditor@sao.wa.gov)

### **Jan M. Jutte, CPA, CGFM – Deputy State Auditor**

360-902-0360, [Jan.Jutte@sao.wa.gov](mailto:Jan.Jutte@sao.wa.gov)

### **Adam Wilson – Deputy Director for Communications**

360-902-0367, [Adam.Wilson@sao.wa.gov](mailto:Adam.Wilson@sao.wa.gov)

## ***To request public records***

### **Public Records Officer**

360-725-5617, [PublicRecords@sao.wa.gov](mailto:PublicRecords@sao.wa.gov)

# 2015 Continuous Quality Improvement

---

The State Auditor's Office is responsible for auditing all units of government in Washington. That puts us in a unique position not only to see where financial, compliance or performance problems exist, but also to provide recommendations, training and guidance to help government officials fix them.

In 2014, we set out strategic goals and specific performance measures for our Office. We followed this up in 2015 by developing a complete and detailed Operational Plan to ensure that our agency is operating efficiently, effectively and transparently. It will help ensure that we are prepared and equipped to continue to build on our successes in the years to come.

Better government is the bottom line. When we perform audits in a way that encourages governments to implement our recommendations, we accomplish our mission and build our vision of government that works for citizens.

It is not enough to simply audit governments. Our Office also uses what it learns in the audits it conducts to help all governments improve, find solutions and emulate best practices.

The Local Government Performance Center helps local governments reduce costs and improve results by applying the lessons we learn from our audits. It offers training and technical assistance to local government elected officials, managers and staff who want their organization to improve its performance, effectiveness, efficiency, customer satisfaction and/or transparency. To learn more, visit our web pages, listed at right.

In line with our responsibility to help reduce risk to government, our Performance Audit division continued an ongoing, long-term examination of Information Technology (IT) security risks in state and local governments. In 2015, we increased our capacity for performing IT security audits, and conducted a statewide risk assessment to help us develop our IT audit strategy. A third performance audit examining the state's IT security posture is under way, as are six local government IT security audits.

We expect to continue working with the state's Chief Information Officer, state agencies and local governments to examine and review IT security, with an eye to reducing risk to government.

We know that state and local officials are our partners in making government work better, cost less, deliver higher value and earn greater public trust.

*For information on training and technical assistance: [www.sao.wa.gov/local/Pages/LGPC.aspx](http://www.sao.wa.gov/local/Pages/LGPC.aspx)*

*To explore our resource database: [portal.sao.wa.gov/PerformanceCenter/](http://portal.sao.wa.gov/PerformanceCenter/)*

# 2015 Key Outcomes

---

*Used continuous improvement strategies* across the agency to improve efficiency and reduce costs, including further refining our organizational structure.

*Emphasized customer service training* to ensure that our team members always “show up” representing the values of our organization.

*Strengthened our information security system and protocols.*

*Expanded the agency’s social media presence* on Facebook, Twitter, LinkedIn and YouTube to increase transparency and accessibility.

*Was the only bright spot in the 2015 State Integrity Investigation.* State government in Washington racked up a disappointing D+ grade from the Center for Public Integrity. But the state’s overall grade would have been even worse if not for the B+ score in the “Internal Auditing” category, the only category to receive anything higher than a C.

The state’s internal auditing function got high marks for both the laws that underpin the process, and for how well the process succeeds in practice, including:

- “The leadership of the audit entity is protected from political interference (score 75).”
- “The government acts on the findings of the audit agency (score 100).”
- “The audit agency independently initiates investigations (score 75).”
- “Citizens can access audit reports within a reasonable time period and at no cost (score 100).”
- “The audit agency has sufficient staff and resources to conduct its work (score 75).”

*Conducted a comprehensive survey* of every state and local government in Washington to collect information about the nature, volume and associated costs of public records requests.

*Released significant performance audits* of major state programs and systems. Increased the number of audits in progress and increased our emphasis on state and local government IT cybersecurity.

*Released a new report, “Local Governments: Promoting Transparency and Accountability,”* which resulted in a marked increase in the number of local governments meeting their legal obligation to file annual financial reports.

*Conducted Transparency and Open Government training sessions* in Olympia and Ellensburg to continue our outreach to help more than 800 government officials comply with the Open Public Meetings Act, Public Records Act, records retention best practices and the Open Government Trainings Act of 2014.

---

***In partnership with the Municipal Research and Services Center of Washington, developed several new resources for local governments:***

- A local government contracting portal: Finding your Contracting Requirements. The core of the interactive portal is a set of progressive screens (filters) that will allow any local agency to readily ascertain the procurement procedures applicable to their agency type and size, for any type and amount of purchase or contract.
- Several resources for local government utility fund and billing issues:
  - Internal controls for utility billing and finance
  - Utility liens and shutoffs
  - Property transfers
- Several resources regarding cybersecurity, including:
  - Information security assessment tool and user guide
  - Action steps for local government leaders
  - Library of cybersecurity resources for local governments

***Refined the online filing process for local governments and conducted extensive training*** in all 39 Washington counties.

***Worked with state agencies to protect public resources including:***

- Improving monitoring, inventory and tracking of gift cards
- Establishing stronger controls over local funds (funds held by an agency outside of the state Treasury)
- Improving controls over cash receipting
- Following proper procedures for petty-cash funds
- Taking steps to comply with state travel policies
- Following rules for credit card and fuel card use
- Restricting access to sensitive data
- Enforcing computer system controls to prevent manual overrides of payment information

***Released an accountability audit on the state's first charter school***, at the request of the Washington State Charter School Commission. The audit found shortcomings in properly accounting for the use of some public funds and failure to follow the Open Public Meetings Act, among other issues.

***Reported on 34 investigations of misappropriation from state and local governments*** totaling more than \$457,000.

***Further improved timeliness of whistleblower investigations.*** In 2015, we received 207 whistleblower complaints and published 31 investigative reports, all well within the statutory timeline.

## Stewardship Awards: Seven presented statewide in 2015

The State Auditor's Stewardship Awards are presented in recognition of outstanding accomplishment in the stewardship of public resources as we pursue the shared goal of government that works better, costs less and earns greater public trust. Seven were presented to cities, counties and colleges across the state, to the cities of Kirkland, Redmond, Sammamish and Spokane, King County, Centralia College and Western Washington University.



*Centralia College*



*City of Spokane*



*Western Washington University*



*City of Redmond*



*City of Kirkland*



*City of Sammamish*



*King County*

# Performance Audit

The **Performance Audit** division's work includes a blend of long-term audits of major state programs and shorter evaluations designed to give policymakers options to help them meet the state's challenges. We published five performance audits in 2015 and conducted our statewide risk assessment of IT systems. We will follow up on progress made by audited agencies and programs as they implement our recommendations in our next Performance Audit Progress Report.

## Improving Completeness of Washington's Criminal History Records Database

Criminal history records are used during investigations, for charging and sentencing decisions, and to conduct background checks. We found a third of the dispositions reported in the Judicial Information System (JIS) in 2012 were missing from the Washington State Identification System (WASIS). We identified two primary reasons: The person arrested was never fingerprinted, or vital information was not included when the disposition was entered into JIS. We recommended the State Patrol clarify guidance to local law enforcement, courts and county clerks, and continue to improve its data reconciliation process.

## Complaint Resolution Unit at the Department of Social and Health Services

Our audit found that the Complaint Resolution Unit (CRU) has improved the timeliness of its intake of allegations of abuse, neglect and exploitation of vulnerable adults living in residential care settings in Washington since 2014. However, the CRU does not track whether it meets time requirements outlined in state law; a lack of clarity in the law complicates CRU's efforts to measure and manage its processes. We recommended the CRU work with the Legislature to clarify state law, and consider performance measures that could help it improve its processes.

## Workforce Development System: Identifying Overlap, Duplication and Fragmentation

This performance audit set out to map the workforce development system in Washington, and it found a complex network of 55 programs, managed by 12 state agencies and multiple service providers. Our review did identify duplication, fragmentation and overlap of services in workforce development programs, but found that these instances are largely justifiable. We also identified risks that may call for further analysis, related to coordination among programs and variations in local service delivery. At the end of 2015, we proposed a follow-up audit examining career and technical education in K-12 schools and community colleges.

## Regulatory Reform: Enhancing Regulatory Agency Coordination

By coordinating their regulatory requirements and permitting activities, regulatory agencies can help promote economic vitality and improve program efficiency. This performance audit found that state agencies coordinate some of their work, but much of that coordination is informal and depends on the actions of individuals rather than policy. The audit identifies the need for a lead agency and a long-term strategy to identify and prioritize opportunities for targeted, multi-agency coordination of regulatory processes.



*Director of State and Performance Audit Chuck Pfeil (back row, second from right) received the Governor's Award for Leadership in Management in 2015.*

## **Prioritizing Fraud Investigations at the Department of Social and Health Services' Office of Fraud and Accountability (OFA)**

OFA has made several improvements over the past few years, including restructuring the organization and assigning new leadership. Although its backlog of overpayment investigation referrals is growing, its backlog of early detection referrals is declining. OFA developed tools that help ensure high-priority allegations of fraud or abuse in public assistance programs are investigated. However, we found that the Office's lack of important performance measures hampers its ability to make informed decisions about how to best allocate resources. Our analysis of the available data suggests there are opportunities to use those resources more effectively.

### **Statewide Information Technology Risk Assessment**

Given the high level of risk associated with computer-based information systems for the state, our Office has a role to play in ensuring the state is doing all it can to effectively plan for, develop, manage and secure IT resources. To better define its role, we engaged a team of consultants with expertise in public-sector IT to perform a statewide risk assessment. The risk assessment was not an audit; it was designed to help us develop our strategy for auditing IT in the state. The risk assessment addressed the following areas:

- Develop an inventory of the state's IT audit universe
- Identify and assess those areas that present the highest level of risk to the state
- Make recommendations on our Office's role in auditing the state's IT programs and functions
- Make recommendations on how our Office could best be organized to effectively conduct those audits

The risk assessment resulted in a list of future IT audits that will be performed by our Office. This will ultimately benefit agencies and citizens by ensuring the most significant IT risks are addressed in a timely manner.

# Performance Center Continues to Help Governments Work Better, Cost Less

It is exciting to be able to help governments through the work we do, not just point out the problems we find. The **Local Government Performance Center** was established to do just that. It helps local governments solve problems, reduce costs and improve the value of their services to citizens by offering resources such as training, tools and technical assistance. Over time, we hope to help more local governments more quickly and more economically than we can through individual audits. In 2015, the Performance Center continued its mission to provide non-audit services and resources to help local governments deliver better results. We expanded the number and types of classes offered, adding financial management and open government to the growing list of important topics covered by the Center.

Notably, we nearly doubled the number of Lean Academies offered this year. Participating local governments achieved impressive results. Kittitas County cut in half the time it takes for a building permit to be completed, and the Cowlitz County Treasurer's Office significantly reduced the number of steps and time taken to process real estate excise tax payments.

## Local Government Performance Center: Growth over four years

	2012	2013	2014	2015
Training classes	22	61	86	98
Local government employees trained	82	2,373	2,567	2,940
Types of training classes offered	5	10	12	14
Lean Academy workshops	0	4	14	24

## Government Performance Consortium

The Government Performance Consortium is a forum for local government leaders to collaborate, share best practices and explore the next horizon for the modern government organization.

The Government Performance Consortium is a joint project of the Performance Center, Municipal Research Services Center of Washington and the University of Washington (Tacoma). Its goal is to inspire creativity and build capacity in local governments by sharing insights into successes as well as current and future challenges. It offers a venue to discuss possible solutions among emergent leading practices and examples from multiple management disciplines. Current Consortium projects include Government Data Change-Agent Internships, a Data Collection and Comparison Project, and forums on a variety of topics.

## Open Government and Transparency trainings

Strong “sunshine laws” are crucial to ensuring government accountability and transparency. In Washington, these laws provide for public access to government records and the requirements of open public meetings. Local government officials must have a thorough grasp, and training is a key component in helping them comply. To that end, through the Performance Center, we continued our series of Open Government and Transparency trainings around the state, with sessions in Olympia and Ellensburg, which brought the number of local officials who have taken these trainings to more than 800. The material we presented met the requirements of the Open Government Trainings Act of 2014.

In addition, the Center partnered with the Municipal Research and Services Center of Washington to develop a set of **tools and resources** that offer practical advice along with best practices in records management, and compliance with the Open Public Meetings Act and the Public Records Act.



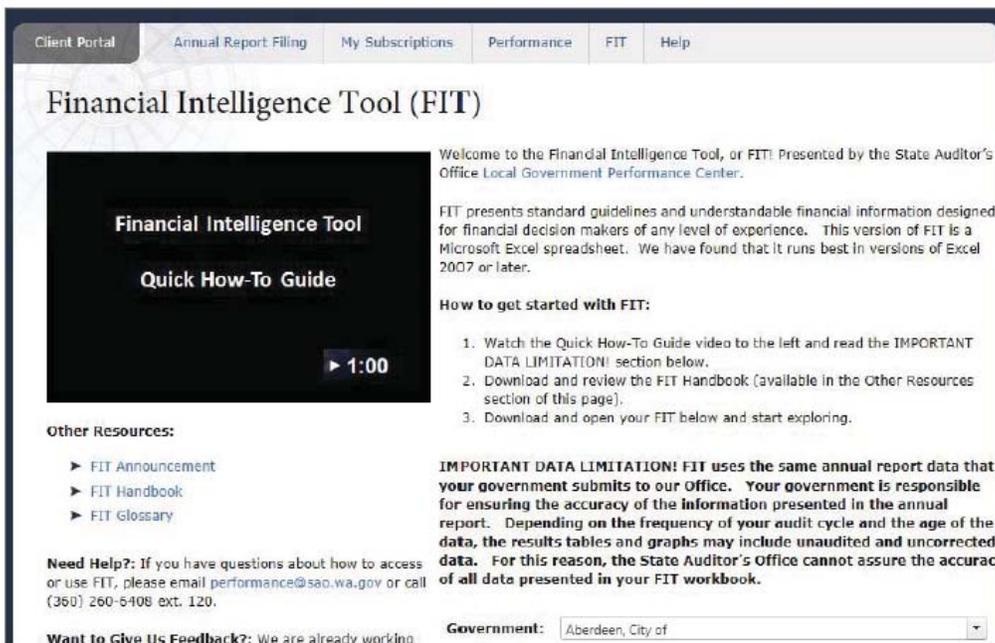
*The State Auditor's Office has presented Open Government and Transparency trainings to more than 800 local government officials.*

## Helping local governments become fiscally fit

In 2015, the Performance Center continued its work with local government officials, associations and other stakeholders to develop a fiscal health tool to help local governments in their role as stewards of financial resources. Our **Financial Intelligence Tool (FIT)**:

- Provides standard, transparent, understandable and easily accessible financial information
- Guides financial decision makers of any experience level
- Helps officials tell their government's financial story

Early in 2015, governments that report financial information using the cash basis of accounting were able to download the tool from the Client Portal on our website. Data they have already submitted to us automatically populates five key financial ratios that give local governments a snapshot of their financial health. In August, we developed a web version of the tool that is available to registered users on our website. We look forward to providing FIT to local governments reporting to us using generally accepted accounting principles (or GAAP) in June 2016.



The screenshot shows the 'Financial Intelligence Tool (FIT)' interface. At the top, there is a navigation bar with tabs for 'Client Portal', 'Annual Report Filing', 'My Subscriptions', 'Performance', 'FIT', and 'Help'. The main heading is 'Financial Intelligence Tool (FIT)'. Below this, there is a video player titled 'Financial Intelligence Tool Quick How-To Guide' with a 1:00 duration. To the right of the video, there is a welcome message: 'Welcome to the Financial Intelligence Tool, or FIT! Presented by the State Auditor's Office Local Government Performance Center.' Below the welcome message, there is a paragraph explaining that FIT presents standard guidelines and understandable financial information designed for financial decision makers of any level of experience. This version of FIT is a Microsoft Excel spreadsheet, and it runs best in versions of Excel 2007 or later. Below this, there is a section titled 'How to get started with FIT:' with three numbered steps: 1. Watch the Quick How-To Guide video to the left and read the IMPORTANT DATA LIMITATION! section below. 2. Download and review the FIT Handbook (available in the Other Resources section of this page). 3. Download and open your FIT below and start exploring. Below the steps, there is a section titled 'Other Resources:' with three links: 'FIT Announcement', 'FIT Handbook', and 'FIT Glossary'. Below the links, there is a 'Need Help?' section with contact information: 'If you have questions about how to access or use FIT, please email performance@sao.wa.gov or call (360) 260-5408 ext. 120.' At the bottom, there is a 'Want to Give Us Feedback?' section with the text 'We are already working'. On the right side, there is a 'Government:' dropdown menu with 'Aberdeen, City of' selected.

*An illustration of the new FIT website within the Auditor's Office Client Portal, launched January 2015.*

# Local Government

We take our statutory responsibility to examine the financial affairs of all local governments statewide very seriously. There are more than 2,275 individual local governments statewide, covering 36 government types including cities, counties, school districts, ports, fire districts, public utility districts, and many more. In 2015, our Office conducted 2,397 audits of local governments.

Reports issued by type of audit		
	2014	2015
Accountability	1,321	1,277
Financial & Federal	450	468
Financial	407	391
Special	22	107
Investigations	13	7
Attestation engagements	24	147
<b>Total:</b>	<b>2,237</b>	<b>2,397</b>

## 2015 audit highlights in local government

### Lack of internal controls in key financial systems and federal grant compliance

Lack of internal controls in key financial systems continues to account for 44 percent of all audit issues identified by our auditors. Additionally, local governments continue to struggle to comply with federal grant requirements and establish adequate internal controls over federal grants. In 2015, we reported exceptions with grant compliance in 101 of the 468 federal audit reports published. To help local governments assess their own internal controls and compliance with federal grant requirements, we have assembled resources and tools on our Local Government Performance Center webpages.

### First public charter school audit in state

The state Charter School Commission asked our Office to conduct an audit of the very first public charter school. Our accountability audit found school management did not correctly report required information to the state, had not properly accounted for the use of some public funds, inappropriately mixed the business expenses of the private parent organization with the public charter school, and failed to follow provisions of the Open Public Meetings Act. Many of these issues stemmed from the school management's lack of understanding of government accountability standards. Read the [report online](#).

## **Audits of school district Alternative Learning Experience programs**

In 2013, the state Legislature passed ESSB 5946, which has been codified into RCW 28A.232.010(3)(c). It requires school districts to receive biennial audits of their Alternative Learning Experience (ALE) programs.

Our audits examined a district's compliance with state laws and regulations and with its own policies and procedures. School districts received \$276 million in ALE funding for the school fiscal years 2013 and 2014.

For school fiscal year 2013, we audited 39 percent of ALE enrollment statewide, examining 49 ALE programs in 18 school districts. In nine of the 18 audited districts, we questioned a total of \$493,806 in ALE funding.

For school fiscal year 2014, we audited 60 percent of ALE enrollment statewide, examining 174 ALE programs in 106 school districts. In 22 of the 106 audited districts, we questioned a total of \$1.5 million in ALE funding.

The primary causes of questioned funding included:

- Reporting programs that did not qualify for ALE funding
- Offering high school programs that did not generate credits toward a high school diploma
- Not obtaining signed statements from parents certifying they understand the difference between ALE and home-based instruction
- Not conducting and/or documenting required monthly evaluations of student progress

Our audits of the ALE programs in individual school districts are available on the [Schools page](#) of our website.

## **Energy audits**

The Energy Independence Act, also known as Initiative 937, was approved by voters in 2006. It requires certain electric utility companies in the state to invest in new renewable energy sources and energy conservation programs. Each utility must establish and subsequently achieve its targets.

The Act applies to all electric utilities that serve more than 25,000 customers in the state. We have authority to audit 12 of the 17 qualifying utilities.

During 2015, one of the utilities required to comply with the Energy Independence Act had some concerns about our interpretation of the Act in relation to its 2013 compliance. The utility chose to work out those differences through the court system, and our interpretation was upheld by the court.

Our most recent audits covered 2012-13 conservation and 2014 renewable compliance. Nine of the 12 utilities have completed audits and were found in compliance with the Act. The remaining three utilities either requested a delay in their examination or were delayed due to legal interpretation differences.

We have also completed tests of the 2014-15 conservation targets. Tests of the related achievement, as well as 2015 renewable compliance, will be completed in 2016. The results of completed audits are available online on the [Energy page](#) of our website.

## Special Report – Local Government Financial Reporting: Increased Transparency and Accountability

More than 1,900 local governments, including cities, fire districts, ports, utility districts and many others, but excluding school and educational service districts, must file an annual financial report. State law has required each local government to file such a report with the State Auditor’s Office for more than a century. As recently as 2012, about a third of Washington’s local governments did not file their financial reports as required.

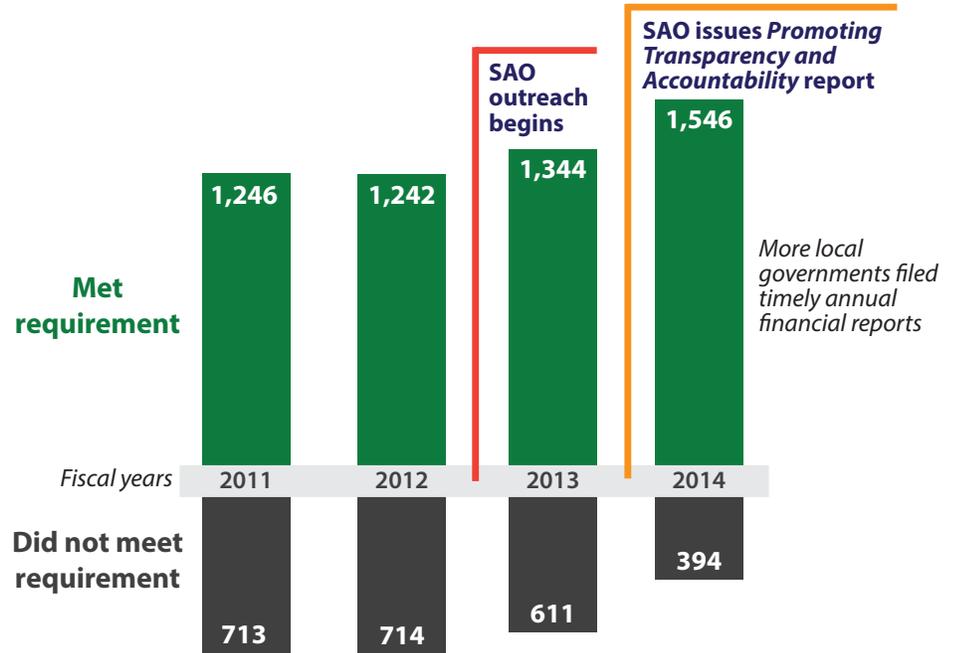
In 2015, we issued a special report, *Local Governments: Promoting Transparency and Accountability*, and made the decision to step up our efforts to help those governments that had not filed their reports. Our outreach efforts included small government trainings, filing workshops, improvements to our online filing, and our Helpdesk.

As a result of our outreach efforts, the number of local governments filing their financial reports as required by law improved dramatically this year, with 200 more governments filing their reports. Of the 394 local governments that did not file, more than half did eventually file, but after the deadline; another 50 started filing but did not complete their report. About 100 governments did not send any data, and 70 of them did not file a report for 2013 either. We published a follow-up report in January 2016, entitled **Special Report – Local Governments: Increased Transparency and Accountability**.

There are consequences for taxpayers and local governments for unaudited public funds: They may lead to reduced future funding through denial of grant funding, poor bond ratings, lack of information available to legislators, and trouble arranging credit, and indicate a lack of accountability to the public. Our Office will once again focus on this population of governments in the coming year, providing training at no additional cost and assistance as required.

The follow-up report is available on our website, where you can also view an **interactive Tableau presentation** that allows you to choose how to sort and visualize the reported data.

The number of local governments that filed annual financial reports as required increased



Note: Total number of governments in Washington varies slightly over time as some new governments are formed, and others are dissolved or merged.

## Attestation engagements: GASB 68 census data

The Governmental Accounting Standards Board (GASB) recently issued GASB Statement 68, "Accounting and Financial Reporting for Pensions," effective for the fiscal year ending June 30, 2015. As part of the examination of the state's pension plans under the new GASB pension standard, auditors are required to determine that the census data provided to the Department of Retirement Systems by state and local governments is accurate and complete.

The Department contracted with our Office to test a management assertion related to census data. In 2015, we conducted attestation engagements for fiscal years 2013 and 2014 (July 1, 2012, through June 30, 2014), reaching more than 150 employers.

### ***Poor understanding of pension plan rules contributed to issues we found***

The most commonly identified issues were due to lack of knowledge of pension plan rules. At the 154 employers tested, we found the following exceptions:

<b>We found</b>	<b>Number</b>
Incorrect reporting of employee hours worked, compensation and/or contributions	55
No independent review of transmittals	32
No documentation of initial and/or continuing eligibility determinations	19
Inaccurate employee or elected official plan/eligibility determination	12
Inadequate supporting or personnel file documentation (such as hire and birth dates)	11
Incorrect reporting of retired/rehired employees	6
Significant lack of training/resources awareness	2
Improper segregation of duties between payroll and human resource functions	2
No access to electronic payroll records	1
<b>Total</b>	<b>140</b>

We recommended employers provide adequate training to staff determining retirement plan eligibility to ensure compliance with documentation and reporting requirements.

**Search reports** on our website to find results and recommendations for individual attestation engagements.

# State Government

---

## Comprehensive Annual Financial Report (CAFR) for fiscal year 2015

Financial statement audits are crucial for government transparency, for bond ratings, and for monitoring financial health and sustainability.

We completed the 2015 CAFR audit, which covered the fiscal year that ended on June 30, 2015, and issued our “unmodified” opinion on the report in October 2015. That was just 122 days after year’s end, the second fastest completion time for any state in the nation. The “unmodified” opinion means that in our professional judgment these financial statements fairly present the state’s financial position. Each year, following this audit, we also publish the CAFR Summary, a five- to 10-page document that serves as a “snapshot” of the state’s financial position, including revenues, expenditures, cash balances and debt. It summarizes the lengthy financial statements, and presents some of the financial challenges facing the state, including the unfunded liabilities associated with the Workers’ Compensation Program, state pension plans and post-employment benefits.

## State of Washington Single Audit (SWSA)

Governments that annually spend at least \$500,000 in federal funds must obtain an audit in accordance with the federal Single Audit Act of 1984 (amended 1996). Our Office provides this service for the state of Washington and performs a statewide single audit according to generally accepted government auditing standards. The audit objective is to determine whether the state complied with federal requirements that could have a direct and material effect on a major federal program.

Washington’s comprehensive single audit report is published by the Office of Financial Management in March every year, and is available on [OFM’s website](#). We are in the process of completing our audit for the fiscal year that ended on June 30, 2015.

## 2014 SWSA Audit Results

In state fiscal year 2014, Washington received more than \$15.7 billion in federal financial assistance. We audited 32 programs, administered by 21 state agencies that received \$9.4 billion – about 59 percent of all federal dollars the state received.

We issued 55 audit findings that identified internal control deficiencies, material non-compliance with federal requirements and questionable payments that totaled approximately \$3.6 million.

The most recent editions of both the CAFR and the SWSA summaries can be found on the [Annual Reports page](#) of our website.

## **State agency accountability audits in 2015**

Accountability audits assess whether agencies have adequate internal controls in place to safeguard public resources and comply with legal requirements. We do not examine every transaction, activity or area. Instead, our audits focus on identifying and examining those activities or areas that pose the highest risk of noncompliance, abuse or misuse.

In 2015, we performed 43 individual accountability audits for state agencies, which includes institutions of higher education. We issued seven audit findings that reported significant non-compliance with legal requirements or identified areas where agencies need to improve their internal controls to better safeguard public resources. Here, we briefly summarize the more significant issues we found.

### **Department of Natural Resources**

In October 2015, we reported the Department did not comply with its own policies when it executed an emergency wildfire suppression contract that cost \$1.8 million with a farm in Eastern Washington. The Department also did not obtain and review sufficient supporting documentation for invoices before paying the contractor.

### **Department of Labor and Industries**

In July 2015, we reported the Department lacked adequate internal controls over payments for interpretive services. We estimated the Department likely paid interpreters \$3.9 million without adequate supporting documentation.

### **Military Department**

In June 2015, we reported the Department lacked adequate internal controls over payments for the Washington State Enhanced 911 services program. As a result, the Department paid more than \$300,000 in excess of what it should have.

### **Department of Veterans Affairs**

In June 2015, we reported the Department lacked adequate internal controls over the issuance of gift cards to veterans. We found documentation was missing to support more than \$17,000 in government assistance made through gift cards.

### **Financial statement audits**

Financial statement audits provide an opinion on whether financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles (GAAP). These audits do not attempt to confirm the accuracy of every amount, but search for errors large enough to affect the conclusions and decisions of a financial statement user.

In 2015, we performed 37 financial audits for state agencies, universities, and community or technical colleges. We issued five audit findings at five different organizations that identified areas where they need to improve their internal controls to ensure accurate reporting. A majority of the significant issues identified were related to a lack of accurate tracking and reporting of capital assets.

# Investigations

Our Office conducts three types of **investigations**: fraud, Citizen Hotline and state employee whistleblower. This section features highlights of our 2015 investigations.

## Fraud

In 2015, we reported on 34 investigations of misappropriation from local and state governments, totaling more than \$457,000. The table at right shows the value of misappropriations by category.

Our largest investigations in 2015 involved three local governments:

- A city employee used the utility system to misappropriate \$39,659. The misappropriated funds include \$35,700 in cash payments that were received but not deposited, \$2,878 deleted from a personal utility balance owed and \$1,080 for a cash payment deleted from the utility system.
- A county employee gave \$72,289 in grant payments to people not eligible for the funds.
- During our regularly scheduled audit of a mosquito district, we noticed unusual transactions and initiated an investigation. We found a payroll, general disbursement, and asset misappropriation totaling \$129,834.

Our Office also performs extensive educational outreach, providing presentations and trainings throughout the state at conferences held by government accounting and auditing professional associations.

## Citizen Hotline

Our Office operates a Hotline for citizens to report assertions of government fraud, waste and abuse. It is also a place to report government efficiency or outstanding achievement.

In 2015, we received 585 Hotline submissions and opened investigations into 371 of them. Hotline submissions are typically received through our website. However, if people want to leave a voice message about their concern, they can call our toll-free number at 866-902-3900.

## Whistleblower Program

Our Office is responsible for conducting whistleblower investigations of suspected improper governmental action. State law affords confidentiality to whistleblowers and protection from retaliatory actions.

In 2015, we received 207 whistleblower complaints and published 31 investigative reports. In 12 of those investigations, we found reasonable cause to believe a state employee engaged in improper governmental action. Information about the **State Employee Whistleblower Program** can be found on our website.

### Fraud investigations in 2015

Misappropriation by type	Value
Cash receipting	\$159,321
Payments	\$17,626
Payroll	\$160,435
Other	\$119,737
<b>Total</b>	<b>\$457,120</b>

# Quality Assurance

---

## **It's reasonable to ask "Who audits the auditor?"**

We are committed to continuously improving how efficiently we carry out our work, and hold ourselves to the highest standards of quality in the audit work we do. We do it because it's right, and because we know Washington citizens expect no less of us.

Our Office is subject to external peer reviews every three years to ensure our audits satisfy government auditing standards. These peer reviews are conducted by the National State Auditors Association, which is affiliated with the National Association of State Auditors, Comptrollers and Treasurers.

The Office received a "clean opinion" on its **2013 external peer review**. The reviewers concluded the Office had a well-designed quality control system, and applicable audit policies and standards were complied with in almost all cases. We conduct so many different types of audits, across so many different teams, that it takes a concerted effort by everyone involved to maintain such a high standard of quality. Our next external peer review will be in 2016.

We are also audited every two years by an independent public accountant under contract with OFM. Such audits generally focus on our administrative operations.

Like all state agencies, we are required to report on how we plan to resolve any audit issues, and the Director of the Office of Financial Management issues an annual report on the audit resolution status. These reports are available to the public on the **OFM website**.