



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

October 11, 2023

Council  
San Juan County  
Friday Harbor, Washington

Management Letter

This letter includes a summary of specific matters that we identified in planning and performing our accountability audit of San Juan County from January 1, 2022 through December 31, 2022. We believe our recommendations will assist you in improving the County's internal controls in these areas.

We will review the status of these matters during our next audit. We have already discussed our comments with and made suggestions for improvements to County officials and personnel. If you have any further questions, please contact me at 360-676-2165.

This letter is intended for the information and use of management and the governing body and is not suitable for any other purpose. However, this letter is a matter of public record and its distribution is not limited.

We would also like to take this opportunity to extend our appreciation to your staff for their cooperation and assistance during the audit.

Sincerely,

Deena Garza, Audit Manager

Attachment

## Management Letter

San Juan County

January 1, 2022 through December 31, 2022

### **Electronic payments**

Since 2016, Washington's governments have reported more than \$30 million of lost public funds as a result of cyberfraud, sometimes referred to as phishing, spearfishing, or business email compromise schemes. In these schemes, an external threat actor contacts the government, appearing to be a known source—an employee, upper-level manager, vendor or other business associate. Government staff are convinced to redirect valid payments to the external threat actor, or to purchase gift cards and provide them with the card numbers.

It is imperative that governments implement robust internal controls over all disbursements. This includes establishing a verification process for all requests to change an employee's or vendor's contact and payment information, as well as any requests to purchase gift cards, especially when they come through email, phone, fax or another electronic method.

The County spent about \$25 million in general fund disbursements in fiscal year 2022. The County is responsible for establishing effective controls over electronic payments, including changes to the payment information on file for vendors and employees, to protect electronic payments from internal and external threats.

Our audit found the County did not have adequate internal controls over electronic payments to protect public funds. In 2023, the County reported a phishing incident to our Office related to misappropriation of public funds. The County made one vendor payment totaling \$87,237 to a fraudulent bank account. At the County's request, the County's bank was able to recover the entire amount.

We examined the County's controls over electronic vendor payments and found:

- The County did not have a policy or practice requiring sufficient verification for all bank change requests to make sure they were made by the actual vendor.
- The County has not adopted policies over electronic funds transfer transactions that contain the required elements prescribed in the *Budgeting, Accounting and Reporting System* (BARS Manual), section 3.8.11.30.

We recommend the County develop written policies and procedures for electronic vendor payments to require adequate verification of bank account changes with the vendor, and to include the required elements prescribed in the BARS Manual (3.8.11.30). We further recommend the County provide adequate communication and training to staff on the verification requirements to ensure they are consistently followed.



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

October 11, 2023

Council  
San Juan County  
Friday Harbor, Washington

Management Letter

This letter includes a summary of specific matters that we identified in planning and performing our financial audit of San Juan County from January 1, 2022 through December 31, 2022. We believe our recommendations will assist you in improving the County's internal controls in these areas.

We will review the status of these matters during our next audit. We have already discussed our comments with and made suggestions for improvements to County officials and personnel. If you have any further questions, please contact me at 360-676-2165.

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San Juan County

January 1, 2022 through December 31, 2022

### **Cash and investments reconciliation**

The County Council, state and federal agencies, and the public rely on the information included in the financial statements and reports to make decisions. County management is responsible for designing and following internal controls to ensure financial statements, related schedules, and notes are fairly presented and to provide reasonable assurance regarding their reliability. The County prepares its financial statements in accordance with the cash-basis accounting method, as prescribed by the State Auditor's Office's *Budgeting, Accounting and Reporting System* (BARS Manual).

While individual bank activity is reconciled monthly and at year-end to the general ledger, the County does not effectively perform a comprehensive, countywide reconciliation of all bank activity. This reconciliation would ensure the figures reported in the financial statements are accurate and all internal transfers between funds are correctly eliminated. During our audit, we could not reconcile total revenues and expenditures from bank activity to reported values, noting likely overstatements of \$10,239,952 and \$9,757,837, respectively. The netted effect of these unreconciled amounts does not materially affect the County's stated net position.

We recommend the County allocate adequate staff time and resources to performing necessary countywide global reconciliations to ensure that the financial statements are accurate and fairly presented before submitting them for audit.