



Washington State Auditor's Office

Report to the Legislature Audits of State Agency Local Funds 2017-2019 Biennium

Introduction

As part of routine audits of state agencies, the State Auditor's Office is responsible for auditing public funds and accounts that are not managed by or in the care of the State Treasurer. These funds are commonly referred to as "local funds." The Legislature has established some of these funds; others are authorized under state law (RCW 43.88.195), which allows the Office of Financial Management to establish local funds outside the State Treasury for compelling reasons of economy and efficiency, which could not be achieved by placing such funds in the state treasury.

The State Auditor's Office is required by law (RCW 43.09.420) to report to the Legislature on the status of local funds and accounts that were examined during the preceding biennium and recommendations that were made about how state agencies can improve their financial management of the funds.

This report highlights key audit findings and reports we issued during the 2017-2019 biennium that involved local funds.

State agency local fund balances

As of June 30, 2018, state agencies (including the six state colleges and universities and the community and technical college system) held over \$13.6 billion in cash and investments that were local funds. **Exhibit A** in this report shows the amount of local funds held by each agency.

Each agency is responsible for establishing accounting policies and internal controls over the use of local funds. In our audits, we generally find that the risk of misuse or loss of local funds increases when cash receipting operations are decentralized and when job duties are not adequately separated. The risk of non-compliance with state laws and policies also increases when internal controls are not in place or not operating effectively.

Audit results and recommendations

During the 2017-19 biennium, we reported several findings regarding how state agencies can improve their management of local funds.

Accountability Audits

Our Office conducts accountability audits that evaluate whether there is reasonable assurance that state agencies adhere to laws, rules and policies. These audits also assess whether agencies have adequate internal controls in place to safeguard public resources. State agencies are responsible for developing corrective action plans for all audit findings. The plans must be submitted to the Office of Financial Management within 30 days of the issuance of audit reports.

Department of Veteran's Affairs

In July 2017, we reported as an [audit finding](#) that the Department of Veteran's Affairs lacked adequate internal controls over its issuance of gift cards to veterans. We recommended the Department strengthen its internal controls by strengthening its policies and procedures, and obtaining receipts from clients to support the funds were used for the intended purpose.

Eastern Washington State Historical Society (a.k.a. Museum of Arts & Culture)

In June 2018, we reported as an [audit finding](#) that the Eastern Washington State Historical Society lacked adequate internal controls to ensure its donations were properly deposited and accounted for. We recommended the Museum deposit all public funds in the agency bank account, develop written policies & procedures over its donation receipting process and implement a supervisory review and reconciliation process to ensure all donations are properly accounted for.

Statewide Single Audit

The Single Audit is an independent audit of systems and internal controls over federally funded programs the state has designed to ensure it complies with federal regulations. This audit is required annually as a condition of grant funds received by the state and is intended to assess how well the state is ensuring that federal dollars are spent properly. The Single Audit report is published by the Office of Financial Management in March each year.

The following is a summary of an audit finding we issued to an agency in [Washington's Single Audit report](#) that covered the state fiscal year ending June 30, 2017. The report was published by the Office of Financial Management in March 2018:

We found the Employment Security Department¹ did not have adequate internal controls to ensure only eligible claimants received Unemployment Insurance benefits. We recommended the Department address system errors that were detected during the audit and monitor to ensure all selected work search verifications are complete and staff adequately document their reviews.

¹ Finding 2017-005

Exhibit A

Summary of cash and investment balances – by state agency

| Agency Name | Cash and investments held in local funds (as of June 30, 2018) |
|---|---|
| University of Washington | \$5,972,584,956 |
| Employment Security Department | \$4,497,091,077 |
| Community & Technical College System | \$920,599,227 |
| Washington State University | \$323,908,061 |
| Bellevue Community College | \$167,619,706 |
| State Lottery Commission | \$156,599,514 |
| Western Washington University | \$145,813,965 |
| Eastern Washington University | \$144,421,829 |
| Central Washington University | \$113,341,187 |
| State Investment Board | \$93,397,482 |
| Seattle Community College | \$93,325,431 |
| Green River Community College | \$89,158,974 |
| Office of the Attorney General | \$65,554,824 |
| Pierce Community College | \$63,088,276 |
| Spokane Community College | \$61,273,014 |
| Shoreline Community College | \$50,511,259 |
| Yakima Valley Community College | \$48,697,981 |
| Highline Community College | \$40,882,637 |
| Columbia Basin Community College | \$40,144,662 |
| Everett Community College | \$37,935,494 |
| State Board of Community and Technical Colleges | \$37,455,422 |
| Evergreen State College | \$36,646,492 |
| Bates Technical College | \$32,558,155 |
| Edmonds Community College | \$31,920,347 |
| Olympic Community College | \$31,805,198 |
| Clover Park Technical College | \$31,094,540 |
| South Puget Sound Community College | \$28,925,117 |
| Whatcom Community College | \$28,558,565 |
| Department of Social and Health Services | \$28,132,521 |
| Big Bend Community College | \$25,693,080 |
| Tacoma Community College | \$23,531,385 |
| Skagit Valley Community College | \$22,979,406 |

| | |
|---|--------------|
| Cascadia Community College | \$20,165,698 |
| Clark Community College | \$18,035,872 |
| Centralia Community College | \$16,309,703 |
| Grays Harbor Community College | \$15,926,894 |
| Lower Columbia Community College | \$15,564,947 |
| Department of Commerce | \$13,091,987 |
| Department of Corrections | \$12,319,266 |
| Renton Technical College | \$11,550,154 |
| Peninsula Community College | \$10,662,554 |
| Bellingham Technical College | \$10,207,454 |
| Walla Walla Community College | \$8,088,320 |
| Department of Veterans Affairs | \$7,478,003 |
| Lake Washington Technical College | \$6,855,917 |
| Wenatchee Valley Community College | \$3,176,608 |
| Department of Natural Resources | \$3,099,854 |
| Washington State Historical Society | \$1,748,392 |
| Liquor and Cannabis Commission | \$1,358,077 |
| Department of Transportation | \$1,291,012 |
| State School for the Blind | \$1,069,490 |
| Washington State Patrol | \$1,010,838 |
| Superintendent of Public Instruction | \$830,192 |
| Washington State Gambling Commission | \$651,343 |
| Eastern Washington State Historical Society | \$389,686 |
| Office of the State Treasurer | \$323,461 |
| Center for Childhood Deafness & Hearing Loss | \$221,373 |
| Administrative Office for the Courts | \$65,327 |
| Workforce Training & Education Coordination Board | \$20,287 |

Total Local Funds as of June 30, 2018

\$13,666,762,492