



Office of the Washington State Auditor

ANNUAL REPORT

2019



February 2020

Join the Office of the Washington State Auditor and its 350 auditors for a trip through 2019, as we track public dollars and explore good government operations. From 15 locations across the state, we provide an objective examination of the finances and operations of every state agency, city, parks board, school district and a whole lot more. Each year, the Office issues thousands of reports, reflecting the results of many different kinds of audits. Just a small percentage of the audits find a significant problem, which is reported in a “finding.”

Here's what the Office did on the public's behalf in 2019

2,785
audits
in 2019

Accountability audits

1,346
audits
82 findings

Accountability audits evaluate whether a state or local government followed applicable state laws, regulations and its own policies. These audits determine whether public funds are accounted for and controls are in place to protect public resources from loss, misappropriation and abuse.

Federal audits

365
audits
172 findings

Federal audits provide an independent opinion on whether the government complied with applicable requirements when spending federal grants. We must conduct an audit when a government spends \$750,000 or more annually in federal financial assistance.

Financial audits

790
audits
92 findings

Financial audits are the classic audit. We give an independent opinion on a government's financial position and operations, as presented in its financial statements. In other words, these audits determine whether the government's financial statements present an accurate picture of its finances.



State law requires local governments to be audited and for them to submit annual financial reports, yet every year some governments do not meet these obligations. In response, we created the first interactive Guide to Unauditable Governments, showing we could not audit 40 local governments. We also issued two of a new type of report on unauditible governments.

Citizen Hotlines

397 received; 272 merited further consideration



A fraud investigation results in a written report if auditors find significant misuse or theft of public money. In 2019, 24 of our 74 investigations met this standard, identifying over \$9.5 million in misappropriated public funds and \$370,000 of questionable transactions. See page 6 for more.



Whistleblower investigations are the result of state employees sounding the alarm on possible waste, fraud or abuse.



As the Constitutionally appointed auditor of public accounts, we offer other assurance services that governments may request or that might be required by federal or state law. These services cover a variety of topics, including compliance with the Energy Independence Act, assurance for National Transit Database reporting, reviewing and publishing the reports of private CPA firms, and verifying alternative learning experience enrollment reported by school districts.

Good government training and support

We offer training on a number of topics as part of our commitment to helping governments deliver higher value and earn greater public trust. In 2019, we offered trainings, presentations, workshops and roundtables on how to prepare financial statements, prevent fraud, improve processes, and more. By the numbers, that adds up to about:

160
events

7,400
attendees

50
locations

1,100
Helpdesk requests answered



More audits

Performance audits

Performance audits evaluate the efficiency and effectiveness of government programs with the goal of making them work better. These audits compare what an agency is currently doing against what's required by law and leading practices. We are looking for improved outcomes, which could include money-saving methods or better processes for service delivery. By detailing problems and offering solutions, performance audits improve public services and provide valuable information to the public, program leadership and elected officials.



Cybersecurity audits

Cybersecurity audits are a type of performance audit that examine the security posture of specific state agencies and local governments. These audits look for weaknesses in IT security practices and propose solutions to help strengthen those systems. Cybersecurity audits are provided at no cost to state and local governments, thanks to 2005's voter-approved Initiative 900.

New in 2019

Segregation of Duties Guide

We created this innovative resource about essential internal controls – with special features for small governments.

CPE credits

Those who attended fall training sessions on BARS updates received Certified Professional Education credits for the first time. We created CPE-eligible webinars as well. We work hard to reach more local governments in more efficient ways.

Financial Intelligence Tool

A redesigned FIT made its public debut, so anyone can access financial information on local governments in Washington in a simple, accessible format.



To learn more, go to
www.sao.wa.gov

Highlights

Pretrial services

Pretrial services instead of bail saves money, maintains safety: Judges have long used money bail to spur defendants to appear in court. When defendants cannot afford bail, they stay in jail. Pretrial services are an alternative, offered to defendants who meet the same criteria for release as those released on bail. On any given day, about 4,700 people in Washington jails are candidates for pretrial services. Our audit found pretrial services could save between \$6 million and \$12 million a year. And defendants are just as likely to show up for trial and not commit new crimes when released through pretrial services.

School nutrition

School lunch schedules influence student nutrition: Research suggests that two leading practices — scheduling recess before lunch and then giving children enough time to eat — increase the likelihood that children will eat more and healthier foods. Most of the schools we looked at in our audit have not adopted these practices. Principals cited many challenges, including lack of a cafeteria and too few staff. Principals who made lunch scheduling a priority found ways to make these practices work.

Immunizations

'Herd immunity' begins with schools checking vaccination records: To limit the spread of vaccine-preventable diseases, Washington has set a policy goal of a 95 percent immunization rate. Schools play a key role in achieving that goal. Schools must collect proof of immunization or a valid exemption for every student by the first day of school. Without these records, schools are not supposed to allow students to attend school. This audit found certain practices can help schools ensure vaccination data is accurate. The audit also found that Washington does not know its true vaccination rate.

Cybersecurity audits

In 2019, we completed cybersecurity audits at four state agencies, bringing the total to 17, and are working on three more. On the local side, we completed seven audit reports and are working with nine more local governments.

We employ 30 auditors dedicated to IT and cybersecurity work. The Legislature recognized the value of the cybersecurity work to state and local governments and invested an additional \$2.8 million for this work during this biennium. Meanwhile, we continue our support for local governments even without an audit, through our new #BeCyberSmart initiative. Learn more at www.sao.wa.gov/becybersmart.

Key fraud reports

Largest misappropriation of public funds on record in Washington

While conducting a routine audit, we discovered \$6.9 million in misappropriation at the Pierce County Housing Authority, committed by the long-serving finance director.

An auditor noticed a wire transfer for \$275,000 to an out-of-state bank and a \$200,000 wire to an out-of-state title company – unusual for a local housing authority. We subsequently exposed multiple out-of-state property purchases, wire transfers and credit card misuse.

This was the biggest misappropriation involving a Washington local government in the last 25 years, and likely the largest in state history. We sent the results of our investigation to the Office of Inspector General for the U.S. Department of Housing and Urban Development and the FBI. The Housing Authority's board fired the finance director and filed a lawsuit seeking to recoup misappropriated funds.

County risk management payments

In August 2018, the Spokane County Auditor's Office was reviewing uncashed checks, including one related to a property claim payment from 2016. The County contacted the payee, and the person said they had never filed a property claim with the County. The County investigated and found that a former property claims technician had misappropriated funds.

The technician made inappropriate payments payable to at least 46 relatives, including her grandmother, deceased father, brother, cousin, and daughter-in-law, as well as multiple personal acquaintances and friends of her son.

We reviewed the County's files, performed additional investigation, and determined a payment misappropriation of more than \$1.3 million occurred at the County between January 2007 and December 2016.

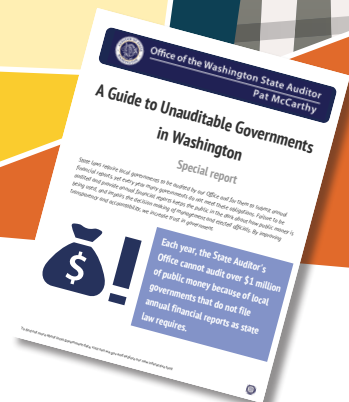
SAO Spotlight

Shining a light on troubled governments

In 2019 we took steps to focus the public's attention on governments that struggled to meet their duty of transparency.

City of Wapato: In May, we took the unusual step of holding a news conference to highlight egregious actions by city leaders, which included misappropriation of public funds, and violations of ethics rules and open public meeting laws.

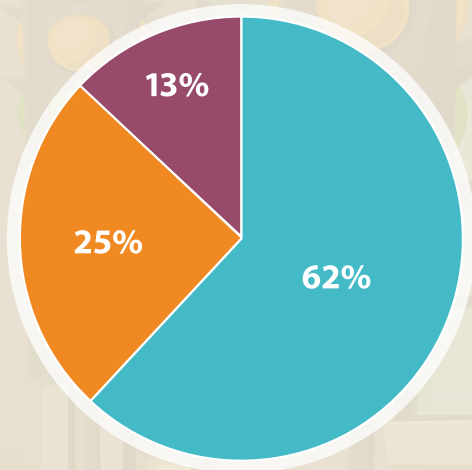
Unauditable governments: Despite clear state laws, some governments do not submit to regular audits of their financial information. In response to this, we created the first online interactive Guide to Unauditable Governments, showing we could not audit 40 local governments because they did not open their books.





\$51.5 million total budget, 2019

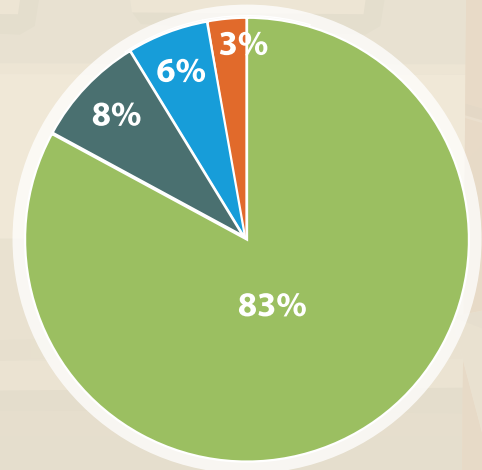
Where does SAO's money come from?



- \$31.9 million from local governments for their audits
- \$12.9 million from sales tax for performance and cyber security audits
- \$6.7 million from state agencies for their audits

Where does the money go? *

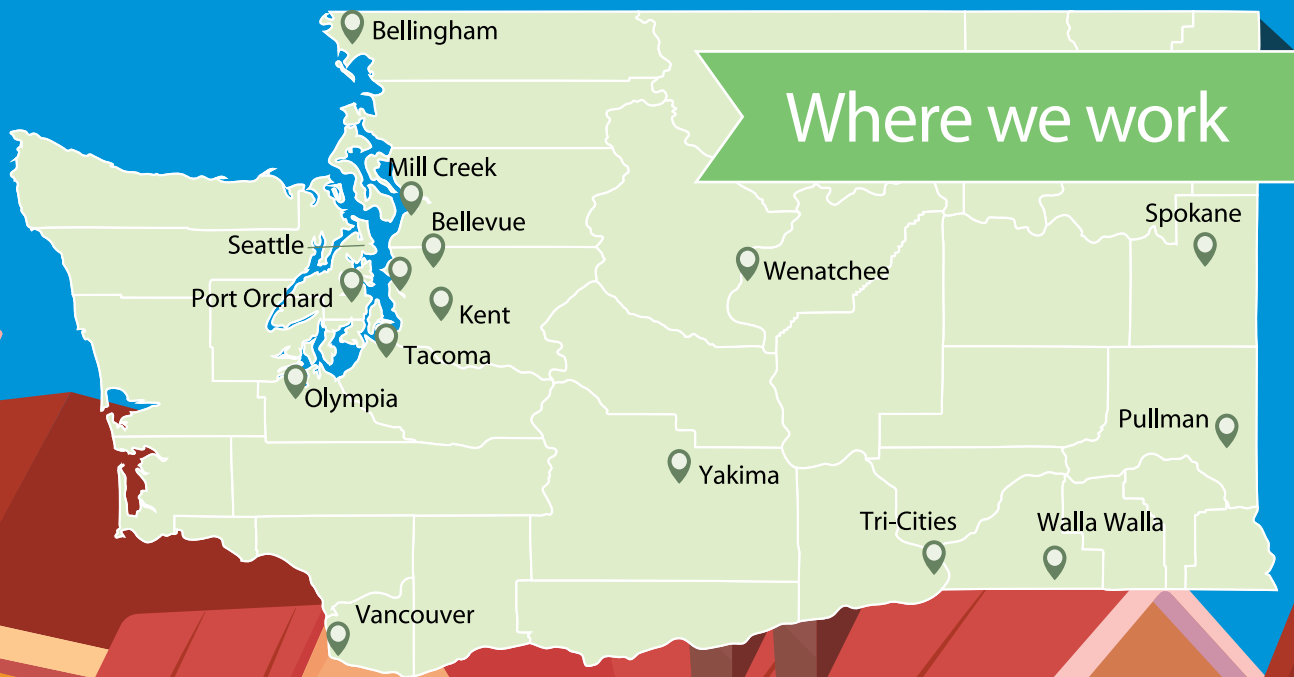
- \$44.6 million: salaries and benefits
- \$4.5 million: goods, services, equipment
- \$3.2 million: contracting
- \$1.5 million: travel



* Funding and expenditures do not align on calendar year basis due to different implementation dates for legislatively-authorized salary increases and related changes to SAO's hourly billing rate.

Who audits the auditor?

We follow Government Auditing Standards set by the United States Government Accountability Office. Therefore, SAO receives an external peer review of our adherence to those standards every three years, performed by the National State Auditors Association. We had our most recent peer review in September 2019, and passed without any findings. Separately, our finances are reviewed every two years by an independent public accountant under contract with the state Office of Financial Management. We post the reports from those reviews on our website.



Coming in 2020

Increased transparency for governments and the public through Tracker; a continued focus on unauditible governments; more web-based training on the BARS Manual and more!



Pat McCarthy
State Auditor

Any Washington resident can contact us to report concerns of government waste or abuse. We examine all reports and open full investigations when appropriate.

Call: **866-902-3900**

Send mail to:

Washington State Auditor's Office
ATTN: Hotline
P.O. Box 40031, Olympia, WA 98504

Or file the report at our website:

<https://www.sao.wa.gov/report-a-concern/how-to-report-a-concern/the-citizen-hotline/>



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