



# Washington State Auditor Troy Kelley

## Report to the Legislature Audits of State Agency Local Funds 2011 – 2013 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 are 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 when agencies present compelling reasons to do so.

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 we made about how state agencies can improve their financial management of these funds.

This report covers the issues we published during the 2011 - 2013 biennium, which began July 1, 2011 and ended June 30, 2013.

### Local Fund Balances and Activity

From July 1, 2011 to June 30, 2013, 88 state agencies, including the six state colleges and universities and the community and technical college system, spent local funds. As of June 30, 2013, these funds held more than \$8.25 billion in cash and investments.

Attached to this report are three exhibits that provide more detailed information about how much in local funds was collected, spent and held by state agencies. These exhibits are:

- **Exhibit A** – Fund type definitions
- **Exhibit B** – Summary of cash and investment balances in local accounts by fund type
- **Exhibit C** – Summary of local fund revenue and expenditure activities by fund type

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 misappropriation 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 Findings and Recommendations**

During the 2011 – 2013 biennium, we reported seven issues regarding the management of local funds by state agencies, colleges and universities. The following is a description of these issues and the recommendations we made about how the management of local funds can be improved.

### State of Washington 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 grants received by the state and is intended to assess how well the state is ensuring that federal dollars are spent properly.

- During our 2012 Single Audit, we found the Employment Security Department (ESD) did not attempt to collect \$440,925 it overpaid to claimants for Federal Unemployment Insurance. We recommended the Department establish and follow procedures to improve its collection efforts for these funds.
- During our 2011 Single Audit, we found ESD was not complying with certain requirements of a federal program, which could lead to potential issues with benefit claim approvals and denials. We recommended the Department improve its investigative procedures and case review process to ensure compliance with program requirements.

### Fraud Investigations

State law requires all public agencies to immediately notify our Office in the event of a known or suspected loss of public resources or other illegal activity. We use our experience, knowledge of governments, assessment tools and legal requirements of programs to determine which potential losses to investigate to ensure that we conduct investigations on the most significant issues and use resources effectively.

- In May 2012, we reported a Department of Social and Health Services employee misappropriated more than \$300,000, which included funds taken from client and public accounts.

We recommended the Department strengthen its internal controls over cash-receipting by ensuring that duties are properly segregated and adequate supervisory oversight is in place to safeguard public resources. We also recommended the Department seek recovery of the misappropriated funds and related audit costs from the former employee.

- In August 2011, we reported that a University of Washington Medical Center employee had misappropriated more than \$250,000 in public funds. The misappropriation included the personal use of a state credit card, erroneous travel charges and taking time off work without submitting a leave slip.

We recommended the Center improve its monitoring of purchases made with state credit cards, ensure employees comply with payroll and leave policies and provide additional training to staff. We also recommended the University seek recovery of the misappropriated funds and related audit costs from the former employee.

## Whistleblower Investigations

The State Auditor's Office is responsible for investigating and reporting on assertions of improper government actions. The Whistleblower Act provides an avenue for and protection of state employees who report suspected improper actions.

- In March 2013, we published an investigation that reported two parking attendants misappropriated more than \$15,000 from the Harvard parking garage at the Seattle Central Community College. Because of poor internal controls, we could not determine whether an additional loss of more than \$31,000 could be identified as misappropriated.

We recommended the College improve its monitoring of parking fee collections and seek recovery of the misappropriated funds.

- In July 2012, we published a Whistleblower case that examined how fees for seasonal basketball leagues are collected by the Tacoma Community College. We were unable to determine if an improper governmental action occurred. Almost \$2,400 in expected deposits could not be accounted for due to incomplete documentation.

We recommended the College retain supporting documentation to show which teams participated and paid league fees and that the monitoring of collection activity be improved.

- In October 2011, we published a Whistleblower case that examined the Evergreen State College Study Abroad Program. We found reasonable cause to believe payments for three contracts related to services provided for the program violated state regulations. We also found that \$7,771 in payments were not supported by required receipts and more than \$2,000 in expenses were paid twice.

We recommended the College obtain adequate supporting documentation before paying contractors, set-up a centralized process for making overseas payments, not pay instructors directly without establishing an agreement with specific terms, and improve its review process for expenses paid overseas.

## Accountability Audits

Our Office conducts accountability audits that are designed to assess how state agencies manage, use and safeguard public resources.

- In April 2013, we issued an accountability report regarding tuition waivers issued by state colleges and universities. We found that supporting documentation was not adequate in some instances to determine if waivers were awarded only to eligible students.

We recommended the colleges and universities establish procedures that specify what documentation is required to support waivers and implement a review process to ensure only eligible students receive tuition waivers.

- In August 2011, we reported that the Evergreen State College did not follow state policies, resulting in more than \$219,000 of unnecessary project management fees. We recommended the College establish procedures to ensure it complies with these policies and provide additional training to College personnel.

# **Exhibit A**

## Fund Type Definitions<sup>1</sup>

**Agency Funds** – used to account for resources held by the state in a purely custodial capacity for other governments, private organizations or individuals.

**Capital Projects Funds** – used to account for financial resources that are restricted, committed, or assigned to expenditures for the acquisition and construction of major capital facilities (besides those financed by other funds).

**Debt Service Funds** – used to account for the accumulation of resources that are restricted, committed or assigned for, and the payment of, general long-term debt, principal and interest.

**Enterprise Funds** – used to account for any activity for which a fee is charged to external users for goods or services. Activities are normally required to be reported as enterprise funds, in the context of the activity's principal revenue source.

**General Fund** – used to account for all financial resources of the state not required to be accounted for in some other fund.

**Internal Service Funds** – used to account for the provision of goods or services by one department or agency to other departments or agencies of the state, or to other governmental units, on a cost-reimbursement basis. Internal service funds should only be used if the state is the predominant participant in the activity.

**Permanent Funds** – used to account for resources that are restricted to the extent that only earnings, and not principal, may be used for the benefit of the state or its citizenry.

**Private Purpose Trust Funds** – used to report trust arrangements, other than pension and investment trusts, under which principal and income benefit individuals, private organizations, or other governments. The resources held under these arrangements are not available to support the government's own programs.

**Special Revenue Funds** – used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes, other than debt service and major capital projects.

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<sup>1</sup> Source: State Administrative Accounting Manual – Chapter 80.20

## **Exhibit B**

### Summary of Cash and Investment Balances in Local Accounts by Fund Type

<b>Governmental Fund Type</b>	<b>Balance as of June 30, 2013</b>	<b>Balance as of June 30, 2012</b>
Enterprise Funds	\$3,376,748,134	\$3,356,132,879
Permanent Funds	\$2,622,707,475	\$2,376,941,253
Special Revenue Funds	\$2,089,682,787	\$1,875,570,918
Capital Project Funds	\$104,344,676	\$101,500,672
Agency Funds	\$20,646,851	\$20,371,385
Internal Service Funds	\$16,327,458	\$17,864,695
General Fund	\$13,433,857	\$0
Debt Service Funds	\$6,980,241	\$6,979,558
Private Purpose Trust Funds	\$55,953	\$41,012
<b>Total Cash and Investments</b>	<b>\$8,250,927,432</b>	<b>\$7,755,402,372</b>

## Exhibit C

### Summary of Local Fund Revenue and Expenditure Activities by Fund Type

Governmental Fund Type	Revenues		Expenditures	
	FY 2013	FY 2012	FY 2013	FY 2012
Special Revenue Funds	\$5,345,277,544	\$5,012,390,730	\$5,044,639,359	\$4,812,461,543
Enterprise Funds	\$4,603,148,764	\$5,126,422,104	\$4,336,830,586	\$5,037,007,475
Permanent Funds	\$274,402,723	(\$81,163,736)	\$3,430,114	\$2,253,110
Internal Service Funds	\$229,348,033	\$301,601,852	\$256,926,808	\$275,928,443
Capital Project Funds	\$130,116,126	\$133,065,360	\$119,027,971	\$123,051,073
Private Purpose Trust Funds	\$16,327	\$7,427	\$1,300	\$28,228
Debt Service Funds	\$684	\$700	\$0	\$0
General Capital Assets	\$0	\$0	\$623,808,837	\$617,986,535
General Long-term Obligations	\$0	\$0	\$293,195,481	\$205,631,885
Discrete Component Units	\$0	\$0	(\$14,392)	\$209,506
<b>Total Activities</b>	<b>\$10,582,310,200</b>	<b>\$10,492,324,437</b>	<b>\$10,677,846,063</b>	<b>\$11,074,557,797</b>