



# Washington State Auditor's Office

## Report to the Legislature Audits of State Agency Local Funds 2013-2015 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 that were made about how state agencies can improve their financial management of the funds.

This report covers the issues we published during the 2013-2015 biennium. Our Office performs post-audits of state agencies, which means the funds and transactions examined during our audits were for the period of July 1, 2012 to June 30, 2014.

### State agency local fund balances

As of June 30, 2014, state agencies (including the six state colleges and universities and the community and technical college system) held more than \$10 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 biennium, we reported several issues regarding the management of local funds by state agencies, colleges and universities. The following is a description of the issues we identified and recommendations we made about how the management of local funds can be improved.

## *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. When we identify significant issues, we write findings, which are attached to our reports. For less significant issues, we write management letters, which are referred to, but not included, in our reports.

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.

The following are summaries of the audit findings and management letters we issued to agencies in reports published from July 1, 2013 to June 30, 2015.

- In June 2015, we issued two audit findings for the Department of Veteran's Affairs regarding a lack of internal controls over its dining hall cash receipting process and issuance of gift cards to veterans. We recommended the Department strengthen its internal controls by performing reconciliations, developing policies and procedures, and maintaining client files to provide evidence that only eligible veterans received gift cards.

The complete findings can be viewed by clicking this [link](#).

- In September 2014, we issued an audit finding for the Washington State Historical Society regarding a lack of internal controls over its disbursement of local funds, including purchase card and procurement expenses. We recommended the Society develop policies and procedures, perform monitoring of expenditures and maintain adequate documentation to support expenses.

The complete finding can be viewed by clicking this [link](#).

We also issued two management letters for the Society regarding a lack of internal controls over its cash receipting and billing processes. We recommended the Society develop policies and procedures and improve its internal controls in these areas.

- In June 2014, we issued an audit finding for the Washington State School for the Blind regarding a lack of internal controls over its local funds. We recommended the School improve its monitoring activities, perform reconciliations and obtain adequate documentation to support expenditures.

The complete finding can be viewed by clicking this [link](#).

- In May 2014, we issued a management letter for the Gambling Commission related to its internal controls over petty cash. We recommended the Commission follow state and internal policies to ensure resources are adequately safeguarded.

### *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.

As part of the 2014 single audit<sup>1</sup> we found the Employment Security Department did not have adequate internal controls in place to ensure transportation reimbursement payments to Trade Adjustment Assistance program participants were allowable and accurate. We estimated the Department paid participants almost \$160,000 that was not allowable or unsupported.

This complete finding and 2014 statewide single audit can be viewed by clicking this [link](#).

As part of the 2013 single audit we found the Employment Security Department did not attempt to collect more than \$881,000 it overpaid to claimants for Federal Additional Compensation unemployment insurance.

This complete finding and 2013 statewide single audit can be viewed by clicking this [link](#).

### *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 and knowledge of governments and programs' legal requirements to determine which potential losses to investigate to ensure that we conduct investigations into the most significant issues and use resources effectively.

In October 2013, we published a fraud report that detailed the results of two investigations of misappropriations at the University of Washington:

- Two finance assistants misappropriated more than \$18,000 in travel advances between January and December 2011. An additional \$9,800 in questionable transactions were also identified, but it could not be determined if the funds were misappropriated.
- An accountant misappropriated \$56,000 by wiring payments to personal accounts between September 2010 and January 2012.

The complete report can be viewed by clicking this [link](#).

### *Whistleblower Investigations*

Our Office is responsible for investigating and reporting on assertions of improper governmental actions brought forward by state employees. The Whistleblower Act provides confidentiality protections to whistleblowers.

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<sup>1</sup> Finding No. 2014-008

No whistleblower reports containing issues related to state agency local funds were published between July 1, 2013 and June 30, 2015.

### *Other engagements*

In response to a proviso of the 2014 supplemental budget (ESSB 6002), our Office published a special audit report in December 2014 that covered two major state funds at the University of Washington. The intent of the audit was to gain insight into the use of funds in the accounts - particularly ensuring that funds collected for tuition and other fees were used as intended and that state funds were spent appropriately.

The audit determined that issues of contention between the state and University were far reaching. It also provided additional analysis and recommendations to assist both the state and University.

- Because the state and University are required to follow different accounting guidelines and both have aging financial systems, the University often has difficulty meeting the state's deadline for year-end financial reporting. The agencies should work more closely to develop processes that will meet the state's needs for timely financial information.
- The state, legislative staff and university each follow different processes. The different parties need to discuss the different tools used to forecast and budget for operating fees, such as tuition. The lack of consistency and different models used by the various parties undermine the accuracy and credibility of the data.
- The Legislature and the state are not using useful, complete or reliable University data. The University issues audited financial statements following a business type activities format. A "wealth of information can be gleaned" by the state and Legislature reading the University's statements rather than relying on the statewide financials alone.
- The University does not have a centralized resource for fiscal policies. The University should consolidate policies, procedures, guidance and tools online.
- The University has decentralized fiscal information. The University should create a central repository of key fiscal records.

The complete report can be found by clicking this [link](#).

## **Exhibit A**

Summary of cash and investment balances – by state agency

<b>Agency name</b>	<b>Cash and investments held in local funds (as of June 30, 2014)</b>
UNIVERSITY OF WASHINGTON	\$4,940,488,058
EMPLOYMENT SECURITY DEPARTMENT	\$3,207,133,625
COMMUNITY/TECHNICAL COLLEGE SYSTEM	\$902,820,485
WASHINGTON STATE UNIVERSITY	\$421,935,350
STATE LOTTERY COMMISSION	\$189,857,102
EASTERN WASHINGTON UNIVERSITY	\$126,720,219
WESTERN WASHINGTON UNIVERSITY	\$115,859,111
CENTRAL WASHINGTON UNIVERSITY	\$82,268,874
THE EVERGREEN STATE COLLEGE	\$37,324,146
DEPT OF SOCIAL AND HEALTH SERVICES	\$23,624,163
DEPARTMENT OF COMMERCE	\$16,644,755
DEPARTMENT OF CORRECTIONS	\$12,689,675
DEPARTMENT OF VETERANS AFFAIRS	\$10,745,810
OFFICE OF ATTORNEY GENERAL	\$10,007,503
DEPARTMENT OF ECOLOGY	\$6,983,439
WASHINGTON STATE HISTORICAL SOCIETY	\$3,066,647
WASHINGTON STATE PATROL	\$2,205,994
DEPARTMENT OF TRANSPORTATION	\$2,087,516
WASHINGTON STATE GAMBLING COMM	\$2,045,060
SUPT OF PUBLIC INSTRUCTION	\$1,786,045
LIQUOR CONTROL BOARD	\$1,672,984
STATE SCHOOL FOR THE BLIND	\$860,127
EAST WASH STATE HISTORICAL SOCIETY	\$449,341
CHILDHOOD DEAFNESS & HEARING LOSS	\$203,324
DEPARTMENT OF LICENSING	\$66,000
DEPARTMENT OF LABOR AND INDUSTRIES	\$42,540
DEPARTMENT OF EARLY LEARNING	\$40,797
ADMINISTRATIVE OFFICE OF THE COURTS	\$35,987
STATE PARKS AND RECREATION COMM	\$33,290
DEPARTMENT OF FISH AND WILDLIFE	\$29,350
DEPARTMENT OF RETIREMENT SYSTEMS	\$25,100
DEPARTMENT OF NATURAL RESOURCES	\$24,450
DEPARTMENT OF REVENUE	\$20,000
ALL OTHER AGENCIES	\$31,820

**Total Local Funds as of June 30, 2014**

**\$10,119,828,685**