



# Washington State Auditor's Office

## Report to the Legislature Audits of State Agency Local Funds 2015-2017 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 2015-2017 biennium that involved local funds.

### State agency local fund balances

As of June 30, 2016, state agencies (including the six state colleges and universities and the community and technical college system) held over \$12 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 2015-17 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 2016, 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.

### Washington Center for Childhood Deafness

In June 2016, we issued an [audit finding](#) for the Washington Center for Childhood Deafness and Hearing regarding a lack of internal controls over its local fund cash receipts. We recommended the Center develop internal policies and procedures that establish an adequate segregation of duties and system of monitoring over daily cash receipting and make local fund deposits timely, or obtain a waiver from the Office of the State Treasurer.

### Commission on African American Affairs

In April 2016, we issued an [audit finding](#) for the Commission on African American Affairs regarding a lack of internal controls over its disbursement of local funds, including diverting public funds to a non-profit and spending the funds for unallowable and unsupported purposes. We recommended the Commission establish internal controls over Commission funds in accordance with state policy requirements, ensure adequate monitoring and approval procedures are in place over all public funds, perform monitoring of expenditures and maintain adequate documentation to support expenses, review and reconcile financial reports and bank statements monthly, and seek advice of the state Attorney General's Office to ensure that conflict-of-interest or ethics laws are not violated.

### Washington Turfgrass Seed Commission

In June 2017, we issued an [audit finding](#) for the Washington Turfgrass Seed Commission who entered into an agreement that did not comply with state law and rules for the use of Commission funds. The Commission did not clearly document the specific use and approval of funds, did not ensure funds were spent in accordance with the agreement, and did not ensure funds were only used for activities that were within the Commission's statutory authority. We recommended the Commission work with the University to have the funds returned to the Commission, with interest, and use funds in accordance with state laws and the governing WACs.

## *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 are summaries of the audit findings we issued to agencies in [Washington's Single Audit report](#) that covered the state fiscal year ending June 30, 2015. The report was published by the Office of Financial Management in March 2016:

- We found the Employment Security Department<sup>1</sup> did not have adequate internal controls in place to ensure accurate processing and recording of Unemployment Insurance premium payment and wage information. We recommended the Department establish internal controls to ensure the complete and accurate processing of employer payments and tax and wage reports for Unemployment Insurance Premium payments, identify and correct defects within NGTS, and perform reconciliations between systems to ensure information transmitted by interfaces is accurate and complete.
- We found the Employment Security Department<sup>2</sup> did not have adequate internal controls to ensure only eligible claimants received Unemployment Insurance benefits. We recommended the Department revise its policies and procedures to ensure in-person reviews and work search verifications are performed.
- We found the Department of Commerce<sup>3</sup> did not have adequate internal controls to ensure program income was used before requesting federal funds. We recommended the Department follow policies and procedures to ensure program income is used before requesting federal funds.

The following are summaries of the audit findings we issued to agencies in [Washington's Single Audit report](#) that covered the state fiscal year ending June 30, 2016. The report was published by the Office of Financial Management in March 2017.

- We found the Employment Security Department<sup>4</sup> lacked internal controls over the processing and recording of Unemployment Insurance premium payment and wage information. We recommended the State establish internal controls to ensure the complete and accurate processing of employer payments and tax and wage reports for Unemployment Insurance Premium payments, identify and correct defects within NGTS, including inaccurate and incomplete reports and perform reconciliations between systems to ensure information transmitted by interfaces is accurate and complete.

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<sup>1</sup> Finding No. 2015-002

<sup>2</sup> Finding No. 2015-006

<sup>3</sup> Finding No. 2015-005

<sup>4</sup> Finding No. 2016-001

- We found the Employment Security Department<sup>1</sup> did not have adequate internal controls over its Next Generation Tax System, which led to improper computations of employer unemployment insurance tax rates. We recommended the Department establish internal controls to ensure the employer unemployment insurance tax rates are correct and to ensure the complete and accurate processing of employer payments and tax and wage reports for unemployment insurance tax payments, identify and correct defects within the Next Generation Tax System, and perform reconciliations between systems to ensure information transmitted by interfaces is accurate and complete.

### *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.

#### University of Washington

In July 2015, we published a [fraud report](#) that detailed the results of investigations of misappropriations at the University of Washington. A student tutor at the Office of Minority Affairs and Diversity Instructional Center misappropriated almost \$32,500 by processing invalid refunds on his personal Husky card between January 2012 and February 2015. We recommended the University strengthen internal controls over the issuance of refunds on a Husky Card to ensure adequate oversight and monitoring to safeguard public resources and compliance with University policies. We recommended the University seek recovery of the misappropriated \$32,500 and related investigation costs from the former employees and/or its insurance bonding company, as appropriate.

#### Department of Social and Health Services

In September 2015, we published a [fraud report](#) that detailed the results of an investigation of misappropriations of client trust funds at the Department of Social and Health Services Fircrest School. An Attendant Counselor Manager misappropriated more than \$12,000 in resident funds between January 2010 and April 2014. We recommended the Department strengthen internal controls over client trust accounts at Fircrest by monitoring client accounts, developing policies and providing training to staff on the proper segregation of duties between staff that request withdrawals and handle client funds, and ensure Department policies over client trust funds are followed by staff.

#### Seattle Colleges

In March 2016, we published a [fraud report](#) that detailed the results of an investigation of misappropriations at Seattle Colleges. The Director of Distance Learning misappropriated more than \$50,700 between July 2009 and January 2015. An additional \$46,200 in questionable transactions were also identified, but it could not be determined if the funds were misappropriated. We recommended Seattle Colleges strengthen internal controls over credit card activity to ensure adequate oversight and monitoring to safeguard public

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<sup>1</sup> Finding No. 2016-006

resources and compliance with its policies. We also recommended Seattle Colleges seek recovery of the misappropriated \$50,700 and related investigation costs from the former Director and/or its insurance bonding company, as appropriate.

#### Community Colleges of Spokane

In May 2017, we published a [fraud report](#) that detailed the results of an investigation of questionable purchasing card activity at the Community Colleges of Spokane. A supervisor made more than \$33,600 in questionable purchases between July 2009 and June 2015. We recommended the College strengthen internal controls over the purchasing card activities to ensure adequate oversight and monitoring to safeguard public resources and compliance with College policies. We also recommended the College seek recovery of the questionable transactions, as appropriate, and related investigation costs from the former Supervisor and/or its insurance bonding company.

#### *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.

#### Eashington Washington State Historical Society

In June 2016, we published a [whistleblower report](#) that detailed the results of an investigation of questionable activity at the Eastern Washington State Historical Society. The Executive Director violated state law when he failed to ensure public funds were spent and accounted for properly, received extra compensation for performing his official duties, and extended a special privilege to the concessioner of the Museum's café by compensating him for monthly business losses.

We recommended the Board of Trustees ensure adequate internal controls, policies and procedures are implemented to safeguard public funds from misuse or abuse; evaluate current and future employment contracts to ensure the agency complies with federal and state laws; more thoroughly scrutinize travel reimbursement requests from the Executive Director to ensure they comply with required state policies; ensure agency staff receive required state contract training; establish agency rules, as required by RCW 27.34.070 and update the agency's affiliation agreement with its Foundation to more clearly define each entity's roles and responsibilities.

## **Exhibit A**

Summary of cash and investment balances – by state agency

Agency Name	Cash and investments held in local funds (as of June 30, 2016)
UNIVERSITY OF WASHINGTON	\$4,921,380,130
EMPLOYMENT SECURITY DEPARTMENT	\$4,057,706,847
COMMUNITY AND TECHNICAL COLLEGE SYSTEM	\$972,789,187
WASHINGTON STATE UNIVERSITY	\$379,389,424
STATE LOTTERY COMMISSION	\$177,402,289
EASTERN WASHINGTON UNIVERSITY	\$139,567,288
BELLEVUE COLLEGE	\$124,223,164
WESTERN WASHINGTON UNIVERSITY	\$123,469,391
SEATTLE COMMUNITY COLLEGE	\$101,652,876
STATE INVESTMENT BOARD	\$85,308,423
CENTRAL WASHINGTON UNIVERSITY	\$82,005,076
OFFICE OF THE ATTORNEY GENERAL	\$75,053,023
SPOKANE COMMUNITY COLLEGE	\$74,832,424
GREEN RIVER COLLEGE	\$58,803,342
THE EVERGREEN STATE COLLEGE	\$44,079,149
YAKIMA VALLEY COMMUNITY COLLEGE	\$43,212,413
HIGHLINE COLLEGE	\$41,029,682
COLUMBIA BASIN COLLEGE	\$40,573,197
PIERCE COLLEGE	\$34,842,601
SHORELINE COMMUNITY COLLEGE	\$30,820,160
EVERETT COMMUNITY COLLEGE	\$30,152,016
EDMONDS COMMUNITY COLLEGE	\$30,152,016
WHATCOM COMMUNITY COLLEGE	\$29,268,019
BIG BEND COMMUNITY COLLEGE	\$25,203,683
OLYMPIC COLLEGE	\$24,572,944
DEPARTMENT OF SOCIAL AND HEALTH SERVICES	\$24,556,648
CLOVER PARK TECHNICAL COLLEGE	\$23,389,657
STATE BOARD FOR COMMUNITY AND TECHNICAL COLLEGES	\$21,057,285
SKAGIT VALLEY COLLEGE	\$20,292,369
CLARK COLLEGE	\$17,794,778
CENTRALIA COLLEGE	\$16,032,002
CASCADIA COLLEGE	\$15,988,077
LOWER COLUMBIA COLLEGE	\$15,113,940
BATES TECHNICAL COLLEGE	\$15,090,011
DEPARTMENT OF COMMERCE	\$13,330,339
DEPARTMENT OF CORRECTIONS	\$13,212,913
RENTON TECHNICAL COLLEGE	\$11,553,931
GRAYS HARBOR COLLEGE	\$10,567,046
WALLA WALLA COMMUNITY COLLEGE	\$9,547,458

PENINSULA COLLEGE	\$7,682,043
DEPARTMENT OF VETERANS' AFFAIRS	\$7,641,422
SOUTH PUGET SOUND COMMUNITY COLLEGE	\$7,465,518
BELLINGHAM TECHNICAL COLLEGE	\$6,843,484
LAKE WASHINGTON INSTITUTE OF TECHNOLOGY	\$5,386,813
DEPARTMENT OF NATURAL RESOURCES	\$3,095,655
WASHINGTON STATE HISTORICAL SOCIETY	\$2,575,331
WENATCHEE VALLEY COLLEGE	\$1,924,553
SUPERINTENDENT OF PUBLIC INSTRUCTION	\$1,819,894
DEPARTMENT OF TRANSPORTATION	\$1,645,281
LIQUOR AND CANNABIS BOARD	\$1,527,742
WASHINGTON STATE PATROL	\$1,493,360
STATE SCHOOL FOR THE BLIND	\$857,385
WASHINGTON STATE GAMBLING COMMISSION	\$733,053
DEPARTMENT OF EARLY LEARNING	\$671,621
WAHSINGTON STATE CENTER FOR CHILDHOOD DEAFNESS AND HEARING LOSS	\$242,963
OFFICE OF THE STATE TREASURER	\$73,261
ADMINISTRATIVE OFFICE OF THE COURTS	\$49,301
DEPARTMENT OF ECOLOGY	\$94
EASTERN WASHINGTON STATE HISTORICAL SOCIETY	\$(99,646)

**Total Local Funds as of June 30, 2016** **\$12,026,644,376**