



Office of the Washington State Auditor

On the TRAIL of GOOD GOVERNMENT

2018 ANNUAL REPORT

Follow along with the Office of the Washington State Auditor as 350 auditors track public dollars and discover opportunities for greater transparency. From 15 locations across the state, the Office provides an objective examination of the finance 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 – in other words, a “finding.” Here’s what the Office did on the public’s behalf in 2018.

2,721
audits
in 2018



“

Employee Satisfaction

There was a 6 percent increase from 2017 in the number of employees who agree that

“I have opportunities at work to learn and grow.”

”



1,314
audits
103 findings

Accountability audits

Accountability audits evaluate whether a state agency or local government followed applicable state laws and 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. We are required to examine the financial affairs of all local governments at least once every three years.

797
audits
92 findings

Financial audits

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

369
audits
196 findings

Federal audits

Federal audits provide an independent opinion on whether Washington’s governments complied with applicable requirements when spending federal grants. An audit is required when a government spends \$750,000 or more annually in federal funds.

43

Whistleblower investigations

Whistleblower investigations are the result of state employees sounding the alarm on possible waste, fraud or abuse. The Office issued 43 reports, and 21 of them revealed reasonable evidence of improper action by state workers.

16

Fraud investigations

A fraud investigation results in a written report only if it finds significant misuse or theft of public money. In 2018, 16 of the Office’s 112 investigations met this standard, identifying \$416,880 of misappropriated public funds and \$747,595 of questionable transactions.

166

Other engagements

As the Auditor of Public Accounts, the Office provides 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 audits of state or local governments by private CPA firms, and verifying alternative learning experience program enrollment reported by school districts.

Client Satisfaction

Our average rating for client satisfaction last year was

4.6/5

“

The audit team was very professional in how they informed us of problems and worked with us to figure out ways to make sure they weren't repeated.

– Douglas County

”

More audits

10

Performance audits

Performance audits evaluate the efficiency and effectiveness of government programs with the goal of making them work better. These audits take an in-depth look into what agencies are doing, and compare them against what is required by law or recommended by leading practices to look for improved outcomes such as money savings 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.

6

Cybersecurity audits

Cybersecurity audits are a type of performance audit that examine the security posture of state agencies and local governments. These audits look for weaknesses 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.

Citizen hotlines

We received 451 hotline submissions and determined 322 of them merited further consideration.

Good Government Training

The Office provides training on a number of topics as part of our commitment to helping governments deliver higher value and earn greater public trust.

120

presentations, trainings, workshops and roundtables on how to prepare financial statements, prevent fraud, improve processes and more

4,700

attendees

25

locations

In addition to training, we offer expert help year-round, at no additional charge. We answered 1,250 helpdesk requests last year, and started a new online chat service to help clients during annual report filing season. We also responded to more than 100 requests for government improvement resources.

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

Performance audit

Highlights

School Notifications (Parts 1 and 2)

A pair of performance audits looked at the processes for informing schools and teachers when one of their students has a criminal history. The audits revealed underlying issues with the reporting system, including overlapping and at times excessive reporting requirements. The audits led to legislation aimed at reforming the processes.

Alternative Learning Experience

Along with our Schools Team, the Performance Audit Team completed a multi-year mandate from the Legislature to evaluate these programs. A key aspect of the work was to compile a wealth of information about Washington's ALE programs and their students — information that had never been collected — and make it available through an interactive dashboard on our website. Both OSPI and some of the ALE programs expressed how valuable the information was.

Cybersecurity audits

Beginning in 2014, the Office began taking a deep dive into cybersecurity to improve the security posture at both state and local governments, and that assistance continues today. In 2018, the Office completed cybersecurity audits for three additional state agencies, bringing the total to 15. On the local side, the Office completed four audit reports and delivered assessment results to five additional governments. The Office also completed performance audits with a security theme, looking at IT vendor contracts, how agencies dispose of their IT equipment, and the adequacy of interfaces where the state's IT systems talk to each other.

Liquor Cannabis Board

This is the first audit of LCB's regulation of the state's cannabis industry. The Office identified improvement opportunities and offered guidance on how the board could use the data it collects from producers, processors and retailers to better focus its oversight and enforcement efforts.



Key fraud reports

Fire Protection District Fuel Bill

During a fire protection district's regular board meeting, commissioners noticed a particularly large monthly fuel bill. An internal investigation revealed a volunteer firefighter was using a district fuel card for personal purchases. We identified more inappropriate purchases. The district's total loss was \$26,107; the district operates on an annual budget of about \$100,000. The volunteer firefighter pleaded guilty to third-degree theft for a portion of the loss.

City Deposit Practices

A clerk/treasurer of a city with about \$1 million in annual revenue noticed multiple batches of cash receipts that weren't reflected as deposits. The mayor contacted our Office to report a possible loss of public funds. Our investigation revealed a loss of \$37,056 over 11 months, but it was impossible to know who was responsible because of weaknesses in the city's procedures. A former clerk/treasurer said multiple employees made deposits; a deputy clerk said the former clerk/treasurer typically made deposits. We also noted that the city's safe was not secured, allowing anyone to enter it. The safe couldn't be locked: no one knew the combination.

Key whistleblower reports

Health Care Authority

This case showed a misunderstanding of ethics rules at more than one level of management. The HCA and the Auditor's Office both investigated the use of state resources by an employee, who also worked as a real estate broker. The employee used a state-issued cellphone and laptop to conduct real estate business. Her immediate supervisor incorrectly advised her that it was allowable as long as it was outside of normal work hours. The employee was the subject of disciplinary action, and her supervisor no longer oversees her work unit.

Department of Social and Health Services

One of our largest cases in 2018, this investigation revealed multiple issues involving a DSHS employee who oversaw parts of a long-term contract to provide training and IT services to county prosecutors' offices for cases involving child support payments. The employee had worked for a division of DSHS for 29 years and oversaw the IT portion of the contract. We conducted numerous witness interviews across the state, as well as an onsite inventory of IT equipment. The investigation found she allowed a contract employee to use a state vehicle; grossly mismanaged public funds by purchasing but not distributing IT equipment; and did not use leave for all absences from work. Since the conclusion of this investigation, the Office has received new complaints about this employee.

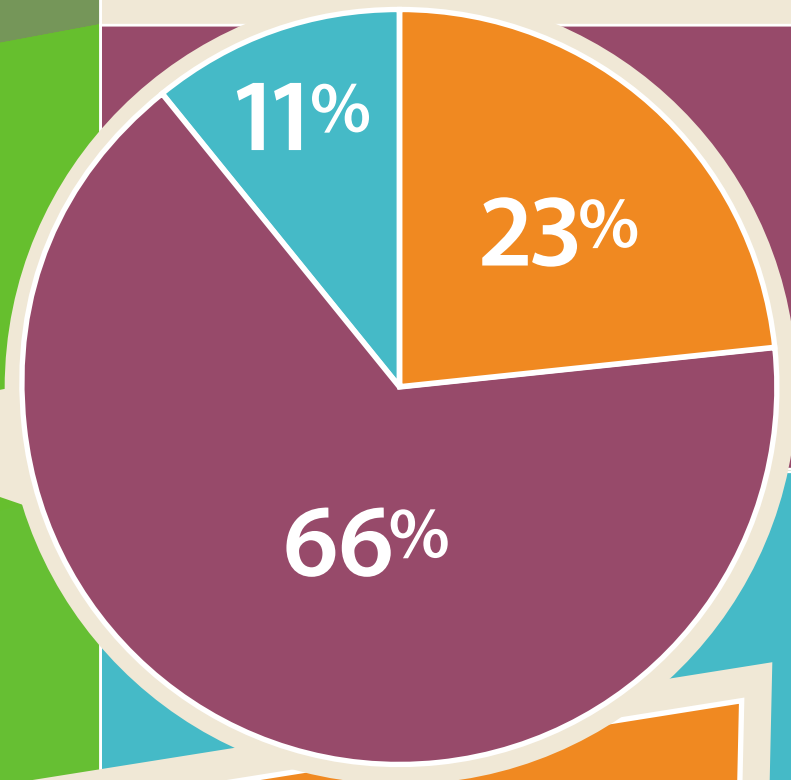
**Coming
in 2019**

**A new website, with new accountability,
transparency and service tools:
Tracker, FIT and MyBARS**

Where does SAO's money come from, and where does it go?

\$47.1 million total budget, 2018

Funding source:



\$31.1 million paid for by local governments for 2,567 audits.

This also pays for:

- fraud investigations
- citizen hotlines
- annual filing of financial data
- auditor Help Desk
- and more

\$5 million from the Legislature for 154 state agency audits.

This also pays for:

- whistleblower investigations
- the yearly audit of the financial statements for the State of Washington
- the yearly audit of federal money used or managed by the State

\$11 million from sales tax for 16 performance & cybersecurity audits.

This also pays for:

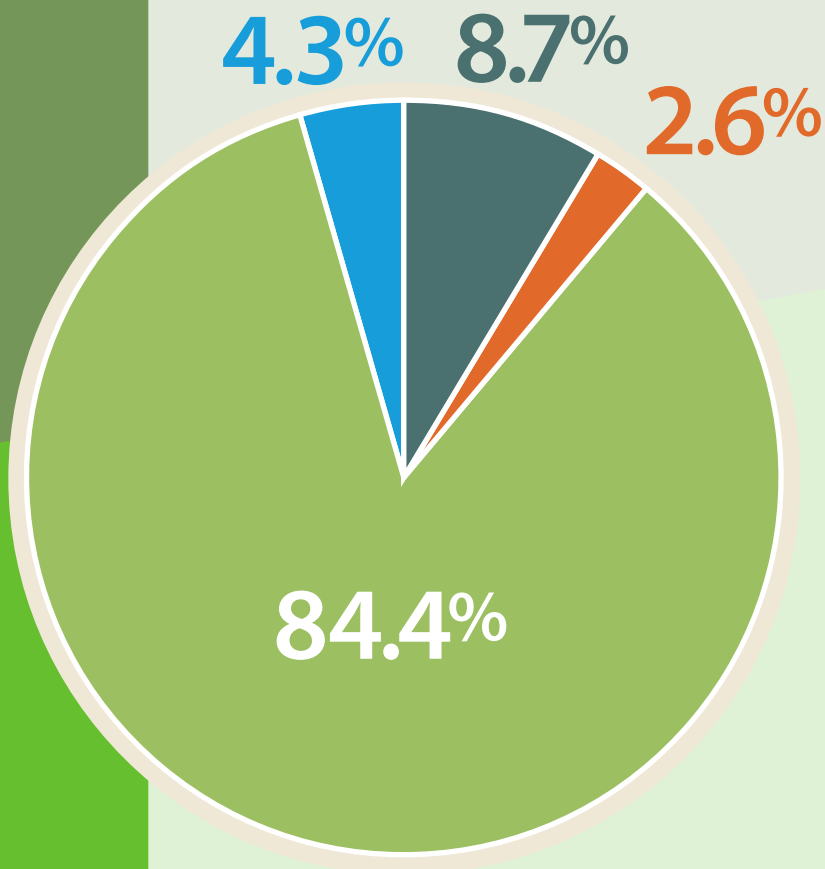
- the Center for Government Innovation
- the School Programs audit team

In 2005, voters approved Initiative 900, which gave SAO the authority to conduct performance audits and funded them via a dedicated portion (0.16%) of the existing state sales tax.

The Legislature amended I-900 to use some funding for other programs. SAO receives about two-thirds of the funding each biennium.

That translates to roughly \$23.5 million in the 2017-2019 biennium, or roughly \$11 million in 2018.

Where does the money go?



84.4%, or \$39.6 million – salaries and benefits for our 425 employees

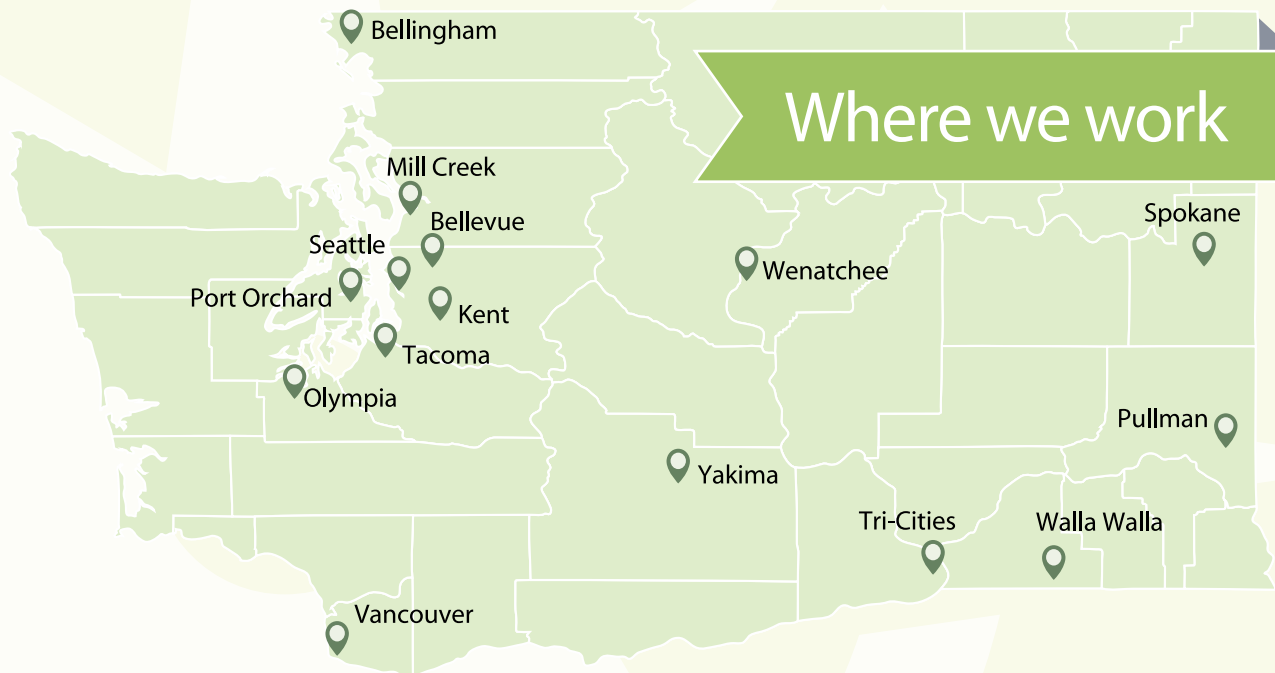
4.3%, or \$2 million – contracting

8.7%, or \$4.1 million – purchases of goods, services and equipment

2.6%, or \$1.2 million – travel

Who audits the auditor?

As auditors, 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. 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 these reviews on our website.



Pat McCarthy
State Auditor

Anyone can contact our Office with concerns of waste or abuse. The Office examines all citizen reports and opens investigations when necessary.

Call: **866-902-3900**

By mail at:

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

Or file the report at our website:

www.sao.wa.gov



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