

# 2021 Annual Report

From the Office of the  
Washington State Auditor

# A MESSAGE FROM THE AUDITOR

The issues facing public institutions are tough. In the past year, day-to-day operations were disrupted by an ongoing pandemic and surging cyberattacks. Social issues came to the forefront of public concern, and government at all levels absorbed a historic amount of emergency federal funding.

Given all this, it is critically important that we in public service model accountability and transparency. This report summarizes our efforts to do just that at the State Auditor's Office, from the hundreds of audits we perform to the services we offer to help governments improve their operations.

Ensuring good government can seem complex – and the details often are. But at its heart, good government comes down to a few key elements. Chief among them are the people responsible for ensuring strong controls and safeguards, from conscientious elected officials to professional staff.

Overall, this annual report is a good news story. It shows Washington's local governments and state agencies have a steadfast commitment to doing the right thing. When necessary, we identified problems and brought them to light so governments could address them. Washingtonians have always believed accountability leads to good government. And it's up to all of us to carry on that legacy.



A handwritten signature in black ink that reads "Pat McCloskey".

# Audits and findings, by the numbers

Every year, we issue 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 we did on the public’s behalf in fiscal year 2021.

“It’s always very helpful to have an outside set of eyes look at what we’re doing, not only to review correctness but also to offer suggestions for improvement.”  
– Valley School District No. 70

# 2,362 audits

July 1, 2020 -  
June 30, 2021

## Accountability audits

**1,090**  
audits  
**91** findings

Accountability audits determine whether public funds are accounted for and controls are in place to protect public resources from loss, misappropriation and abuse.

## Financial audits

**697**  
audits  
**61** findings

Financial audits determine whether the financial statements present an accurate picture of a government’s finances.

## Federal audits

**355**  
audits  
**118** findings

Federal audits determine whether federal money is being used properly according to federal regulations.

## Whistleblower investigations

**7**

Whistleblower investigations are the result of state employees sounding the alarm on possible waste, fraud or abuse. Our Office issued seven reports, and five of them revealed improper action by state workers.



## Audits and findings, by the numbers *(continued)*

“ The communication from the SAO was truly outstanding. My questions were addressed the same day and typically right away. I was impressed with the strong desire to ensure I understood the process.

– Mason County PUD No. 3

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### Fraud investigations

18\*

A fraud investigation results in a written report if we find significant misuse or theft of public money. In FY2021, 18 of our 34 investigations met this standard, identifying \$416,615 in misappropriated public funds and \$75,987 in questionable transactions.

\* This excludes a national unemployment fraud scheme. See page 4 for details.

### Unauditable governments

6

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.

### Other engagements

171

This covers 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 passenger facility charges at public airports.

### Performance audits

7

Performance audits evaluate the efficiency and effectiveness of government programs with the goal of making them work better. These audits improve public services and provide valuable information to the public, program leadership and elected officials.

### Cybersecurity audits

11

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 and propose solutions to help strengthen those systems. Cybersecurity audits are provided at no cost to the client.

# Audits of big programs call for cooperation across audit teams

## Package of audits addressed massive pandemic-related unemployment fraud

The federal government launched a series of emergency unemployment programs early in the pandemic, flooding states like Washington with money. Criminals wasted no time in finding ways to steal those funds, and Washington's Employment Security Department was among the first targeted.

SAO involved dozens of auditors across the agency to take an interdisciplinary audit approach to establish the facts of what happened.

We released an [accountability audit](#) of the ESD, a related [fraud](#) report, and a [performance audit](#) report that looked at broader issues of customer service and fraud prevention. An interactive graphic showing key data from the reports, including timelines of claims and customers' experiences when they called ESD, [can be found here](#).

A fourth audit reviewed the Department's information technology systems. We reported its findings only to agency management for security reasons.

We also addressed the fraud as part of the state's Annual Comprehensive Financial Report, which examined the [state's reporting of the unemployment fraud totals](#).



## Audits of big programs call for cooperation across audit teams *(continued)*

### **Medicaid Special Report 2021: A financial checkup for Washington's Apple Health**

With one in four Washingtonians enrolled, Medicaid is the single biggest medical program the state funds. The state and the federal government invested more than \$14.6 billion in Medicaid – known as Apple Health in Washington – during fiscal year 2020.

That's why we created a Medicaid Task Force at SAO, whose members are drawn from the five audit teams that review different aspects of Medicaid. Some work they do is required, such as determining if federal money was spent according to federal requirements. Other work is at our discretion, such as accountability audits that can focus on particular issues of compliance.

In 2021, we created our first [Medicaid summary report](#), sharing key facts about the program and results of our work. The report also summarizes previous findings, reviews our suggestions for improving efficiency and accountability, and takes a look at what our next audits will examine.



# Spreading the message and tools of good government



## Citizen Hotlines

530 received, 266  
merited further  
consideration

## Good government training

COVID-19 continued to change how we meet with clients – it's truly a hybrid world. We attended slightly fewer events overall, but connected with almost a thousand more Washingtonians this year. Here are our numbers for FY2021:

65  
events

6,120  
attendees

# Record year for our HelpDesk

This was a busy year for SAO's HelpDesk, a handy online tool for state agencies and local governments to seek auditing and accounting guidance.

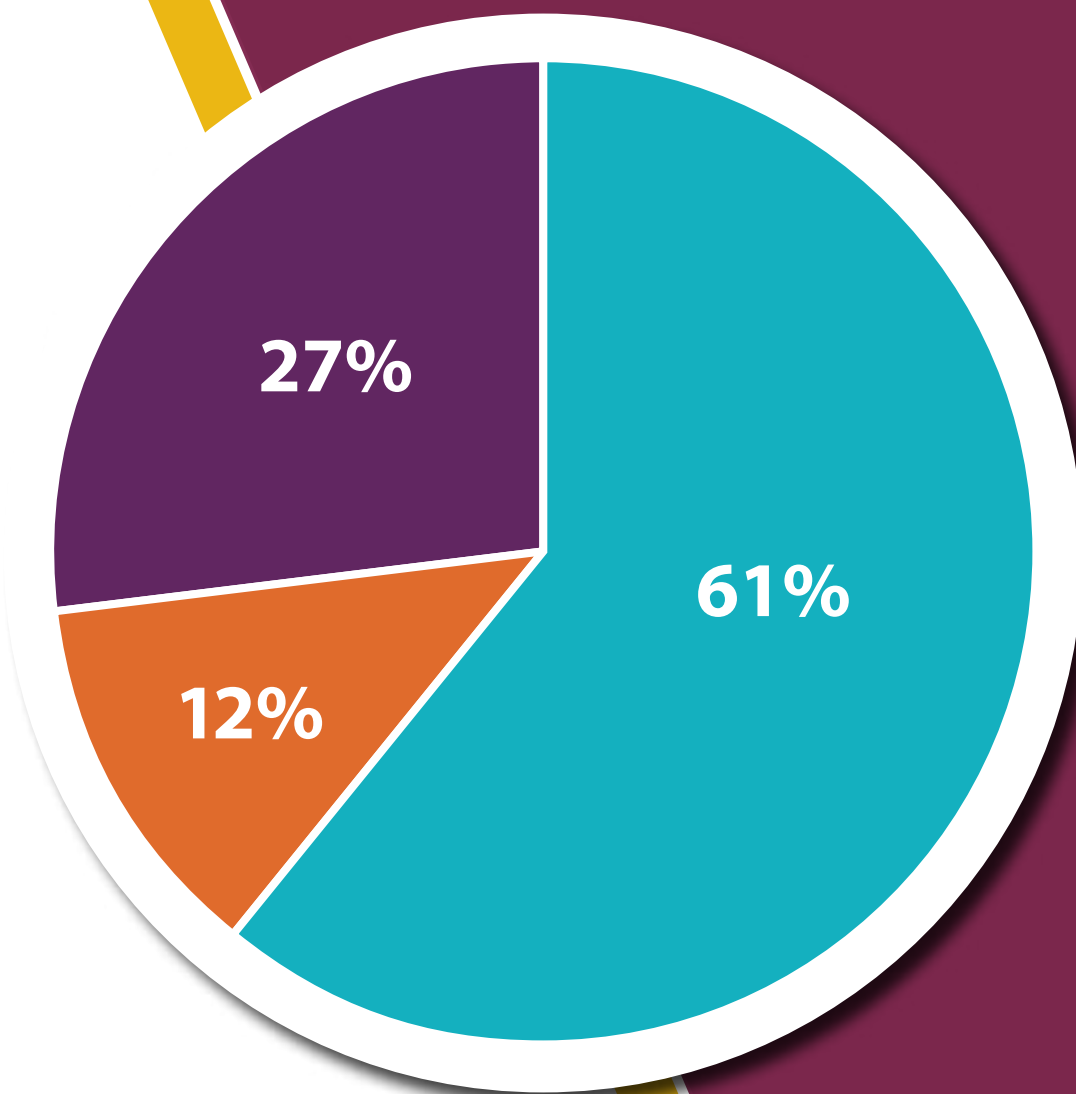
We answered **1,527 HelpDesk requests** from governments, an almost 17 percent increase from last year and the most we've ever received. Questions related to COVID-19 funding and pandemic-related deadline extensions were key reasons for the increase.





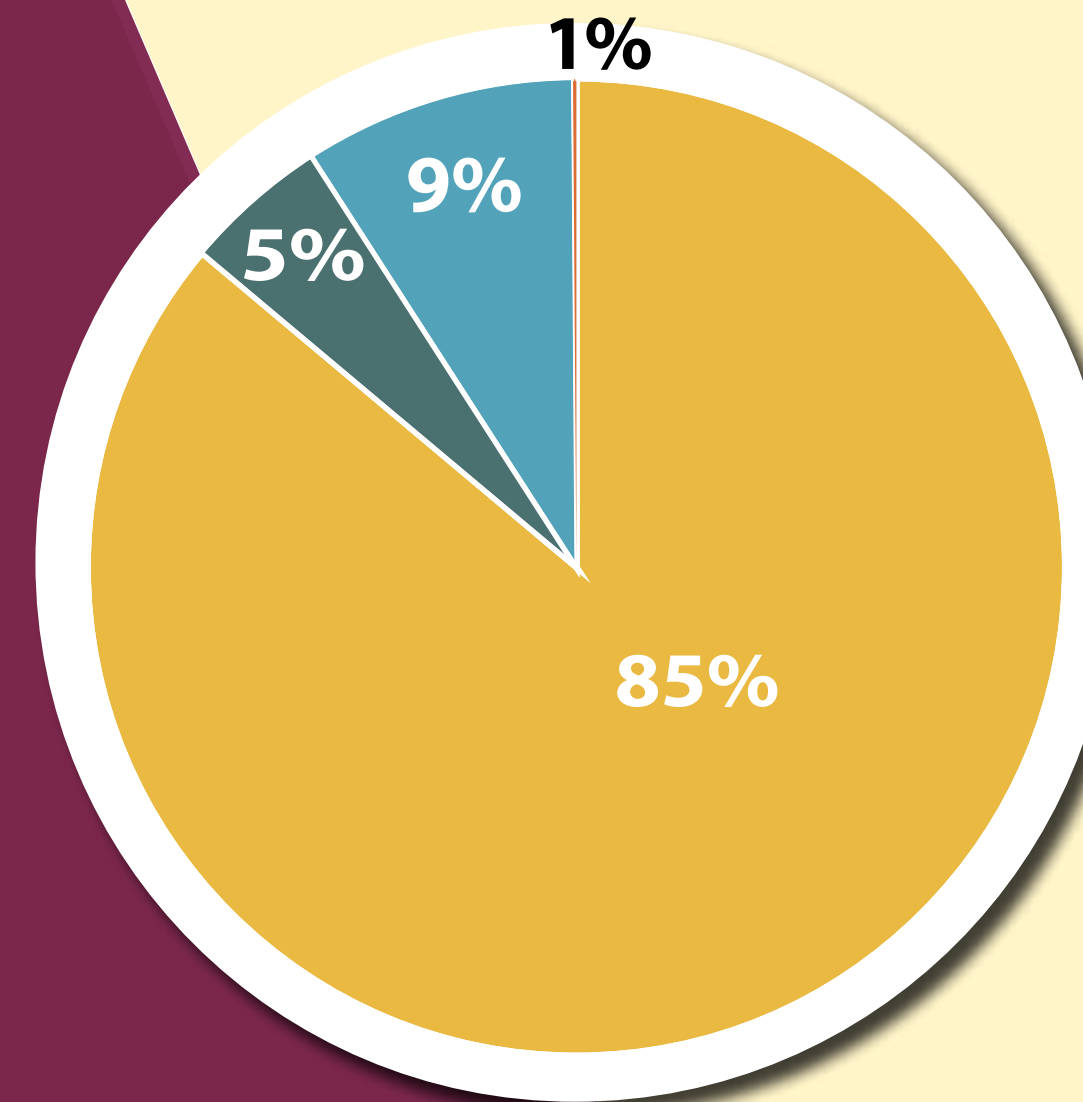
# The Auditor's FY2021 budget: \$53.4 million

## Where does SAO's money come from?



- \$32.7 million paid by local governments
- \$6.6 million from the Legislature for state agency audits
- \$14.3 million from sales tax for performance and cybersecurity audits

## Where does the money go?



- \$45 million in salaries and benefits
- \$2.5 million in contracting
- \$4.7 million in goods, services and equipment
- \$57,000 in travel



## State lawmakers support essential audit work

Each year, we work to assure the public that federal funds are spent appropriately, the state's financial statements are accurate, and that agencies are following state law, rule and their own policies. The Legislature appropriates funding for these audits.

**Annual Comprehensive Financial Report (ACFR)** – This report is the result of our independent audit of the state of Washington's financial statements. The outcome of this audit affects the state's credit and bond ratings. The audit report for the state's financial statements for a given year is published in December of that year. The 2021 ACFR is scheduled for release in December 2021 and will cover state expenditures of at least \$128 billion.

**State of Washington Single Audit report (SWSA)** – This audit determines whether the state has properly accounted for the federal money it spends and has complied with federal requirements. The audit report for a given year is published the following spring. The 2021 SWSA report is scheduled for release in June 2022 and will examine more than \$36.5 billion in federal funds. This is \$10.6 billion more than Washington spent last year, mostly due to COVID-19 pandemic funding.



## State lawmakers support essential audit work *(continued)*



**Accountability audits** – These audits ensure public funds are accounted for and internal controls are in place to protect public resources from misappropriation or misuse. Notable recent findings at state agencies include:

- Issues regarding travel and purchase cards at [Seattle Colleges](#), [Department of Social and Health Services](#), and [Minority and Women Business Enterprises](#)
- Inadequate oversight by the [Department of Children, Youth and Families](#) to ensure childcare capacity requirements were met
- Improper payments by the [Health Care Authority](#) for dental-related services paid with Medicaid funds.



“ This year’s Accountability Audit will be one for the history books, in process as the pandemic hits Washington and our entire country. I appreciated that the audit team adapted and were flexible to the situation being faced. ”

– Washington State Department of Transportation



# Surging federal funds require increased audit support

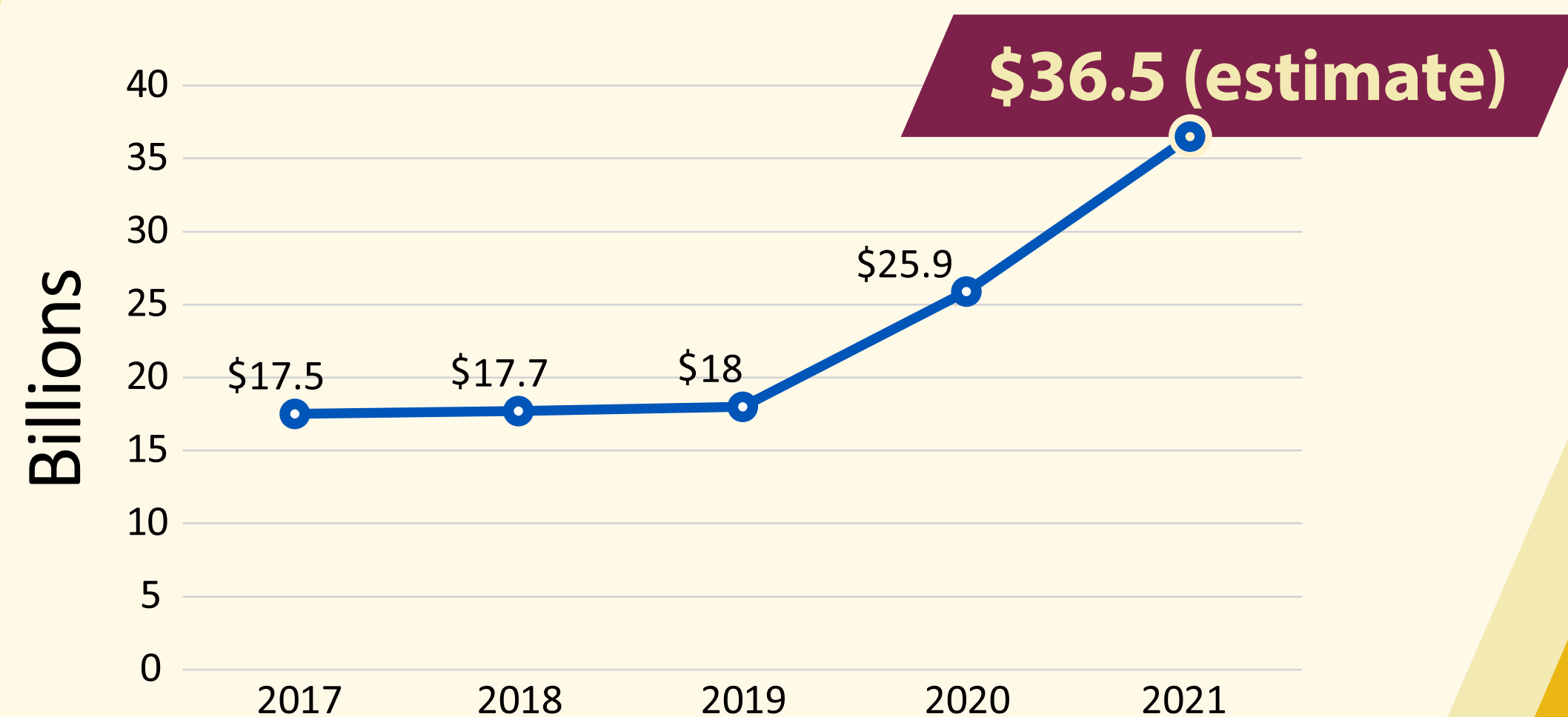
Our request:  
**\$1.4 million**  
for 12,000 additional  
audit hours during the  
next two years

Before the pandemic, Washington spent approximately \$18 billion a year in federal funding. We now estimate that will almost double to about \$36.5 billion in 2021 because of new funding associated with COVID-19 response and relief.

More federal funding means we must do more federal funding audits. The federal government has established new and complex requirements for the pandemic-related programs that recipients must follow. Furthermore, the state will soon receive more money through the federal Infrastructure Investment and Jobs Act – and that will require additional audit effort as well.

**To determine whether Washington used federal pandemic-related funds properly and complied with applicable federal requirements, we estimate we'll need 12,000 additional audit hours over the next two years. We've asked the Legislature for \$1.4 million to fund this work – just 0.01 percent of the share of total federal dollars audited.**

## Total federal assistance





## SAO's portion of I-900 funding helps state and local governments

### What work does the Performance Audits of Government Account support?

Washington voters passed Initiative 900 in 2005, giving our Office authority to conduct performance audits. To pay for them, the initiative established the Performance Audits of Government Account and set aside a dedicated portion of the state sales tax as a funding stream. Today, SAO receives just a portion of the fund.

We use our portion of this fund to help state and local governments be fiscally accountable and high-performing organizations. Depending on the complexity of the performance audits performed, we complete 15 to 20 a biennium. Additionally, we conduct cybersecurity audits and operate the Center for Government Innovation.



Performance audits evaluate the efficiency and effectiveness of government programs with the goal of making them work better. **Click 'NEXT'** for highlights from the past year.

# SAO's portion of I-900 funding helps state and local governments (continued)

## Increasing past-due collections of child support payments (September 2020)

The Washington Division of Child Support (DCS) can intercept insurance claim payments to collect past-due child support, but only if it is aware of the claims. At the time of the audit, DCS had an intercept program, but insurance company participation was voluntary. We found that by making the program mandatory, collections for child support would likely increase by \$1 million to \$3 million a year—a small but meaningful step toward collecting more past-due child support for custodial parents. In response to the audit, the 2021 Legislature passed [HB 1416](#), which required insurance companies to participate in an intercept program.



# SAO's portion of I-900 funding helps state and local governments *(continued)*

## Reassessing implementation of the Regulatory Fairness Act (November 2020)

The state's Regulatory Fairness Act requires state agencies to assess the effect their rules have on small businesses and mitigate any disproportionate costs. Our 2016 audit found most agencies struggled to follow the law, rarely completing the required impact statements. As a result of the audit, the 2017 Legislature tasked the Office of Regulatory Innovation and Assistance (ORIA) with helping agencies meet the Act's requirements.

In this follow-up audit, we found agencies had made significant improvement. They completed impact statements when required and clearly documented the circumstances when no statement was needed. In addition, the agencies were overwhelmingly positive about ORIA's support, praising the guidance it provided to help them navigate the requirements of the Act.





# SAO's portion of I-900 funding helps state and local governments (continued)

## Assessing the Workplace Culture at the Department of Fish and Wildlife (September 2021)

In a first-of-its-kind performance audit of workplace culture at the Department of Fish and Wildlife (DFW), we used qualitative and quantitative approaches from the field of applied cultural anthropology to probe employees' beliefs about their workplace. The project responded to widely publicized incidents of sexual harassment, as well as ongoing concerns from stakeholders about the agency's culture.

The audit did not find evidence of a highly sexualized culture. Instead, we found that although staff were committed to and enjoyed many aspects of their work, they had real concerns about their workplace. Issues included aggressive and unprofessional behavior, communication breakdowns across the agency, and a general lack of confidence in management's ability to address these issues. It also found that agency management had taken important steps to address employee concerns. We recommended DFW managers strengthen those initiatives by incorporating additional leading practices.



# Helping local governments and state agencies improve their cybersecurity

## Specialized cybersecurity audits

These audits examine state and local governments' IT systems to identify weaknesses and propose solutions to strengthen those systems against threats to confidential data and critical systems. Cybersecurity audits are a special type of performance audit that aim to help improve a government's security posture through a detailed assessment of its security controls and real-time penetration tests of its systems. Since the program's inception in 2014 through the end of this fiscal year, we have conducted 33 audits addressing cybersecurity issues at both state and local levels.

The expertise of our auditors and specialists also help local governments protect their IT assets through the Center for Government Innovation. SAO's [#BeCyberSmart campaign](#) uses [social media](#) to point governments to our website, where we have tip sheets and [more](#) designed for the different roles in government.

“Great interaction with the SAO. The audit provides insight from other perspectives, and the auditors explain relevant risks based on today's economic and IT environments.”  
– *City of Granite Falls*



# The Center for Government Innovation: Resources, tips and training

**The Center for Government Innovation** expands the reach of I-900 by providing best practices and key results from performance audits in a manner tailored to local governments. Here are some examples of the resources and services the Center provided this year:

- [Lean process improvement](#) training and facilitation continues to be one of the Center's most popular services, especially for improving government permitting.
- New guides for [Payroll](#) and [Accounts Payable](#), along with their corresponding checklists, were added to SAO's collection of resources on internal controls. The guides are organized in suites of short, one-to-two-page resources for leaders, managers, supervisors and front-line staff.
- The [Buying and Bidding guide](#) helps local governments comply with state law for procuring public works, purchases or services. Companion pieces include [Best Practices for Change Orders](#) and [a checklist](#) to ensure you have responsible bidders.





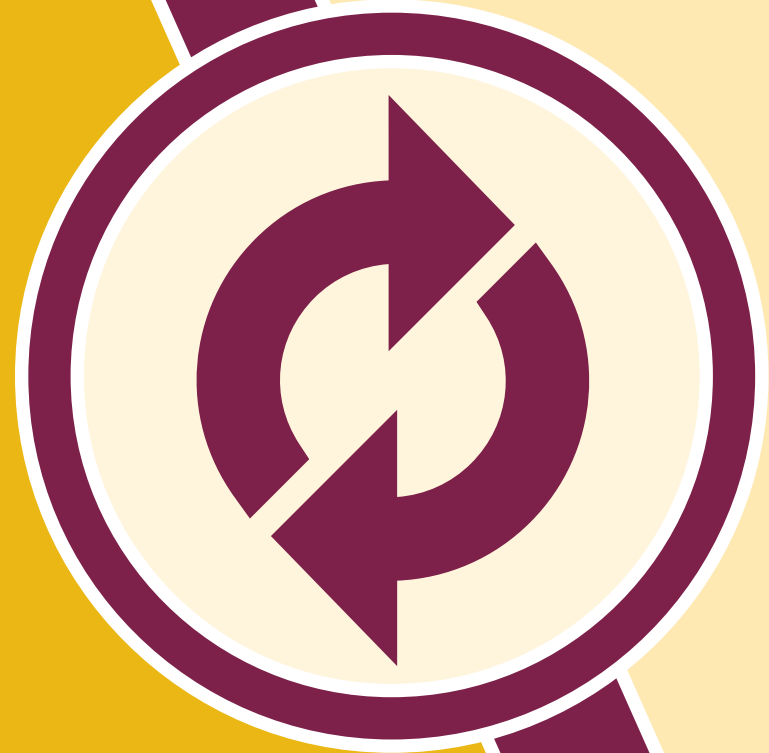
## What's next for SAO in 2022 and beyond



### **SAO leads on data-sharing agreements, new data-sharing tool**

After SAO's third-party vendor experienced a data breach, we worked closely with the Legislature to put additional protections in place for Washington's data. This included supporting Engrossed Substitute Senate Bill 5432, which called for all state and local agencies that request confidential data from another agency to provide for a written data-sharing agreement. SAO did not wait for the bill to go in effect in July 2021; we hit the ground running in June. As of mid-December, we have approximately 2,100 agreements in place and are finalizing 150 more.

In 2022, SAO will begin using a new, Microsoft-created tool to securely share large data files with our audit clients.



## What's next for SAO in 2022 and beyond *(continued)*



### **First-in-the-nation work on law enforcement use of deadly force**

SAO has new work to do after the 2021 Legislative Session. Under [E2SHB 1089](#), our Office will complete a process-compliance audit and a review of investigations into law enforcement's use of deadly force that happened after January 6, 2020. We are the first public auditors in the United States to conduct this type of examination. Our final reports will explain what we found, elaborate on causes of noncompliance, and may provide recommendations to the law enforcement agency, the prosecuting attorney and others.

## What's next for SAO in 2022 and beyond *(continued)*



### **New audits of public utilities' compliance with Clean Energy Transformation Act**

We will begin auditing consumer-owned utilities' compliance with the [Clean Energy Transformation Act \(CETA\)](#). The Act places new requirements on electric utilities to transition over time to clean energy resources to supply their retail customers. We will audit 41 electric utilities: 24 public utilities, 16 municipal utilities and one irrigation district. Learn more here: <https://sao.wa.gov/does-your-government-sell-electricity-if-so-new-audit-engagements-are-coming-your-way/>





## What's next for SAO in 2022 and beyond *(continued)*



### **Performance audit of rejected ballots – demographic differences, best practices and more**

Washington's elections, conducted by mail, are carried out by counties with support and guidance from the Secretary of State's Office. This audit was prompted by legislative concerns about the rate at which mail-in ballots are rejected. It will include a detailed statistical analysis of ballots from the 2020 general election to determine if rejection rates differ for certain demographic groups, as well as testing to determine whether ballots were appropriately rejected. The audit will also include an examination of the policies and practices used in a sample of 10 counties to determine if they follow state law and leading practices, and if there are any differences in those practices that might help explain how rejection rates vary. Finally, the audit will look to other states to identify innovative practices Washington counties could use to reduce the number of rejected ballots.



## What's next for SAO in 2022 and beyond *(continued)*



### **No-cost, CPE-eligible training on cash receipting**

The Center for Government Innovation will soon offer SAO's first online, on-demand course on cash-handling controls. With fraud on the rise at the local government level, this training will follow an actual fraud case throughout the session, while covering important best practices for internal controls and how to prevent cash receipting fraud. Local government employees will be able to attend on their own schedule and follow the course at their pace, without having to travel to a conference. Plus they'll receive Continuing Professional Education (CPE) credit.





“

An audit is a check on how we are doing and what we can do better. This audit helps the County be more accountable to our taxpayers and customers and helps provide a roadmap so that we can develop better processes.

– King County

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

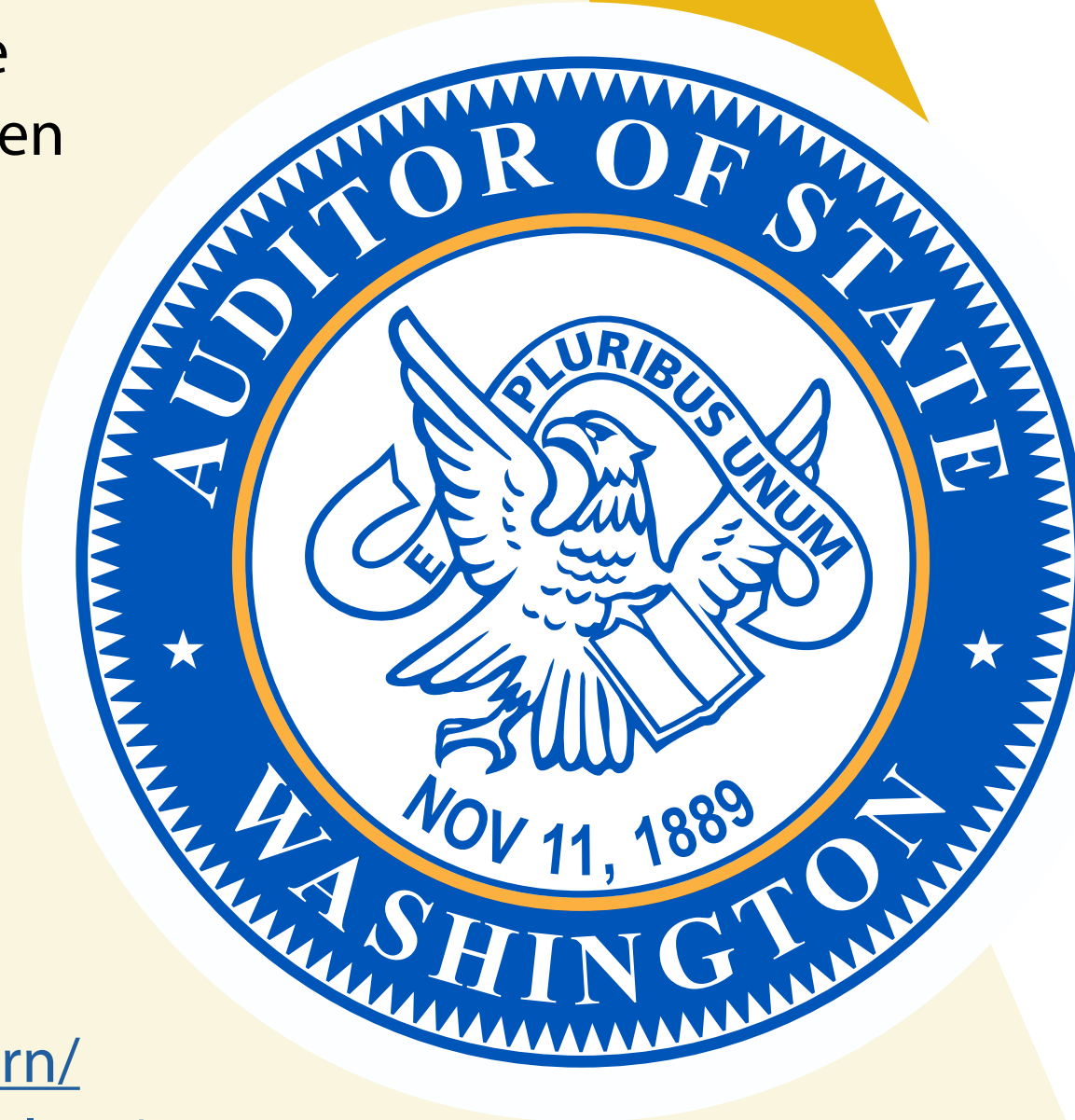
**Call: 866-902-3900**

**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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- Open the downloaded PDF, and choose the “print” option from your PDF reader.
- Be sure to check “landscape” orientation and, if possible, at least legal-sized paper for better ease of reading.
- Consider “printing on both sides, flip on short edge” to save paper.
- Finally, decide whether you want full color or grayscale – we know folks rooted in #GoodGovernment are judicious with printer ink.