



2020 Annual Report

Office of the Washington State Auditor

A MESSAGE FROM THE AUDITOR

The public expects government transparency and accountability, especially as a health crisis puts unprecedented pressure on public resources.

During the COVID-19 pandemic, the Office of the Washington State Auditor has met the moment.

When the pandemic hit in early March, years of investment in technology paid off, as our 400 auditors and professional staff had had the equipment they needed to immediately begin working from home. We froze non-essential hiring and suspended contracts. And we got creative in how we obtained the information we needed for ongoing audits.

Our auditors usually work exclusively with governments near their homes, from one of 15 offices across the state. But as local staff adapted to lockdown, employees based in King County helped with audits of governments near Wenatchee and Pullman, while specialists in Olympia crossed teams to keep essential state audit work moving forward.

The role of the State Auditor's Office is to shine a light on how public money is spent. We did so before the crisis, during the crisis, and we'll continue to fulfill this essential role through our future recovery. It's work we've done for more than a hundred years – that's how you know we're Rooted in Good Government.



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 2020:

“ We appreciated the auditors’ flexibility in completing the audit under the difficult circumstances of the pandemic.

– Shoreline School District No 412 ”

2,649 audits

July 1, 2019 -
June 30, 2020

Accountability audits



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



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

Federal audits



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

Whistleblower investigations



Whistleblower investigations are the result of state employees sounding the alarm on possible waste, fraud or abuse. The Office issued 23 reports, and seven of them revealed improper action by state workers.

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

“ Even working off-site, the local auditors coordinated with us to prevent us from having to perform hours of document retrieval and scanning.

– City of Wenatchee ”

Fraud investigations

29

A fraud investigation results in a written report if we find significant misuse or theft of public money. In FY2020, 29 of our 61 investigations met this standard, identifying \$7,288,125 of misappropriated public funds and \$309,803 of questionable transactions.

Unauditable Governments

2

State law requires local governments to be audited and to submit annual financial reports. In fiscal year 2020, we issued two reports on governments that could not be audited. On Slide 13, we discuss our first capstone report on this issue, covering all of calendar year 2020.

Other engagements

161

This covers a variety of topics, including compliance with the Energy Act, assurance for National Transit Database reporting, reviewing and publishing the reports of private CPA firms, or verifying alternative learning experience enrollment reported by school districts.

Performance audits

6

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

6

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.

Special investigations: Fraud

Here are highlights of our work in these areas for FY2020. Click the links to read the full report and related material.



An unauditible government opens its books:

From 2011 through 2017, the [Camas Washougal Economic Development Association](#) did not file required annual financial reports with our Office. Ultimately the City of Washougal prepared the Association's financial statements. The City noted unexplained purchases made by the Executive Director, and asked us to investigate. Our [investigation](#) showed the Executive Director spent \$19,311 on personal purchases including an advanced home air system and vehicle repairs. He also used bought items including a computer, hotel accommodations, fuel and meals. Another \$45,029 was spent on items that we couldn't tie to a clear business purpose.

Personal purchases and missing revenues:

The Washington Beef Commission noticed certain cattle assessments totaling \$12,120 were not deposited into the Commission's bank account but were instead deposited into the Office Manager's personal bank account. In addition, the Office Manager made \$22,877 in personal purchases on a Commission credit card. Our fraud investigation found that no one reconciled credit card transactions using original statements obtained directly from the bank, or reconciled expected revenues to actual receipts, in a timely manner.

Special investigations: Whistleblowers

Here are highlights of our work in these areas for FY2020. Click the links to read the full report and related material.

[Granting special privileges by hiring family members](#)

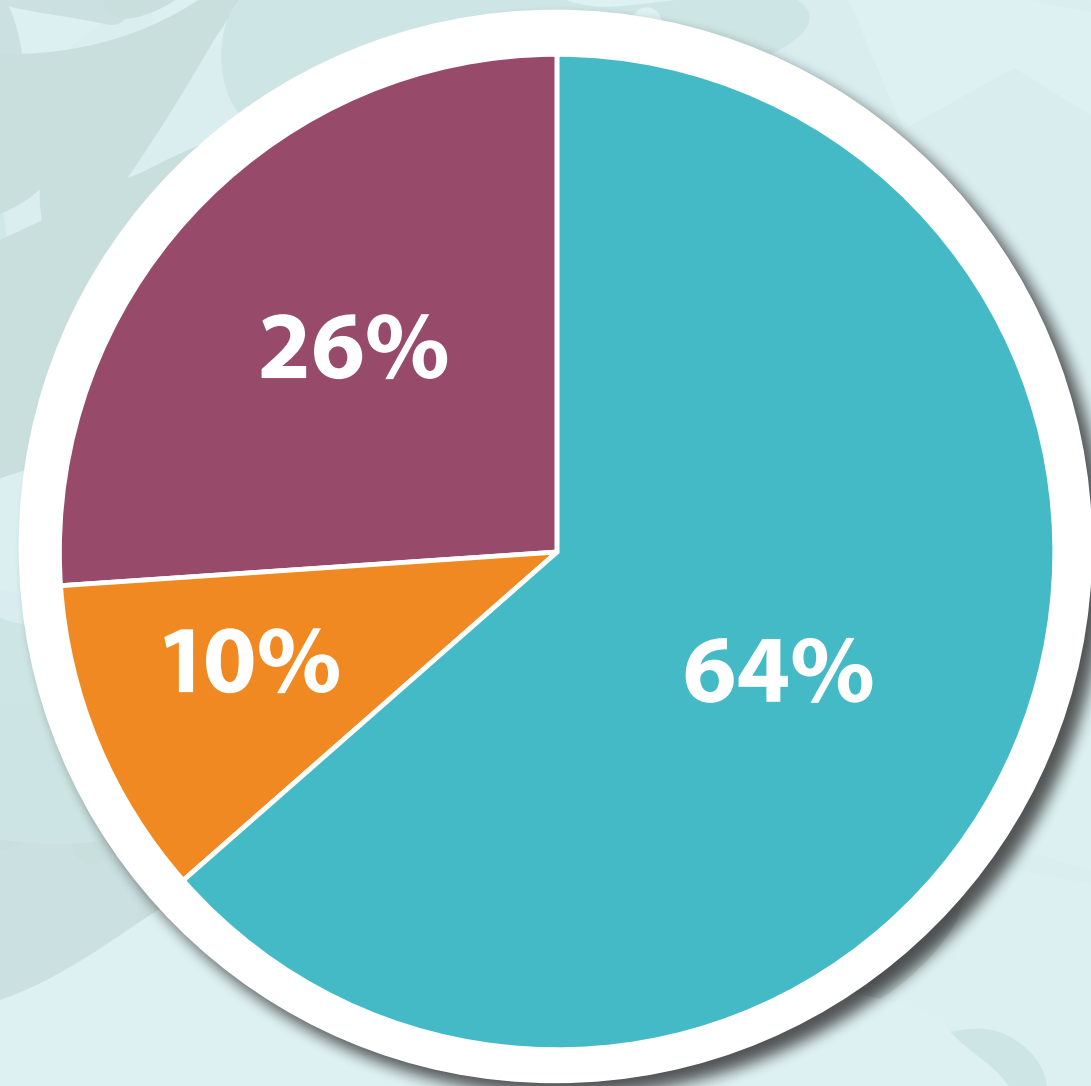
An Assistant Secretary of the Department of Social and Health Services -- a member of upper management -- granted a special privilege by hiring her daughter for a position inside the Assistant Secretary's own reporting structure. The Assistant Secretary also oversaw the hiring of a nephew, a relationship not classified as "a relative" by the agency and thus permissible, but doing so presented an appearance of privilege. Following our investigation, the agency clarified its hiring policies.

[Poor working relationships threaten effective IT support services](#)

The Division of Child Support (DCS, part of the Department of Social and Health Services) was contracted to provide IT system support to county prosecuting attorneys at the Washington Association of Prosecuting Attorneys-Support Enforcement Program. Between March 2017 and April 2019, we received multiple complaints that DCS was unable to provide adequate tech support. The Whistleblower investigation found the DCS employee failed to correct IT security vulnerabilities that were the state agency's responsibility to correct.

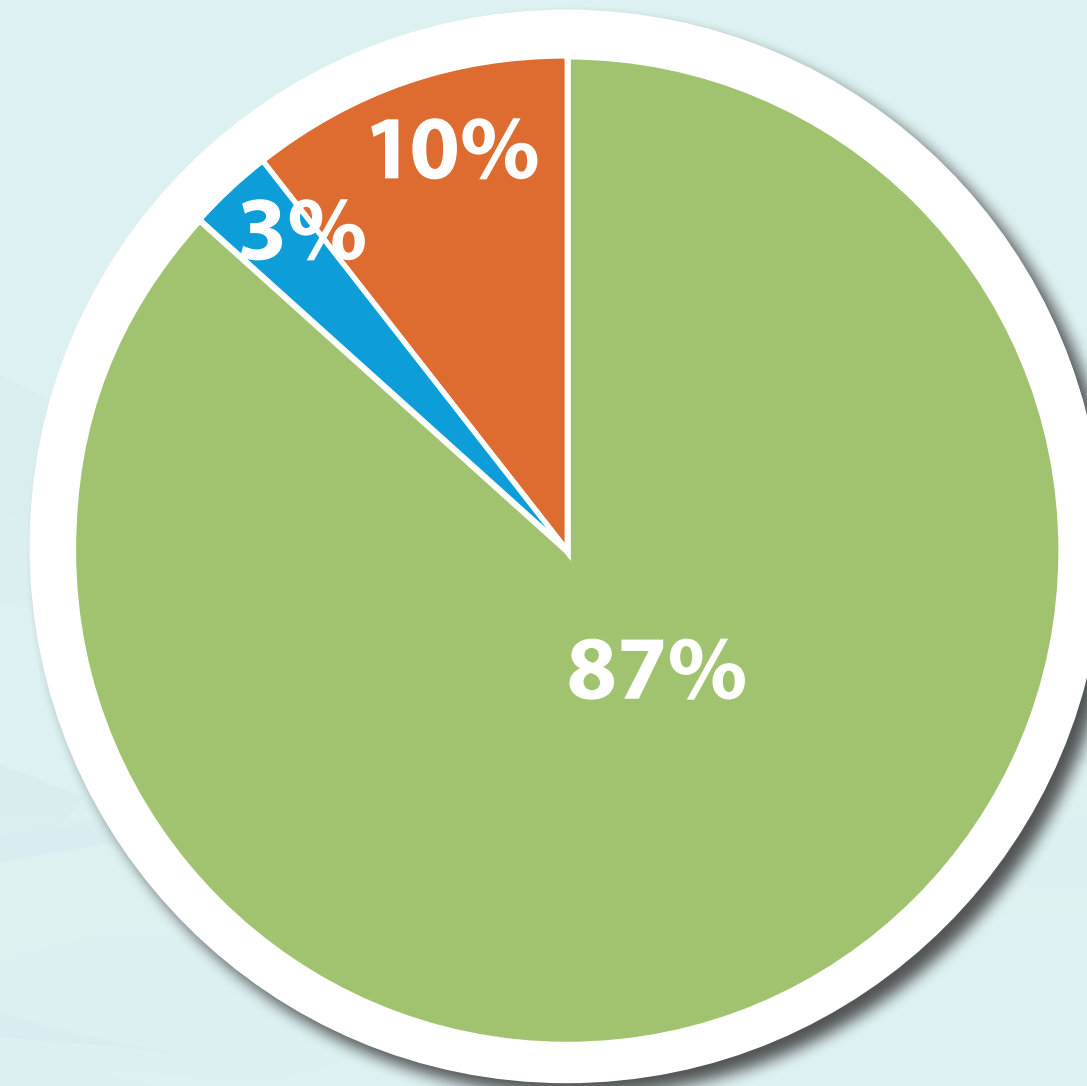
The auditor's FY2020 budget: \$51 million

Where does SAO's funding come from?



- \$32.4 million paid for by local governments
- \$5.3 million from the legislature for state agency audits
- \$13.3 million from sales tax for performance audits, cybersecurity audits, and school apportionment audits

Where does the money go?



- \$44.8 million in salaries and benefits
- \$1.4 million in contracting
- \$5.4 million in goods, services, equipment & 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.

Comprehensive Annual Financial Report (CAFR) – 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 2020 CAFR will be released in December 2020, and will cover state expenditures of more than \$116 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 2020 SWSA will be released in spring 2021, and will examine \$26 billion in federal funds. This is \$8 billion more than Washington spent last year, mostly due to CARES Act funding to help the state cope with the pandemic.

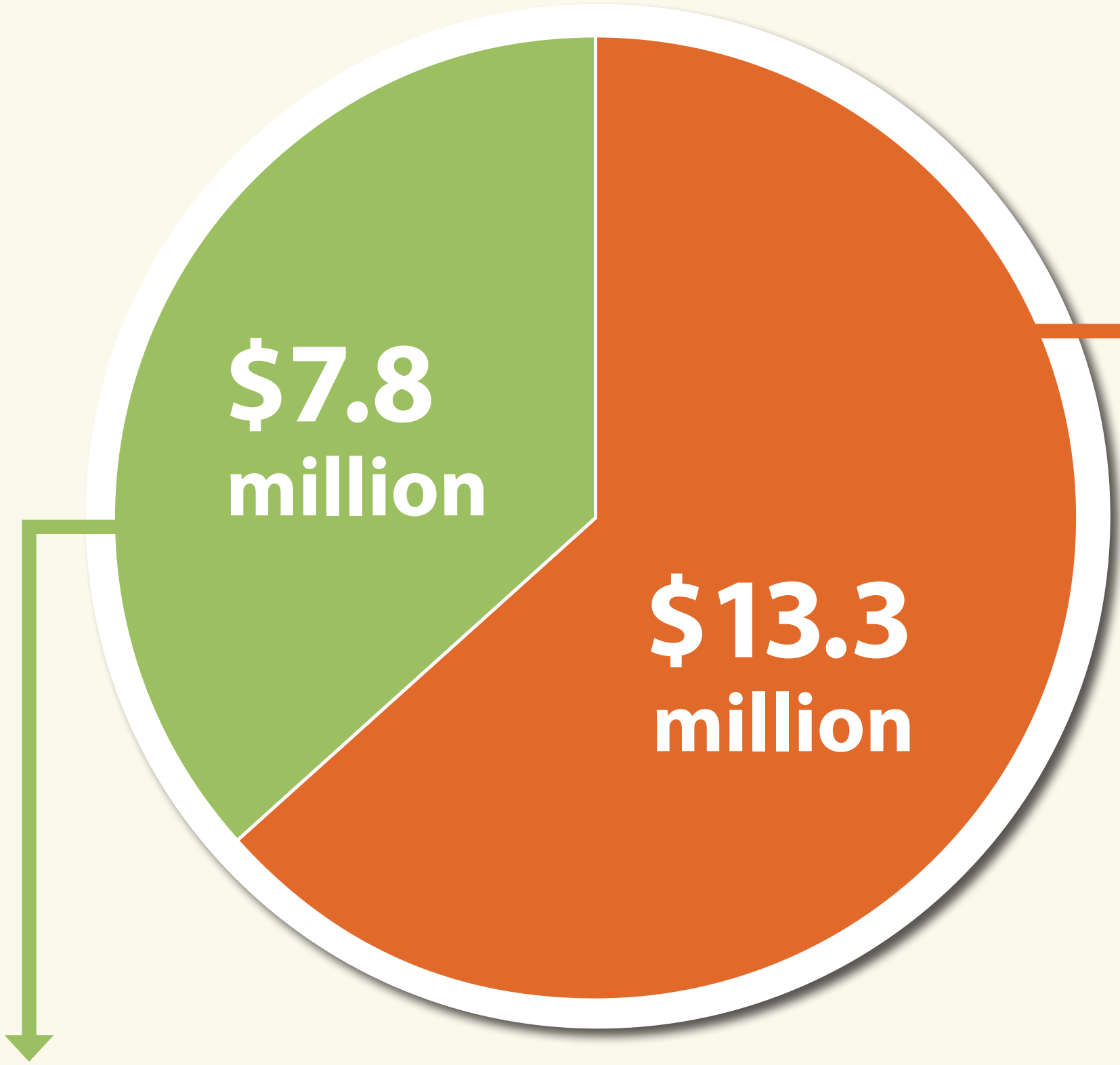
Accountability audits – These audits ensure public funds are accounted for and internal controls are in place to protect public resources from misappropriation or misuse. Notable recent findings at state agencies include issues with contract monitoring at the departments of Fish and Wildlife, Natural Resources and Ecology.



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

I-900 Fund
\$21.1 million
FY2020

In 2005, Washington voters passed Initiative 900, which gave 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. Several years ago, the PAGA account began funding other priorities as well. SAO currently 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.



SAO: \$13.3 million*, which primarily funds:



Performance audits



Cybersecurity audits



Center for Government Innovation

- Joint Legislative Audit & Review Committee
- Legislative Evaluation and Account Program Committee
- Office of Financial Management, Office of the Superintendent for Public Instruction, and the Department of Natural Resources

** Also pays for school apportionment audits*

I-900 funding helps state and local governments *(continued)*



Traditional performance audits evaluate the efficiency and effectiveness of government programs with the goal of making them work better. Here are a few highlights from the past year.

Sound Transit Project Planning and Design

(June 2020) – This audit found Sound Transit could improve project planning and design with more upfront work to minimize costly change orders, particularly changes that address design deficiencies and unexpected soil and groundwater conditions. Sound Transit could also benefit from a formal lessons-learned process, which would likely result in consistent use of best practices and fewer repeated mistakes on future projects.

University of Washington School of Dentistry

(March 2020) – The School has long struggled financially, and by the end of fiscal year 2019 had accumulated almost \$40 million in debt. We identified a number of ways the School could make better financial decisions, as well as ways the University of Washington could improve its fiscal monitoring to reduce the risk of similar situations in other schools.

Child Support Payments

(September 2020) – The state has a number of tools it can use to collect past-due child support from non-custodial parents, including a program to intercept insurance claim payments. Participation in the program by insurance companies is currently voluntary, but we found making this program mandatory would increase collections of past-due child support by about \$1 million to \$3 million a year.



Specialized cybersecurity 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 their systems. Since the program's inception in 2014 through the end of this fiscal year, we have published 28 audits addressing IT security 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 (more on the next slide). Our **#BeCyberSmart** campaign uses social media to point governments to our website, where we have tip sheets and more for the different roles in government.

CYBERSECURITY
is everyone's job.

I-900 funding helps state and local governments *(continued)*



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 services the Center offers:

- The **Resource Database Library** is a one-stop shop for checklists, tips and much more.
- **Lean training and facilitation** services help local government employees analyze existing processes to identify innovative ways to make existing work more efficient. This can lead to better customer service and cost savings.
- The **award-winning Financial Intelligence Tool (FIT)** is based on the annual financial information local governments are required by law to report to us. FIT repackages the data so they can conveniently analyze it for trends, or to benchmark themselves against other local governments. In 2019, we made FIT available to the public.



Transparency for special purpose districts



Special Report on unauditable governments: In June 2020, the Legislature passed a law establishing consequences for special purpose districts that do not comply with basic accountability requirements and therefore cannot be audited. The law requires us to notify the legislative authority of a county and the State Treasurer of any special purpose districts in their jurisdiction that we determine to be “unauditable governments”. In late December 2020, we will have issued the first capstone report required by this state law that showed only a few unauditable governments remain after a year-long outreach and education effort by the State Auditor’s Office.

Good government training

COVID-19 prevented in-person meetings but it did not dampen enthusiasm. From Skype to Zoom to Teams to WebEx, we met our clients where they were: Online! Here are our numbers for FY2020:

80
events

5,350
attendees

1,307
Helpdesk requests
answered



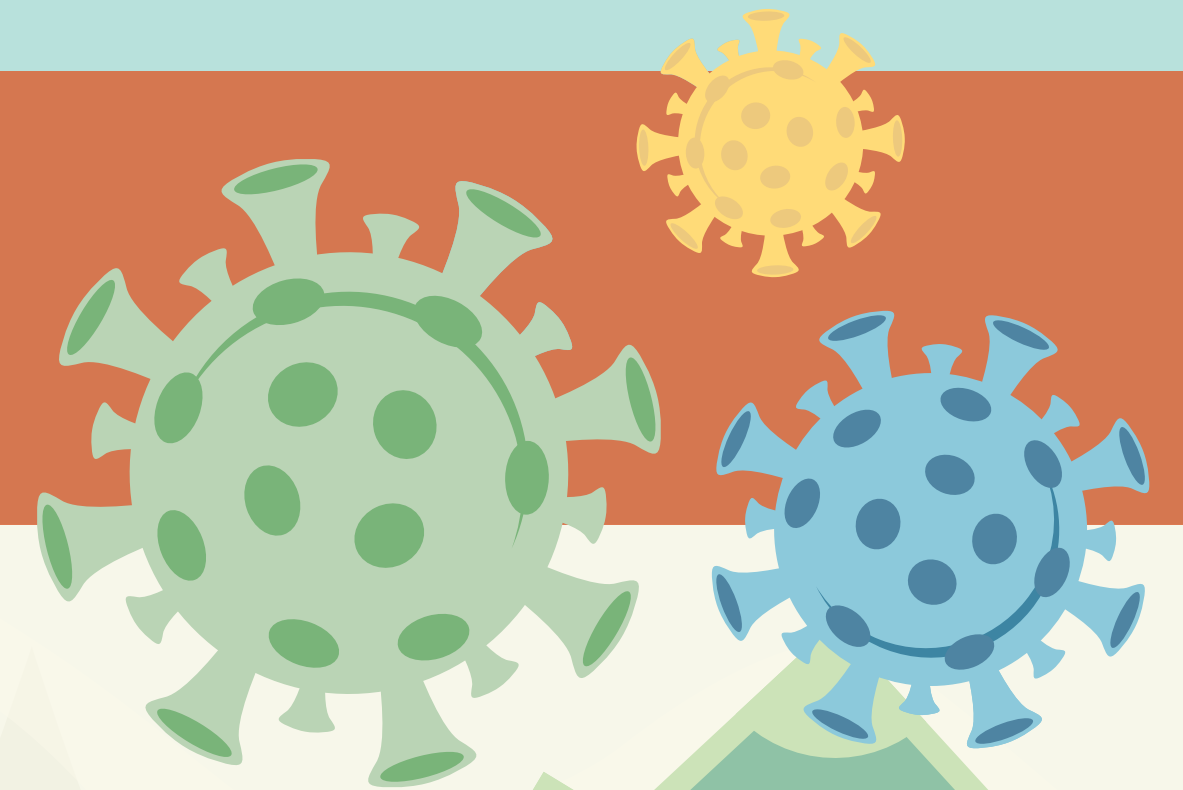
Coming in 2021

Coronavirus relief funding

The significant influx of federal money to address the COVID-19 pandemic will be a central focus of our auditing efforts in 2021 and beyond. The need for fast distribution of funds – almost \$3 billion to date – meant both local governments and state agencies sought much-needed guidance to ensure they spent the money appropriately for pandemic relief. That guidance is important to us, too: It is what we audit. SAO representatives joined forces with other states to encourage the federal government to make that guidance clear. And in Washington, we created a [COVID-19 Guidance Toolkit](#), a webpage we update regularly with the latest information on the use of pandemic funding.

In-depth look at Medicaid

We are participating in a national effort to take a more holistic look at how states account for Medicaid funding. The three-fold goal is to increase transparency into the single largest source of federal funding in Washington, to inform policymakers about our work, and to make recommendations on how to improve program management and operation. We will issue the first in a series of annual reports on Medicaid in the first quarter of 2021.



Coming in 2021 *(continued)*

Unemployment insurance fraud

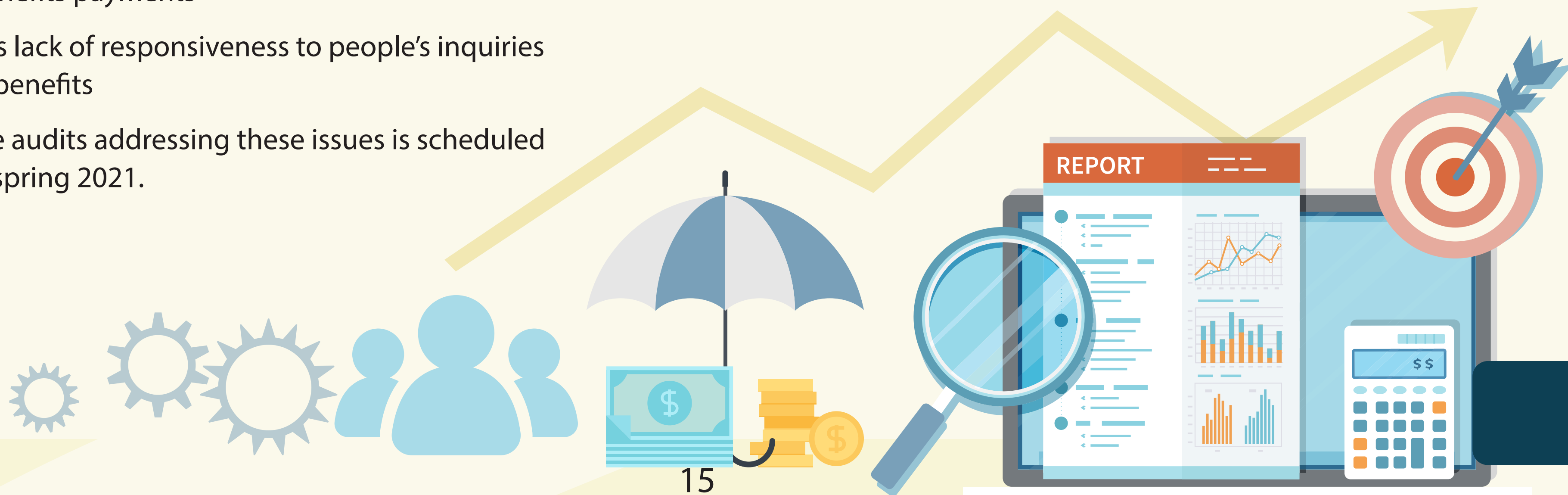
Cybercriminals targeted the state Employment Security Department in the spring of 2020, stealing hundreds of millions meant to help those suffering from unemployment because of the pandemic. We are conducting a series of audits to address three main areas of concern:

- The large-scale benefits fraud
- Delays in benefits payments
- The agency's lack of responsiveness to people's inquiries about their benefits

The last of five audits addressing these issues is scheduled for release in spring 2021.

Innovative audit on agency culture

In 2021, we will publish an in-depth analysis on the internal culture at the Department of Fish and Wildlife. Several incidents of sexual harassment, as well as concerns of stakeholders, suggested problems existed within the agency's workplace culture. This audit, using the flexibility and rigor of performance auditing, will identify how agency leaders can promote a more respectful and productive workplace so its employees can better serve the public.



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I appreciated the consistent professionalism and communication from audit staff; and the flexibility and understanding during the shutdown (which scrambled all of our plans). Never once did the audit team seem to be unable or unwilling to flex to the new reality of remote working as it applied to our audit.

– Department of Agriculture

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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/>



How to print this report:

- Move your mouse cursor to the bottom of your browser window. A bar will appear with several icons. Click the “download PDF” button.
- 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.