



# Office of the Washington State Auditor

---

## Pat McCarthy

### **Entrance Conference: Port of Everett**

The Office of the Washington State Auditor's vision is increased trust in government. Our mission is to provide citizens with independent and transparent examinations of how state and local governments use public funds, and develop strategies that make government more efficient and effective.

The purpose of this meeting is to share our planned audit scope so that we are focused on the areas of highest risk. We value and appreciate your input.

#### **Audit Scope**

Based on our planning, we will perform the following audits:

#### **Accountability audit for January 1, 2019 through December 31, 2019**

We will examine the management, use and safeguarding of public resources to ensure there is protection from misuse and misappropriation. In addition, we will evaluate whether there is reasonable assurance for adherence to applicable state laws, regulations and policies and procedures.

We plan to evaluate the following:

- Financial condition
- Self-Insurance for health and welfare
- Accounts payable and payroll – electronic funds transfers
- Lease agreement compliance
- Payroll – extra compensation, bonus and incentive payments
- Cash receipting – marina receipting procedures

#### **Financial statement audit for January 1, 2019 through December 31, 2019**

We will provide an opinion on whether your financial statements are presented fairly, in all material respects, in accordance with the applicable reporting framework. The audit does not attempt to confirm the accuracy of every amount, but does search for errors large enough to affect the conclusions and decisions of a financial statement user.

#### **Federal grant compliance audit for January 1, 2019 through December 31, 2019**

This audit is required by federal law when a local government spends \$750,000 or more annually in federal financial assistance. We will provide an opinion on compliance with federal requirements that could have a direct and material effect on your major federal programs.

We plan to test the following federal programs:

- Sportfishing and Boating Safety Act, CFDA 15.622
- Highway Planning and Construction, CFDA 20.205
- Railroad Rehabilitation and Improvement Financing Loan, CFDA 20.316

- National Infrastructure Investments, CFDA 20.933

This report must be submitted, along with the Data Collection Form, to the federal clearinghouse within 30 days after receipt of the report or nine months after the end of the audit period, whichever is earlier.

### **Engagement Letter**

We have provided an engagement letter that confirms both management and auditor responsibilities, and other engagement terms and limitations. Additionally the letter identifies the cost of the audit, estimated timeline for completion and expected communications.

### **Levels of Reporting**

#### **Findings**

Findings formally address issues in an audit report. Findings report significant deficiencies and material weaknesses in internal controls; misappropriation; and material abuse or non-compliance with laws, regulations or policies. You will be given the opportunity to respond to a finding and this response will be published in the audit report.

#### **Management Letters**

Management letters communicate control deficiencies, non-compliance or abuse that are less significant than a finding, but still important enough to be formally communicated to the governing body. Management letters are referenced, but not included, in the audit report.

#### **Exit Items**

Exit items address control deficiencies or non-compliance with laws or regulations that have an insignificant effect on the audit objectives. These issues are informally communicated to management.

### **Important Information**

#### **Confidential Information**

Our Office is committed to protecting your confidential or sensitive information. Please notify us when you give us any documents, records, files, or data containing information that is covered by confidentiality or privacy laws.

#### **Audit Costs**

The cost of the audit is estimated to be approximately \$81,000, including travel expenses.

#### **Expected Communications**

During the course of the audit, we will communicate with Robert Marion, Controller, on the audit status, any significant changes in our planned audit scope or schedule and preliminary results or recommendations as they are developed.

Please let us know if, during the audit, any events or concerns come to your attention of which we should be aware. We will expect Robert to keep us informed of any such matters.

## **Audit Dispute Process**

Please contact the Audit Manager or Assistant Director to discuss any unresolved disagreements or concerns you have during the performance of our audit. At the conclusion of the audit, we will summarize the results at the exit conference. We will also discuss any significant difficulties or disagreements encountered during the audit and their resolution.

## **Loss Reporting**

State agencies and local governments are required to immediately notify our Office in the event of a known or suspected loss of public resources or other illegal activity. These notifications can be made on our website at [www.sao.wa.gov/report-a-concern/how-to-report-a-concern/fraud-program/](http://www.sao.wa.gov/report-a-concern/how-to-report-a-concern/fraud-program/).

## **Peer Reviews of the Washington State Auditor's Office**

To ensure that our audits satisfy *Government Auditing Standards*, our Office receives external peer reviews every three years by the National State Auditors Association (NSAA). The most recent peer review results are available online at [www.sao.wa.gov/about-sao/who-audits-the-auditor/](http://www.sao.wa.gov/about-sao/who-audits-the-auditor/). Our Office received a “pass” rating, which is the highest level of assurance that an external review team can give on a system of audit quality control.

## **Emerging Issues**

Some of the emerging issues affecting local governments are the following:

- Audit Connection - July 2020
- Office of the Washington State Auditor's 2019 Annual Report

## **Working Together to Improve Government**

### **Audit Survey**

When your report is released, you will receive an audit survey from us. We value your opinions on our audit services and hope you provide us feedback.

### **Local Government Support Team**

This team provides support services to local governments through technical assistance, comparative statistics, training, and tools to help prevent and detect a loss of public funds. Our website and client portal offers many resources, including a client Help Desk that answers auditing and accounting questions. Additionally this team assists with the online filing of your financial statements.

### **The Center for Government Innovation**

The Center for Government Innovation of the Office of the Washington State Auditor is designed to offer services specifically to help you help the residents you serve at no additional cost to your government. What does this mean? We provide expert advice in areas like Lean, peer-to-peer networking and culture-building to help local governments find ways to be more efficient, effective and transparent. The Center can help you by providing assistance in financial management, cybersecurity and more. Check out our best practices and other resources that help local governments act on accounting standard changes, comply with regulations, and respond to recommendations in your audit. The Center understands that time is your most precious commodity as a public servant, and we are here to help you do more with the limited hours you have. If you are interested in learning

how we can help you maximize your effect in government, call us at (360) 725-5621 or email us at [Center@sao.wa.gov](mailto:Center@sao.wa.gov).

### **Audit Team Qualifications**

**Kelly Collins, CPA, Director of Local Audit** – Kelly has been with the Washington State Auditor’s Office since 1992. In her role, she oversees the audit teams which perform the audits for over 2,200 local governments. She serves on the Washington Finance Officers Association Board and is a member of the Washington Society of Certified Public Accountants’ Government Auditing and Accounting Committee. Phone: (564) 999-0807 or [Kelly.Collins@sao.wa.gov](mailto:Kelly.Collins@sao.wa.gov)

**Tina Watkins, CPA, Assistant Director of Local Audit** – Tina has been with the Washington State Auditor’s Office since 1994. In her role as Assistant Director, she assists with statewide oversight and management of all the audits for local government. She served as an Audit Manager for six years prior to becoming an Assistant Director of Local Audit. Phone: (360) 260-6408 or [Tina.Watkins@sao.wa.gov](mailto:Tina.Watkins@sao.wa.gov)

**Kristina Baylor, Program Manager** – Kristina has been with the Washington State Auditor’s Office since 2005. She was promoted to Program Manager in 2015 and in this role, she has overseen our Agency’s audits of Fire Districts, Emergency Services Agencies, Trauma Care Councils and Conservation Districts. Currently, she oversees the Agency’s audits of Water and Sewer Districts. Kristina also manages the Agency’s local audit team based in Mill Creek, which performs financial, single and accountability audit work for local and state governments in the Snohomish and northern King County areas. Prior to becoming an Agency Program Manager, she served in various roles including the Audit Manager for the Everett team and as an Assistant Audit Manager on the Bellingham and Everett teams. Kristina has a Bachelor’s in Business Administration – Finance from Western Washington University. Phone: (425) 951-0290 or [Kristina.Baylor@sao.wa.gov](mailto:Kristina.Baylor@sao.wa.gov)

**Erika Davies, Assistant Audit Manager** – Erika has been with the State Auditor’s Office since 2013. In her time with the Office, Erika has led and supervised a variety of different audits including cities, school districts, community and technical colleges, fire districts, and water/sewer districts, among others. She also serves as the statewide community and technical college expert. Erika received her Bachelors of Arts in Business Administration with an Accounting concentration from the University of Washington. Phone: (425) 948-7401 or [Erika.Davies@sao.wa.gov](mailto:Erika.Davies@sao.wa.gov)

**Tina Hjorten, Audit Lead** – Tina has been with the Washington State Auditor’s Office since 2007. During her time at the office, she has performed, led and supervised several financial, accountability, and federal compliance audits for a variety of governments. Tina was formerly on Team Cascadia before joining Team Everett in 2015. Tina has a Bachelor’s in Accounting and Economics from Western Washington University. Phone: (425) 948-7401 or [Tina.Hjorten@sao.wa.gov](mailto:Tina.Hjorten@sao.wa.gov)

**Magdalene “Maggie” Wallis, CPA, Audit Staff** – Maggie worked for the State Auditor’s Office in 2012 and has returned to work beginning in 2016. Prior to joining the SAO, Maggie worked as an accountant at a financial services company. She received a master’s degree in Accounting from Auburn University in 2013. Phone: (425) 948-7401 or [Magdalene.Wallis@sao.wa.gov](mailto:Magdalene.Wallis@sao.wa.gov)

**Sarrah Superville, CFE, Audit Staff** – Sarrah has been with the State Auditor’s Office since 2015. During her time at the office, she has performed and led several financial, accountability, and federal compliance audits for

a variety of governmental entities, including several Cities and School Districts. In her role as audit staff, Sarrah performs audit work in accordance with the audit plan to ensure Office quality expectations and standards are met. She also serves as the local team fraud specialist. Sarrah holds a Bachelor of Arts in Accounting from Western Washington University. Phone: (425) 948-7401 or [Sarrah.Superville@sao.wa.gov](mailto:Sarrah.Superville@sao.wa.gov)

**Tiffani Anderson, Audit Intern** – Tiffani has been with the Washington State Auditor’s Office since 2019. She has previous experience with Human Resources activities and Payroll timecard management with a Hospital entity. She is currently studying in pursuit of a Bachelor’s Degree in Accounting. In her role as audit staff, Tiffani performs audit work in accordance with the audit plan to ensure Office quality expectations and standards are met. Phone: (425) 948-7401 or [Tiffani.Anderson@sao.wa.gov](mailto:Tiffani.Anderson@sao.wa.gov)

# The Audit Connection



## Special Message from State Auditor Pat McCarthy

### McCarthy's Corner



#### Financial accountability has never been more necessary

Colleagues, the hard work of accountability that you achieve with regular auditing has never been more important. Audits give reassurance to taxpayers and governments alike as we face an economic slump deeper than anything since the Great Depression. Especially when public programs like health care and emergency services are in high demand, this transparency is essential.

*Continued on page 3*



## Have a peek inside

- 2 View Recorded Accounting and Reporting Trainings Online
- 4 New Resources for Cities Are Available, with More on the Way
- 5 State Auditor's Office Uncovers \$7 Million Misappropriation
- 6 How and when to seek SAO approval for a restitution agreement
- 7 See how SAO served you during 2019

## BARS Manuals See Flurry of Significant Accounting and Reporting Updates

The novel coronavirus pandemic has affected almost every facet of our lives. It has even touched a variety of accounting and reporting standards and requirements, including the Budget, Accounting, and Reporting System (BARS) Manuals. Each year, we update the BARS Manuals to ensure their prescriptions and instructions remain current and appropriate to meet the needs of intended users. Earlier this year, we updated both the cash-basis and GAAP manuals for a variety of accounting and reporting topics, such as fiduciary activities.

*Continued on page 2*





## **BARS Manuals Reporting Updates –**

*Continued from page 1*

BARS prescription, for the most part, springs from accounting standards approved by the Governmental Accounting Standards Board (GASB). On May 7, 2020, GASB voted to delay implementation of several new accounting standards, some of which were part of this year's BARS update. The decision postpones for 18 months the leases statement and implementation guide. It also postpones for one year the effective dates of all other statements and implementation guides that state and local governments were due to implement for fiscal years 2019 and later.

For more information on how the GASB decision affects the BARS Manuals (both GAAP and cash basis) and your fiscal report for 2019, as well as future reports, visit the new [Accounting Delays](#) page on our website.

This page provides information on what was delayed, how to account and report for delayed or implemented standards and requirements, and important links to BARS pages.

In addition to the delayed accounting and reporting, the Office has issued BARS Alerts related to COVID-19 federal stimulus monies and note disclosure information related to the event. Several communications were also sent to local governments regarding the May 29, 2020, annual filing deadline, with the most recent announcing that the deadline has been extended to Wednesday, July 1, 2020. For more information on these communications from SAO, please visit our new [COVID-19 accounting and reporting page](#).

If you have any questions regarding these updates, please contact SAO via the [HelpDesk](#) for assistance.

## **View Recorded Accounting and Reporting Trainings Online**

Our Office has posted recorded trainings on a variety of accounting and reporting topics to our [Training and Workshops](#) web page. We invite you to check out these free trainings!

- **“SAO Recording – OPEB for Cash Basis Governments.”** This webinar addresses the Other Post-Employment Benefits reporting requirements, resources, and tools available for **Cash Basis** local governments.
- **“Leases, as of February 2020.”** This webinar covers the changes to governmental lease accounting and reporting for both **GAAP and Cash Basis** local governments. Note: This was recorded prior to the GASB implementation delay. For more information, visit the new [Accounting Delays](#) page on our website.
- **“SAO Recording – Schedule 06: Bank Reconciliations for Cash Basis Governments.”** This webinar presents the Schedule 06 reporting requirements, resources, and tools available for **Cash Basis** cities, towns, and counties.



**McCarthy's Corner –**  
Continued from page 1

I know local governments are taking extraordinary steps to preserve public health and promote public welfare. As advocates of good government, we have been working hard to provide guidance and support as you navigate this pandemic. That guidance has centered on clearly documenting your decisions and actions. You will find more important insights in this edition of the Audit Connection, and even more information online at [sao.wa.gov](http://sao.wa.gov).

Public transparency is required when so many tax dollars are involved. Congress has dedicated more than \$2.5 trillion in emergency funding to fighting the crisis nationwide. Even more may come. So far, that support includes \$1.3 billion provided to Washington's local governments and additional \$1.6 billion in funding to state agencies. Congress is considering even more aid to state and local governments for the future. This federal funding is in addition to the \$400 million in supplemental support provided by the state.

Yet, each day, the economic damage from the pandemic is becoming clearer, from Seattle to Walla Walla. The revenue our communities rely upon to fund everything from public hospitals to parks has declined sharply. The governor recently announced that state agencies, too, must cut costs and furlough employees to address budget shortfalls.

Governments in Washington must navigate historic cross-currents – a sudden influx of emergency federal funding and a steep drop in local tax revenue. These intense pressures reveal how valuable our limited public resources are. Transparency in how governments use these funds is all the more important.

While I know funds are very tight in these times, the average cost of an audit by our office is less than

“

*Audits give reassurance to taxpayers and governments alike as we face an economic slump deeper than anything since the Great Depression. Especially when public programs like health care and emergency services are in high demand, this transparency is essential.*

”

one-tenth of 1 percent of a local government's budget. The return on that investment into transparency is immeasurable, in terms of both public trust and stewardship.

The role of the State Auditor's Office is to shine a light on how public money is spent before the crisis, during the crisis, and through our future recovery. We will be there, and with the continued commitment of our colleagues in public service – with your help – so will Washington's time-honored record of accountability.



Pat McCarthy

[Pat.McCarthy@sao.wa.gov](mailto:Pat.McCarthy@sao.wa.gov), (564) 999-0801





# New Resources for Cities Are Available, with More on the Way

The Center for Government Innovation, a service to local governments provided by the Washington State Auditor's Office, has been working hard to bring some new resources to local governments, including cities. We'd like to tell you about a few new items, plus what's on the near horizon to be published!

## Just released: Cash Receipting Guide

This new resource includes a suite of short, 1-2 page resources for different roles and topics. This guide has something for you, whether you are:

- A leader developing a policy or looking for ways to save time and money over cash receipting operations; or
- A manager hoping to reduce risk in your cash receipting operations; or
- A supervisor looking to improve monitoring over deposits; or
- A cashier responsible for handling the money

For each role and objective, we have best practices to share based on our audit results and extensive research in this area.

We hope you check it out and let us know what you think!

## Recently released and updated resources

We found in audits of city government that some could use advice on reconciling bank accounts. So we have developed a resource that includes **best practices as well as a template**. If you want to access the template using Microsoft Excel, you can find it [here](#).

Another common recommendation in financial audits of cities is to improve review processes. We have recently updated our popular **Checklist for Preparing Cash Basis**

**Financial Statements** resource. If you haven't performed a detailed review of your financial statements, we urge you to do so and consider using this tool if reporting cash basis.

## Coming soon: New bid law resources

Later, we'll be publishing a Bid Law Basics Guide – this provides information on a variety of topics related to public bidding that will be available for any local government to use. Though bid laws vary by government type, this guide talks about the common aspects and directs you to additional resources if you'd like more information. It includes valuable appendices to help you look up requirements unique to your government type as well.

Also new will be a Responsible Bidder Checklist to help you make sure your bidders meet "responsibility criteria," as required by state law. This can be a complex area to evaluate, so our checklist will be a great tool for you! It also includes some answers to frequently asked questions on this topic.

## Make sure you're signed up

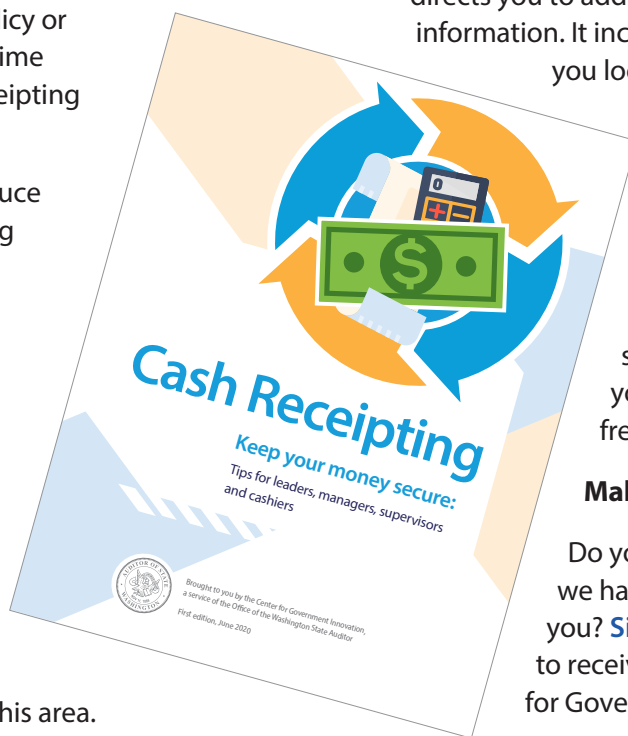
Do you want to know as soon as we have these resources available for you? **Sign up** to make sure you opt in to receive notifications from the Center for Government Innovation.

## Check out our Resources Database

If you haven't signed up to receive notifications, you can always view all of our free resources in our online database. We have a lot of great resources to share, so spend a few minutes in our **Resources Database** to see what we have to offer!

## Contact us

If you'd like to reach out to us with questions or feedback, feel free to email us at [Center@sao.wa.gov](mailto:Center@sao.wa.gov). We'd love to hear from you!





# State Auditor's Office Uncovers \$7 Million Misappropriation

In December, the Office of the Washington State Auditor issued a report on a major fraud investigation involving the Pierce County Housing Authority. The finding, nearly \$7 million in misappropriated public funds, is the largest case of its kind on record for a Washington local government.

Our investigation found that the authority's former finance director used a variety of schemes to misappropriate \$6,948,277 in funds from 2016 to 2019. Our Office detected the misappropriation during a routine financial audit, when auditors questioned wire transfers of large sums of money out of state.

We forwarded our report to the Office of Inspector General for the U.S. Department of Housing and Urban Development and the FBI, and in March the former finance director was indicted on four counts of wire fraud. The housing authority ended the finance director's employment in August.

"This was a shameful breach of the public trust that harms the very people who need affordable housing options the most," said State Auditor Pat McCarthy. "I'm proud of our auditors for finding this misappropriation. And I want to thank the housing authority's board and staff for helping us conduct a thorough investigation."

"The State Auditor's report provides insight into how this breach of public trust occurred. The Housing Authority has implemented new, stricter controls to protect both the agency's and the public's assets and integrate ongoing oversight and monitoring to assure those controls are consistently maintained," said Housing Authority Chair Sally Porter Smith. "Our staff, management and Board of Commissioners are dedicated to our mission of safe, clean and affordable housing. We will re-build the trust and confidence of our housing clients, landlords, renters and our community."

The former finance director first began making personal purchases on the housing authority's credit cards in March 2016. In July 2016, she made the first of 78 transactions that disguised transfers to her own account as batched payments to legitimate vendors. In this scheme, she substituted her own bank account number for the vendors' account numbers.

In 2018, she transferred housing authority funds to a bank in Oklahoma, where she had purchased property the same month. In 2019, she began directly wiring housing authority funds into her personal Washington bank account.

The former finance director stated to our investigators that she was responsible for these misappropriations. However, she said had been directed by the housing authority's executive director to misappropriate the funds and to provide him with a share in cash. Our investigation found no evidence to support that assertion.

Our investigation revealed concerted efforts by the former finance director to circumvent accountability and detection. Details, including a breakdown of the amount obtained through each scheme, can be found in the full fraud investigation report.

**That report can be found on our website.** In addition, SAO released reports on two related audits of the housing authority. One was an **accountability audit**. The other was a **financial audit**.

Each report includes recommendations to address the issues identified, and the housing authority's full response to those issues.

# How and when to seek SAO approval for a restitution agreement

When state agencies and local governments become the unfortunate victims of misappropriation, seeking restitution from the responsible parties is an important step to help make the government and its taxpayers whole again. State law requires that local governments (RCW 43.09.260) and state agencies (RCW 43.09.330) seek approval in writing from the State Auditor's Office (SAO) and the Attorney General's Office for "settlement or compromise of any claim arising out of such malfeasance, misfeasance, or nonfeasance, or any action commenced therefor." Here are some frequently asked questions to help you navigate this requirement.

## What constitutes a "settlement or compromise"?

If you are seeking to recover any amount other than the full loss amount as determined by SAO, plus related audit costs, you need to seek approval from SAO and the Attorney General's Office.

What if we seek recovery through the criminal process?

If settlement is reached as part of a criminal proceeding, you do not need approval from SAO and the Attorney General's Office.

## How do I seek approval?

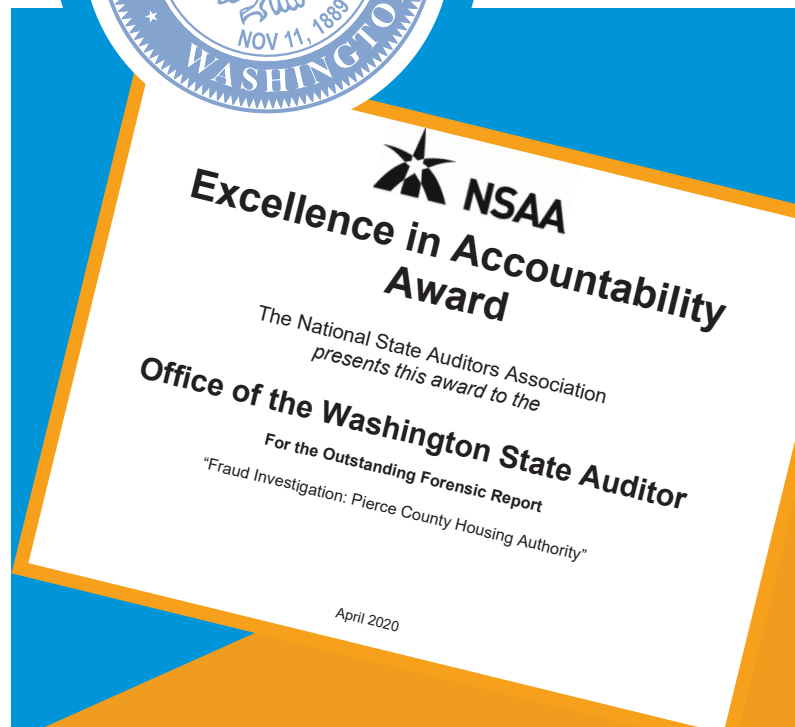
Send your proposed agreement to the SAO Fraud team at [Fraud@sao.wa.gov](mailto:Fraud@sao.wa.gov). The team will route the agreement to the appropriate approvers at both SAO and the Attorney General's Office. Alternatively, you can contact Assistant Attorney General Matt Kernutt from the Attorney General's Office at (360) 586-0740 or [mattk1@atg.wa.gov](mailto:mattk1@atg.wa.gov), or Brandi Pritchard, Assistant Director of Local Audit and Special Investigations with SAO, who can be reached at (360) 489-4591 or [Brandi.Pritchard@sao.wa.gov](mailto:Brandi.Pritchard@sao.wa.gov).

## What if we want to seek recovery before SAO has completed its investigation or review?

Send your proposed agreement for approval to the SAO Fraud Team at [Fraud@sao.wa.gov](mailto:Fraud@sao.wa.gov). We recommend you include language in the agreement clarifying that:

a) The State Auditor's Office has not fully investigated this loss, and therefore the loss amount may change.

b) The amount [listed in the agreement] does not include the State Auditor's Office audit costs, for which [Payer name] will reimburse the [entity type] if further work is performed by the State Auditor's Office.



## Fraud investigation receives national recognition

In June, our Office received the National State Auditors Association's Excellence in Accountability Award for our fraud investigation report on a \$7 million misappropriation at the Pierce County Housing Authority.

# See how SAO served you during 2019

Every year, we publish thousands of audit reports to give you an objective window into how governments manage public money. We also publish an annual report to show you what we did the previous year. This year, the annual report is entirely digital – one more way we've changed our approach to sharing information during the pandemic.

To take a trip through 2019 with our Office, tracking public dollars and exploring good government, Go to our blog at [www.sao.wa.gov/how-sao-served-you-during-2019/](http://www.sao.wa.gov/how-sao-served-you-during-2019/). Let's hit the (virtual) road for a look at the numbers and what they mean.



## Key fraud reports

### Largest misappropriation of public funds on record in Washington

While conducting a routine audit, we discovered \$6.9 million in misappropriation at the Pierce County Housing Authority, committed by the long-serving finance director. An auditor noticed a wire transfer for \$275,000 to an out-of-state bank and a \$200,000 wire to an out-of-state title company – unusual for a local housing authority. We subsequently exposed multiple out-of-state property purchases, wire transfers and credit card misuse.

This was the biggest misappropriation involving a Washington local government in the last 25 years, and likely the largest in state history. We sent the results of our investigation to the Office of Inspector General for the U.S. Department of Housing and Urban Development and the FBI. The Housing Authority's board fired the finance director and filed a lawsuit seeking to recoup misappropriated funds.

### County risk management payments

In August 2018, the Spokane County Auditor's Office was reviewing uncashed checks, including one related to a property claim payment from 2016. The County contacted the payee, and the person said they had never filed a property claim with the County. The County investigated and found that a former property claims technician had misappropriated funds. The technician made inappropriate payments payable to at least 46 relatives, including her grandmother, deceased father, brother, cousin, and daughter-in-law, as well as multiple personal acquaintances and friends of her son.

We reviewed the County's files, performed additional investigation, and determined a payment misappropriation of more than \$1.3 million occurred at the County between January 2007 and December 2016.

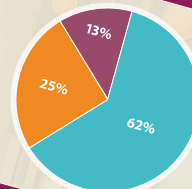
## SAO Spotlight

### Shining a light on troubled governments

In 2019 we took steps to focus the public's attention on governments that struggled to meet their duty of transparency. City of Wapato: In May, we took the unusual step of holding a news conference to highlight egregious actions by city leaders, which included misappropriation of public funds, and violations of ethics rules and open public meeting laws. Unauditable governments: Despite clear state laws, some governments do not submit to regular audits of their financial information. In response to this, we created the first online interactive Guide to Unauditable Governments, showing we could not audit 40 local governments because they did not open their books.

## \$51.5 million total budget, 2019

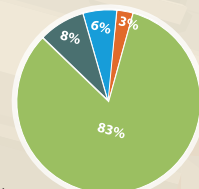
### Where does SAO's money come from?



- \$31.9 million from local governments for their audits
- \$12.9 million from sales tax security audits
- \$6.7 million from state agencies for their audits

### Where does the money go? \*

- \$44.6 million: salaries and benefits
- \$4.5 million: goods, services, equipment
- \$3.2 million: contracting
- \$1.5 million: travel



\* Funding and expenditures do not align on calendar year basis due to different implementation dates for legislatively-authorized salary increases and related changes to SAO's hourly billing rate.

### Who audits the auditor?

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 Auditors Association. We had our most recent peer review in September 2019, passed without any findings. Separately, our financial management was reviewed by an independent public accountant up to the end of 2019.





Office of the Washington State Auditor



February 2020



Join the Office of the Washington State Auditor and its 350 auditors for a trip through 2019, as we track public dollars and explore good government operations. From 15 locations across the state, we provide an objective examination of the finances 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, which is reported in a “finding.”

## Here's what the Office did on the public's behalf in 2019

**2,785**  
audits  
in 2019

### Accountability audits

**1,346**  
audits  
**82** findings

Accountability audits evaluate whether a state or local government followed applicable state laws, 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.

### Federal audits

**365**  
audits  
**172** findings

Federal audits provide an independent opinion on whether the government complied with applicable requirements when spending federal grants. We must conduct an audit when a government spends \$750,000 or more annually in federal financial assistance.

### Financial audits

**790**  
audits  
**92** findings

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



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. In response, we created the first interactive Guide to Unauditable Governments, showing we could not audit 40 local governments. We also issued two of a new type of report on unauditable governments.

## Citizen Hotlines

397 received; 272  
merited further  
consideration



A fraud investigation results in a written report if auditors find significant misuse or theft of public money. In 2019, 24 of our 74 investigations met this standard, identifying over \$9.5 million in misappropriated public funds and \$370,000 of questionable transactions. See page 6 for more.



Whistleblower investigations are the result of state employees sounding the alarm on possible waste, fraud or abuse.



As the Constitutionally appointed auditor of public accounts, we offer 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 reports of private CPA firms, and verifying alternative learning experience enrollment reported by school districts.

## Good government training and support

We offer training on a number of topics as part of our commitment to helping governments deliver higher value and earn greater public trust. In 2019, we offered trainings, presentations, workshops and roundtables on how to prepare financial statements, prevent fraud, improve processes, and more. By the numbers, that adds up to about:

160  
events

7,400  
attendees

50  
locations

1,100  
Helpdesk requests answered



## More audits

### Performance audits

Performance audits evaluate the efficiency and effectiveness of government programs with the goal of making them work better. These audits compare what an agency is currently doing against what's required by law and leading practices. We are looking for improved outcomes, which could include money-saving methods 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.



### Cybersecurity audits

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 in IT security practices 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.

## New in 2019

### Segregation of Duties Guide

We created this innovative resource about essential internal controls – with special features for small governments.

### CPE credits

Those who attended fall training sessions on BARS updates received Certified Professional Education credits for the first time. We created CPE-eligible webinars as well. We work hard to reach more local governments in more efficient ways.

### Financial Intelligence Tool

A redesigned FIT made its public debut, so anyone can access financial information on local governments in Washington in a simple, accessible format.



To learn more, go to  
[www.sao.wa.gov](http://www.sao.wa.gov)

# Highlights

## Pretrial services

**Pretrial services instead of bail saves money, maintains safety:** Judges have long used money bail to spur defendants to appear in court. When defendants cannot afford bail, they stay in jail. Pretrial services are an alternative, offered to defendants who meet the same criteria for release as those released on bail. On any given day, about 4,700 people in Washington jails are candidates for pretrial services. Our audit found pretrial services could save between \$6 million and \$12 million a year. And defendants are just as likely to show up for trial and not commit new crimes when released through pretrial services.

## School nutrition

**School lunch schedules influence student nutrition:** Research suggests that two leading practices — scheduling recess before lunch and then giving children enough time to eat — increase the likelihood that children will eat more and healthier foods. Most of the schools we looked at in our audit have not adopted these practices. Principals cited many challenges, including lack of a cafeteria and too few staff. Principals who made lunch scheduling a priority found ways to make these practices work.

## Immunizations

**‘Herd immunity’ begins with schools checking vaccination records:** To limit the spread of vaccine-preventable diseases, Washington has set a policy goal of a 95 percent immunization rate. Schools play a key role in achieving that goal. Schools must collect proof of immunization or a valid exemption for every student by the first day of school. Without these records, schools are not supposed to allow students to attend school. This audit found certain practices can help schools ensure vaccination data is accurate. The audit also found that Washington does not know its true vaccination rate.

## Cybersecurity audits

In 2019, we completed cybersecurity audits at four state agencies, bringing the total to 17, and are working on three more. On the local side, we completed seven audit reports and are working with nine more local governments.

We employ 30 auditors dedicated to IT and cybersecurity work. The Legislature recognized the value of the cybersecurity work to state and local governments and invested an additional \$2.8 million for this work during this biennium. Meanwhile, we continue our support for local governments even without an audit, through our new #BeCyberSmart initiative. Learn more at [www.sao.wa.gov/becybersmart](http://www.sao.wa.gov/becybersmart).

## Key fraud reports

### Largest misappropriation of public funds on record in Washington

While conducting a routine audit, we discovered \$6.9 million in misappropriation at the Pierce County Housing Authority, committed by the long-serving finance director.

An auditor noticed a wire transfer for \$275,000 to an out-of-state bank and a \$200,000 wire to an out-of-state title company – unusual for a local housing authority. We subsequently exposed multiple out-of-state property purchases, wire transfers and credit card misuse.

This was the biggest misappropriation involving a Washington local government in the last 25 years, and likely the largest in state history. We sent the results of our investigation to the Office of Inspector General for the U.S. Department of Housing and Urban Development and the FBI. The Housing Authority's board fired the finance director and filed a lawsuit seeking to recoup misappropriated funds.

### County risk management payments

In August 2018, the Spokane County Auditor's Office was reviewing uncashed checks, including one related to a property claim payment from 2016. The County contacted the payee, and the person said they had never filed a property claim with the County. The County investigated and found that a former property claims technician had misappropriated funds.

The technician made inappropriate payments payable to at least 46 relatives, including her grandmother, deceased father, brother, cousin, and daughter-in-law, as well as multiple personal acquaintances and friends of her son.

We reviewed the County's files, performed additional investigation, and determined a payment misappropriation of more than \$1.3 million occurred at the County between January 2007 and December 2016.

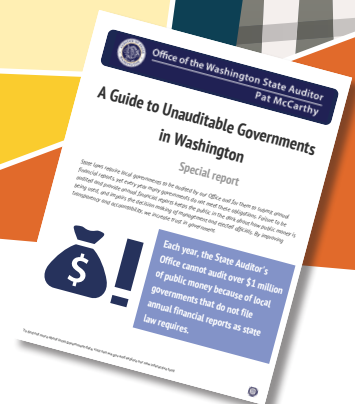
# SAO Spotlight

## Shining a light on troubled governments

In 2019 we took steps to focus the public's attention on governments that struggled to meet their duty of transparency.

**City of Wapato:** In May, we took the unusual step of holding a news conference to highlight egregious actions by city leaders, which included misappropriation of public funds, and violations of ethics rules and open public meeting laws.

**Unauditable governments:** Despite clear state laws, some governments do not submit to regular audits of their financial information. In response to this, we created the first online interactive Guide to Unauditable Governments, showing we could not audit 40 local governments because they did not open their books.

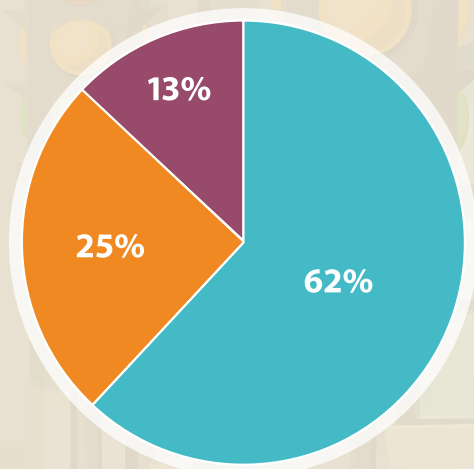






# \$51.5 million total budget, 2019

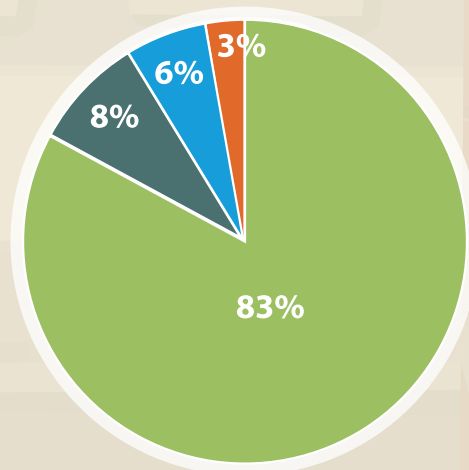
## Where does SAO's money come from?



- \$31.9 million from local governments for their audits
- \$12.9 million from sales tax for performance and cyber security audits
- \$6.7 million from state agencies for their audits

## Where does the money go? \*

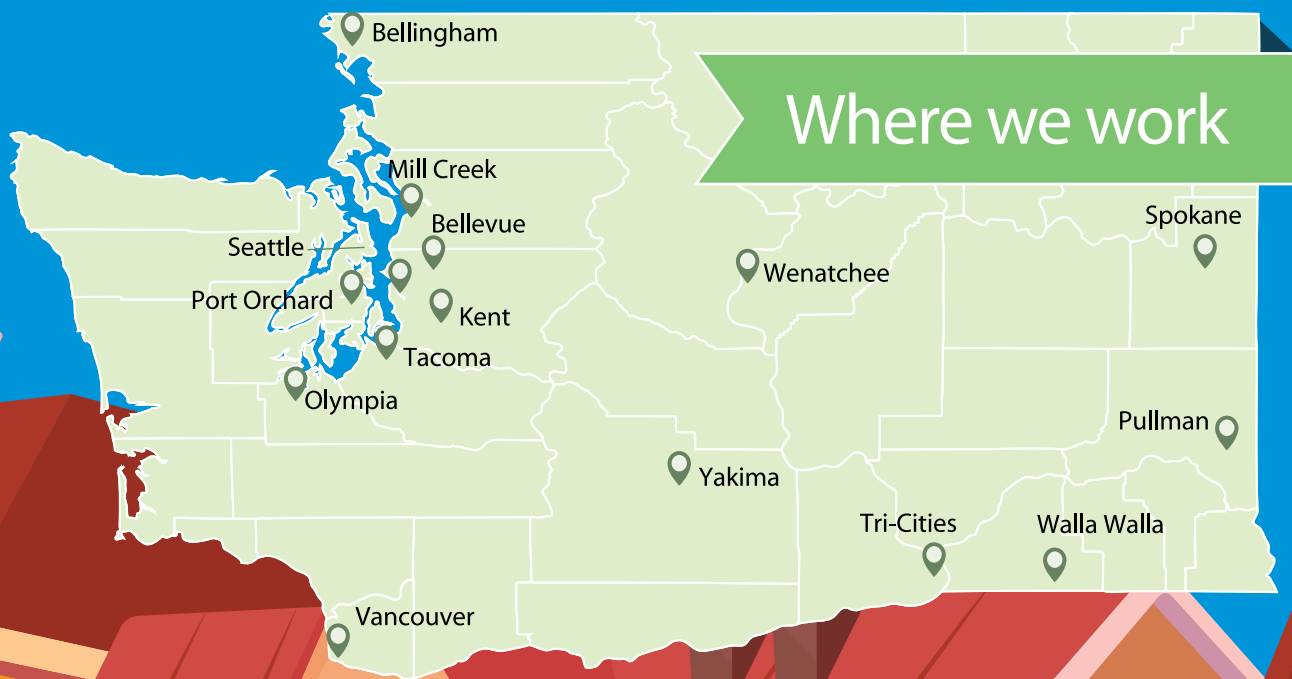
- \$44.6 million: salaries and benefits
- \$4.5 million: goods, services, equipment
- \$3.2 million: contracting
- \$1.5 million: travel



\* Funding and expenditures do not align on calendar year basis due to different implementation dates for legislatively-authorized salary increases and related changes to SAO's hourly billing rate.

## Who audits the auditor?

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. We had our most recent peer review in September 2019, and passed without any findings. 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 those reviews on our website.



## Coming in 2020

Increased transparency for governments and the public through Tracker; a continued focus on unauditable governments; more web-based training on the BARS Manual and more!



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/>

**Pat McCarthy**  
*State Auditor*



Office of the Washington State Auditor