

2017-19 Biennium Budget Decision Package

Agency: **095** **Office of State Auditor**

Decision Package Code/Title: 02 State Audit increase

Budget Period: 2017-19

Budget Level: M1 - Mandatory Caseload and Enrollment Changes

Agency Recommendation Summary Text: The current Auditing Services Revolving Fund appropriation does not fund accountability audits of state agencies in proportion to the risk of misuse, waste or loss of tax dollars and services. The fund needs additional appropriation during the supplemental budget to allow for a more appropriate level of audit coverage across state agencies.

Fiscal Summary: Decision package total dollar and FTE cost/savings by year, by fund, for 4 years. Additional fiscal details are required below.

Operating Expenditures	FY 2018	FY 2019	FY 2020	FY 2021
Fund 483-030		\$700,000	\$700,000	\$700,000
Total Cost		\$700,000	\$700,000	\$700,000
Staffing	FY 2018	FY 2019	FY 2020	FY 2021
FTEs		6.4	6.4	6.4
Revenue	FY 2018	FY 2019	FY 2020	FY 2021
Fund 483-030		\$700,000	\$700,000	\$700,000
Object of Expenditure	FY 2018	FY 2019	FY 2020	FY 2021
Obj. A		\$421,290	\$421,290	\$421,290
Obj. B		\$161,236	\$161,236	\$161,236
Obj. E		\$117,474	\$117,474	\$117,474

Package Description

The people of Washington rely on the independent State Auditor to ensure the money they pay in taxes is spent prudently and transparently. In recent years, funding for this work on state agencies has been reduced by more than 30 percent. This decision package will restore some of those critical resources, allowing auditors to examine the books of small state agencies that the Office has not audited in some time, as well as more deeply review the use of public resources at large state agencies.

This decision package will:

- Provide lawmakers and taxpayers with assurance that public funds are being properly safeguarded and that state agencies comply with laws and rules.
- Conduct more audits, resulting in meaningful and actionable recommendations so state agencies can improve their internal controls.
- Bring the state into compliance with the statutory intent that **all** state agencies receive an audit on a regular basis.

Due to a lack of funding, the Office has not audited 55 state agencies for more than four years. Additionally, four newly established state agencies have never had an audit performed.

Through this additional funding, the State Auditor’s Office will have the necessary resources to review small agencies such as the Traffic Safety Commission, as well as multiple community and technical colleges such as Renton Tech, Yakima Valley, Cascadia and Bellingham Tech. All agencies that have not been reviewed over the last biennia due to decreased funding but are included in the State Auditor’s accountability work plan would be audited.

In addition to supporting audits of small state agencies on a more regular cycle, this increased funding will allow the State Auditor’s Office to perform necessary audit work at larger state agencies that represent the greatest amount of risk for the State of Washington. Within current funding, the Office is only able to audit agencies with the highest risk such as the departments of Social and Health Services and Transportation. This decision package will allow deeper insight into issues at larger, higher-risk agencies.

Base Budget: If the proposal is an expansion or alteration of a current program or service, provide information on the resources now devoted to the program or service. Please include annual expenditures and FTEs by fund and activity (or provide working models or backup materials containing this information).

State Audit 2017-19 Funding and FTEs			
	Fiscal Year 2018	Fiscal Year 2019	Total
FTEs	46	46	
Salaries	\$ 3,493,739	\$ 3,522,278	\$ 7,016,017
Benefits	\$ 1,162,458	\$ 1,178,325	\$ 2,340,783
Goods and Services	\$ 432,801	\$ 429,397	\$ 862,198
	\$ 5,088,998	\$ 5,130,000	\$ 10,218,998

Decision Package expenditure, FTE and revenue assumptions, calculations and details: Agencies must clearly articulate the workload or policy assumptions used in calculating expenditure and revenue changes proposed.

- This package funds an additional 6.4 FTEs to provide audit services.
- The Office will perform approximately 10 additional program or agency audits during the current biennium because of this increased funding.
- The current billing rate of \$89 per hour was used to calculate anticipated revenue.
- The State Auditor’s Office assumes the funding to be available July 1, 2018. The Office outlined a work plan and is prepared to hire for additional staff as soon as the budget is signed.

What are other important connections or impacts related to this proposal? Please complete the following table and provide detailed explanations or information below:

Impact(s) To:		Identify / Explanation
Regional/County impacts?	No	Identify:
Other local gov’t impacts?	No	Identify:
Tribal gov’t impacts?	No	Identify:
Other state agency impacts?	Yes	Identify: Ensure the necessary audit coverage of state agency programs and related funding.
Responds to specific task force, report, mandate or exec order?	No	Identify:
Does request contain a compensation change?	No	Identify:
Does request require a change to a collective bargaining agreement?	No	Identify:
Facility/workplace needs or impacts?	No	Identify:
Capital Budget Impacts?	No	Identify:

Is change required to existing statutes, rules or contracts?	No	Identify:
Is the request related to or a result of litigation?	No	Identify lawsuit (please consult with Attorney General's Office):
Is the request related to Puget Sound recovery?	No	If yes, see budget instructions Section 14.4 for additional instructions
Identify other important connections		

Please provide a detailed discussion of connections/impacts identified above.

What alternatives were explored by the agency and why was this option chosen?

In the years following the recession, the Office implemented significant cost reduction and cost containment methods. Some of those alternatives included focusing on only the larger statewide issues, cycling of state agencies to multi-year audits, and reducing the number of hours performed on each audit. After exhausting these methods, the Office finally eliminated a number of audits of smaller state agencies. The State Auditor's Office defines a small state agency as one that has less than \$100 million in annual revenue. This approach allowed the Office to navigate extraordinary economic waters. However, citizens expect the Office to help them hold government accountable, and that means every state agency should be examined regularly.

In fact, recent audit work in some of the state's smaller agencies uncovered activity that could have been prevented by regular accountability audits.

While small agencies have less money at risk, they also typically have smaller staffs. This can lead to a lack of segregation of duties, which then leads to problems with internal controls. Significant problems at small agencies are bring found that were not part of the audit plan for years. These problems include fraud, diversion of state funds and significant non-compliance with state law. Examples:

- A recent audit of a commission discovered that the commission had expenditures of public funds to a private organization and could not demonstrate the private organization spent the funds in accordance with state law.
- A small agency lacked internal controls over disbursements of local funds. There were no reviews over how purchase cards were used and support was not required for purchases made. This resulted in transactions that did not have proper approval and/or documentation to support the purchases.

- Through an audit of fuel card transactions, auditors discovered that the audited agency had no written policies or procedures on the usage of fuel cards. In addition, they did not perform reconciliations between the receipts and monthly fuel card statements.

The Office has lacked funding to audit multiple small agencies for more than eight years.

The problems identified by audits are not limited to small agencies. With the reduction of audit hours, many large agencies receive a bare-bones audit, in which audit staff review a small number of items. Some of the issues found in larger agencies include:

- An accountability audit identified people receiving unemployment benefits while in a county jail. A review of individuals in eight of the state's 57 jails identified 1,911 potential overpayments worth approximately **\$656,000** over a 15-month period.
- A large state agency lacked internal controls to ensure payments made for individual provider medical benefits were accurate and supported. The agency paid an estimated **\$1.2 million** in unallowable payments with **\$66 million** more that was not adequately supported.
- Inadequate internal controls over payments for interpretive services led to an estimated **\$3.9 million** paid for interpretation services without adequate supporting documentation.

While many of the issues uncovered by the State Auditor's Office are related to agency spending, the Office has a responsibility to audit internal controls related to the health and safety of Washington's most vulnerable citizens. An audit underway examines whether volunteers transporting children have passed the necessary background checks. A review of supporting records for 44 volunteer drivers found:

- A volunteer transported a child on two separate trips before passing a background check
- Eight instances in which there was no evidence the field office monitored the results of volunteer background checks to ensure they were performed before transporting children
- Seventeen instances in which there was no evidence the agency verified the volunteer had a current driver's license
- Thirty-six instances in which there was no evidence the agency verified the volunteer had current car insurance
- Thirty-six instances in which there was no evidence the agency verified the volunteer was certified to provide first aid

In addition, of the 44 volunteers reviewed in the audit, drivers' background checks for 14 were performed more than three years ago and one volunteer driver's most recent background check was performed more than 10 years ago.

What are the consequences of not funding this request?

Without the requested audit funding, the risk of misused and fraudulent spending of taxpayer dollars will continue to rise. Regular audit cycles are critical to ensure funding is accounted for appropriately. Audits shed light on potential health and safety concerns. As these examples show, the State faces continued risk of inappropriate activity as long as the State Auditor's Office cannot review the finances and operations of all state agencies within a reasonable timeframe.


Washington state government expenditures increased over the last five years by approximately 15 percent, while the cost to audit the State of Washington has only increased by 5 percent. The Office takes pride in being efficient, but the reduced funding addressed in this request results in a lack of audit coverage that has a negative impact on the state's ability to provide essential services to the public.

How has or can the agency address the issue or need in its current appropriation level?

The State Auditor's Office cannot adequately audit state agencies at the current appropriation level. The state Constitution requires the Office to audit public accounts. When the Legislature does not provide resources to audit all state agencies, Constitutional duties are not fulfilled.

Other supporting materials: Please attach or reference any other supporting materials or information that will help analysts and policymakers understand and prioritize your request.

Information technology: Does this Decision Package include funding for any IT-related costs, including hardware, software, services (including cloud-based services), contracts or IT staff?

No 

Yes Continue to IT Addendum below and follow the directions on the bottom of the addendum to meet requirements for OCIO review.)