



# State Audit Division Annual Recap

Financial Management Advisory Council

May 21, 2019

**Troy Niemeyer**, Assistant Director

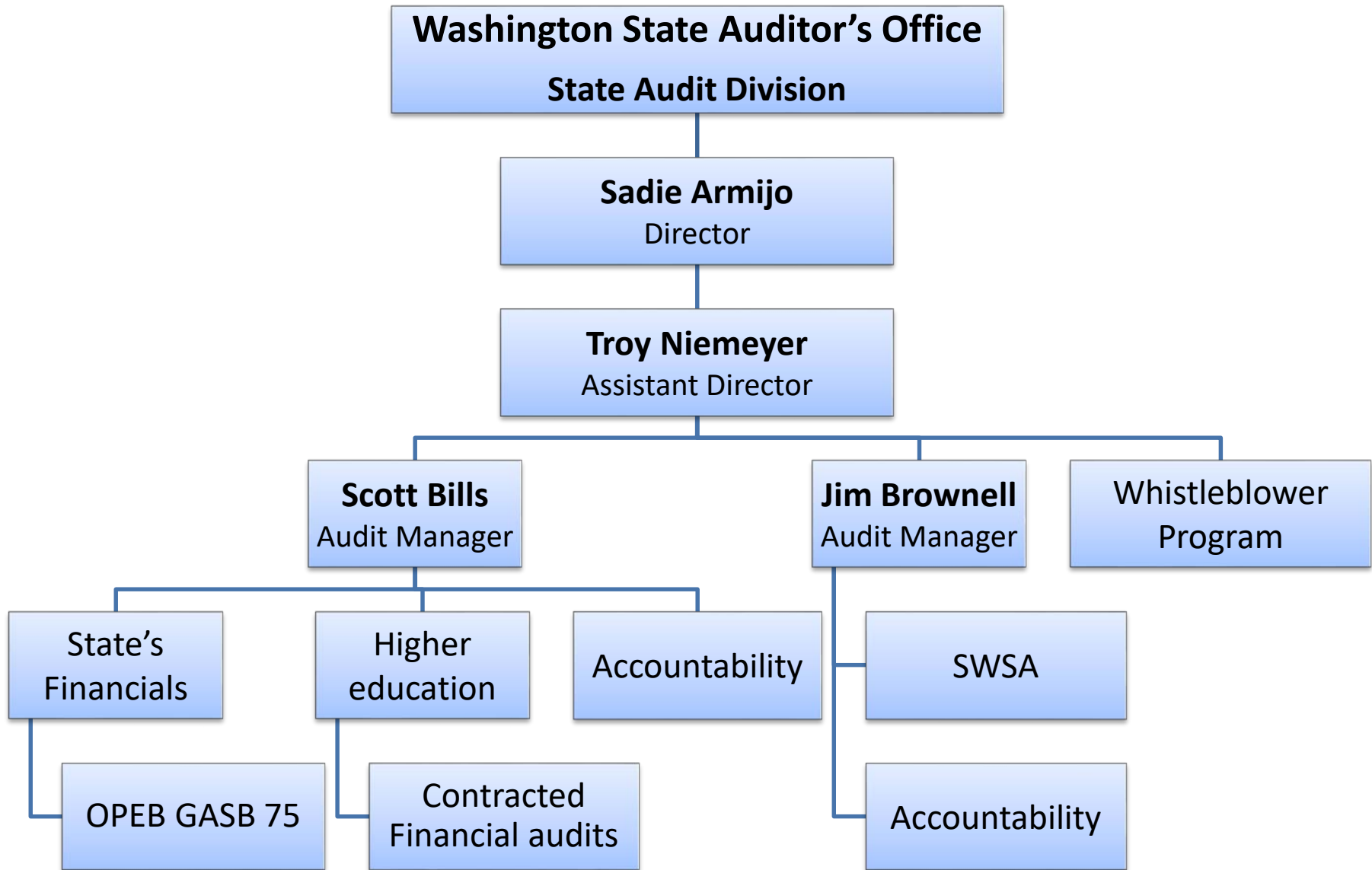
**Steve Wendling**, CAFR Specialist

**Jim Brownell**, Audit Manager

# Topics

- Division organization
- Results of 2018 CAFR audit
- Results of 2018 single audit
- Accountability audits
- Future audit work plan
- Whistleblower and fraud investigations

# Division organization



# New website!



Office of the Washington State Auditor  
Pat McCarthy

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## YOU ARE HERE.

Where are your tax dollars?

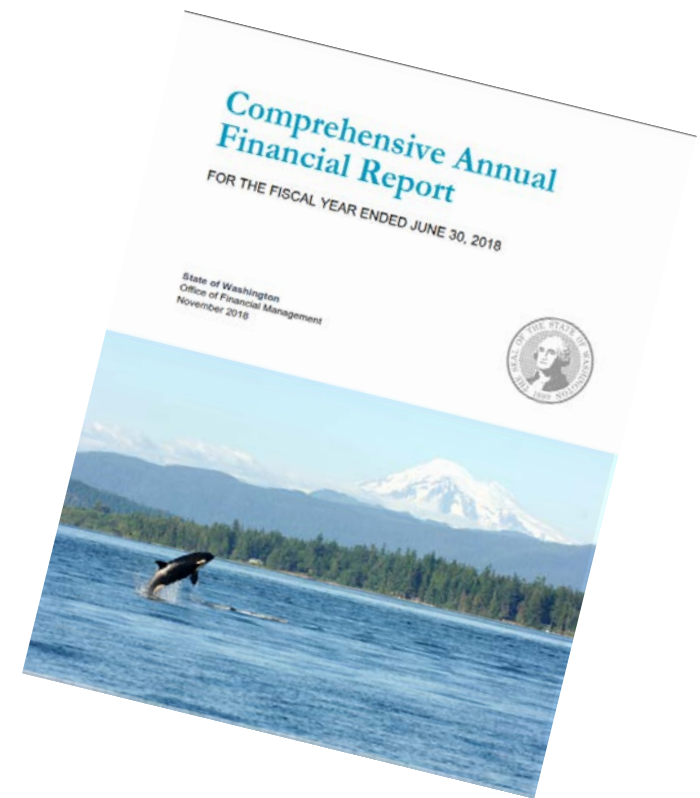


[Explore our interactive map to learn how your local government uses public funds »](#)

# State CAFR audit

We perform an independent audit of the state's Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted governmental auditing standards (GAGAS).

- This is SAO's second largest audit
- Around 9,600 hours



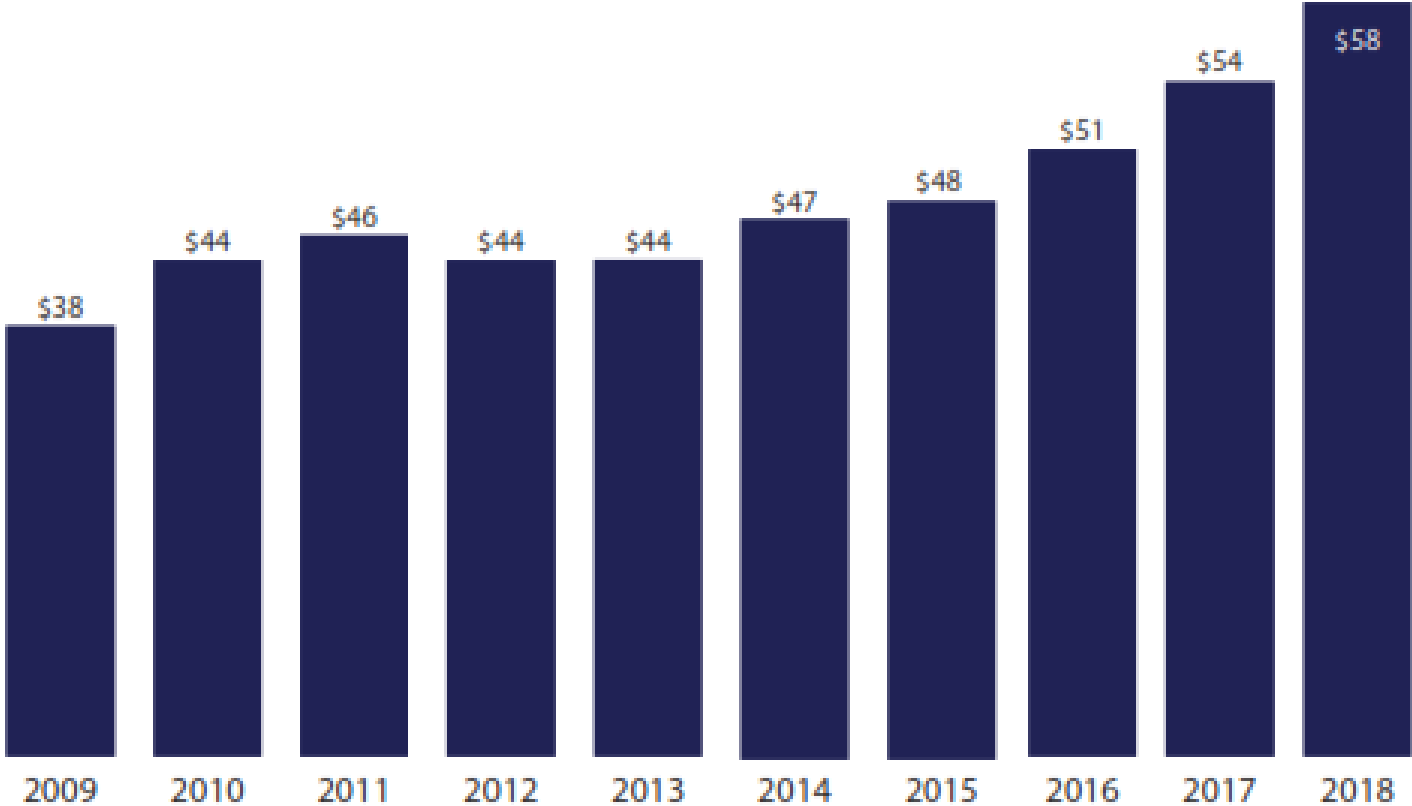
# State CAFR audit

- 38 staff from 10 audit teams help to meet the November deadline
- Audited 14 agencies with 174 account balances material to the state's basic financial statements
- Financial statement opinion released November 21, 2018
- One of nation's fastest issuers of a state CAFR
- Summary report:  
<https://www.sao.wa.gov/about-audits/about-state-government-audits/>

# State CAFR audit

## Exhibit 1 – Total primary government revenue for the past 10 fiscal years: 2009-2018

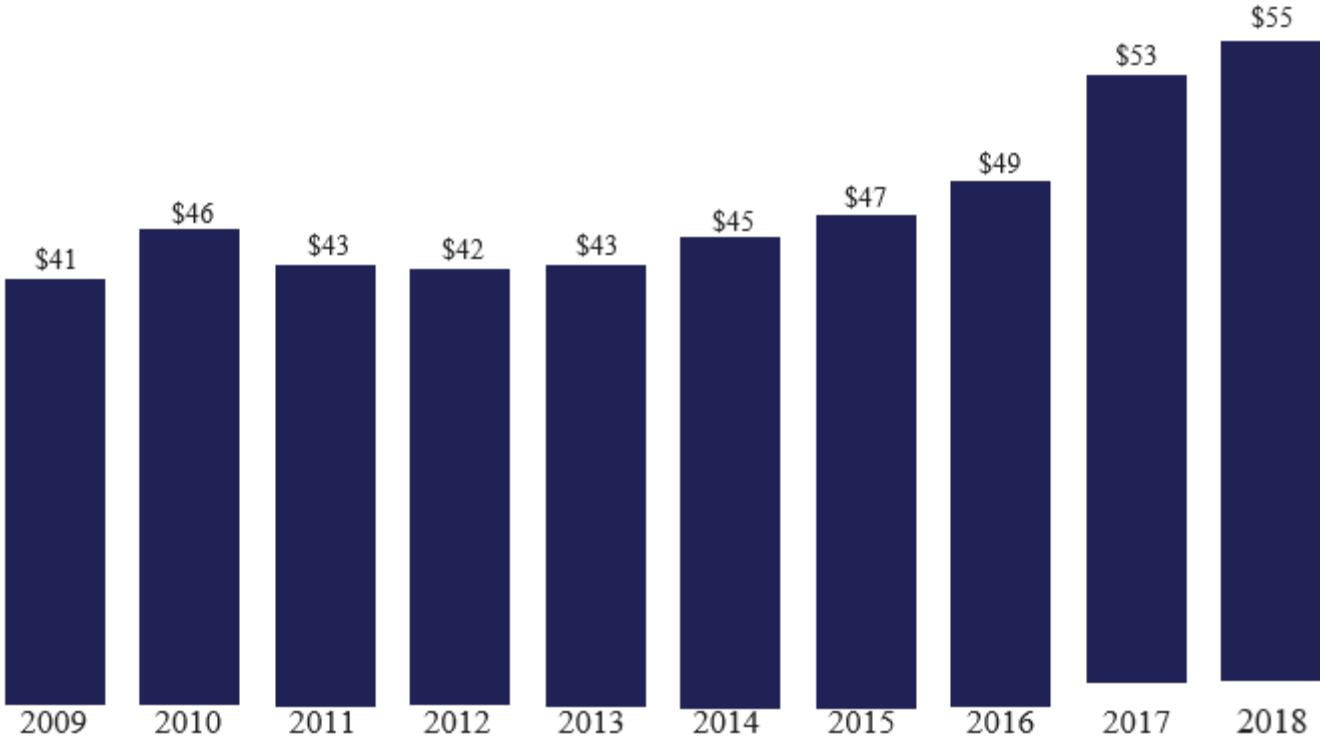
*For fiscal years ending June 30; dollars in billions*



# State CAFR audit

## Exhibit 2 – Total primary government expenses for the past 10 fiscal years: 2009-2018

*For fiscal years ending June 30; dollars in billions*



Source: Office of Financial Management.



# State CAFR audit

## The outcome of the CAFR audit affects the State's credit and bond ratings

### Bond ratings

State's general obligation debt was rated:

- **Aa1** - Moody's Investors Service
- **AA+** - Standard & Poor's Ratings Services
- **AA+** - Fitch Ratings



## Audit results

- Clean (unmodified) audit opinion
- Internal controls over financial reporting needed improvement in several areas:
  - ❑ **Community college data** – Errors were noted in consolidating, reconciling and adjusting college financial data for reporting in the State’s accounting system. Issues related to implementing a new computer system contributed to the errors.
  - ❑ **University of Washington** – Errors were noted in the adjustment and consolidation of University balances for reporting in the State’s accounting system.

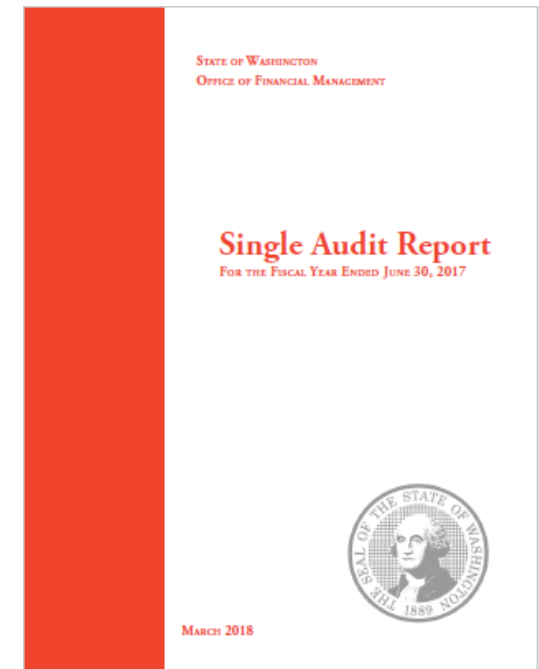
# State CAFR audit

- Audit issues (continued):
  - **Financial statement preparation** – Errors were made in posting adjustments to prepare the government-wide financial statements and to implement the new accounting standards related to other post employment benefits.
  - **Motor vehicle license revenue** – Revenue was overstated and likely misclassified.

# State of Washington Single Audit

## Overview

- Independent audit of systems and internal controls over federally funded programs to ensure compliance with federal regulations
- Audit is conducted to meet the federal Office of Management and Budget's uniform administrative requirements and U.S. government auditing standards
- State spent about \$17.7 billion in federal money in fiscal year 2018



# State of Washington Single Audit

## Audit coverage and reporting

- We audited 24 major and Type B programs
  - Major programs > \$30 million
  - Type B programs: Selected based on risk
- Performed audit work at 19 state agencies (including universities and community colleges)
- Office of Financial Management (OFM) published the audit report in March 2019
  - Our Office will publish a summary report in June 2019

# State of Washington Single Audit

## Audit results

- 61 audit findings
  - Adverse opinion on a major federal program for the fourth consecutive year
  - 21 findings related to the Medicaid program
- Estimated improper payments have been increasing because of our expanded use of statistical sampling
- State agencies resolved 35 previous audit findings

# State of Washington Single Audit: 5-year history

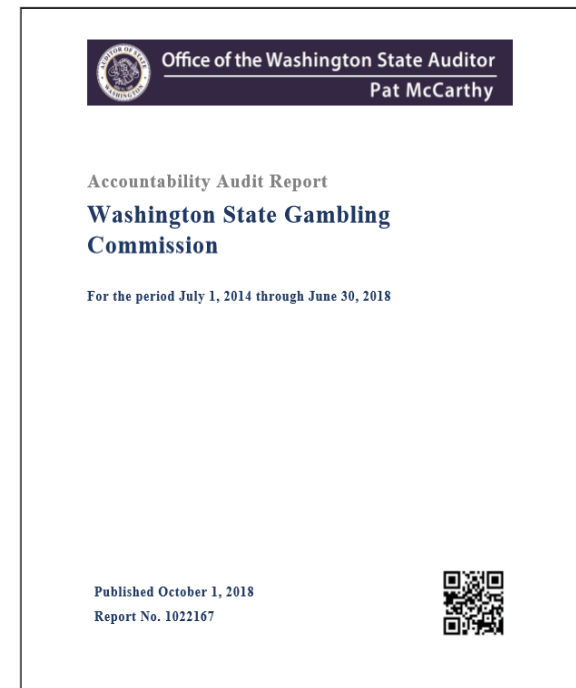
## SWSA Findings and Estimated Improper Payments - 2014 to 2018

Audit year	Total federal assistance	Programs audited	Audit findings	Estimated improper payments
2014	\$15,730,569,572	32	55	\$13,861,873
2015	\$17,030,229,853	31	56	\$142,222,871
2016	\$17,205,753,785	21	50	\$363,488,380
2017	\$17,543,553,513	21	52	\$220,485,802
2018	\$17,688,565,290	24	61	\$526,083,080

# Accountability audits

Accountability audits assess whether agencies have adequate internal controls in place to safeguard public resources and comply with state laws, rules and their own policies

- In 2018, the Legislature appropriated an additional \$700,000 for our Office to conduct more accountability audit work
- Reports related to this new audit work will be published by June 30, 2019





# Accountability audits

## State agency accountability audits in 2018

- 21 accountability audits for state agencies, which include institutions of higher education
- We issued 12 audit findings
- All reports are published on our website:  
<https://www.sao.wa.gov/reports-data/audit-reports/>

The screenshot shows the 'Audit Reports' page on the Washington State Auditor's Office website. The navigation bar includes links for Reports & Data, Performance Audits, About Audits, Improving Government, BARS & Annual Filing, Report a Concern, and About SAO. The breadcrumb trail reads 'SAO HOME / REPORTS & DATA / Audit Reports'. The main heading is 'Audit Reports'. A sidebar on the left lists 'Report Types' with options: 'Explore Governments That Serve You', 'Audit Reports' (highlighted), 'Financial Intelligence Tool (FIT)', and 'Performance Reports'. The main content area states: 'The Washington State Auditor's Office makes all audit reports since 2005 available for search and download as PDFs here. You can request a report released before 2005 from the State Archives by emailing research@sos.wa.gov.' Below this is a search box with the text 'Choose and combine multiple search parameters' and two input fields: 'BY GOVERNMENT NAME' and 'BY GOVERNMENT TYPE' with an information icon.

# Accountability audits

Area	Improvement area
<b>Purchase cards</b>	<ul style="list-style-type: none"><li>• Used to purchase unallowable items</li><li>• Lack of supporting documentation (business purpose)</li><li>• Lack of pre-approval</li></ul>
<b>Payroll</b>	<ul style="list-style-type: none"><li>• Payroll increase not properly approved or supported</li></ul>
<b>Leases</b>	<ul style="list-style-type: none"><li>• Compliance with lease terms not adequately monitored</li></ul>

# Accountability audits

Area	Improvement area
<b>Contracts</b>	<ul style="list-style-type: none"><li>• Advertisements and winning bidders not posted to WEBS</li><li>• Payments made without valid contracts in place</li></ul>
<b>Vendor payments</b>	<ul style="list-style-type: none"><li>• Missing or inadequate support for payments</li><li>• Unallowable costs for the program or SAAM policies</li><li>• Lack of documentation to ensure gift cards issued were used for allowable purposes</li></ul>
<b>Cash receipting</b>	<ul style="list-style-type: none"><li>• Cash-handling procedures not developed or followed</li><li>• Cash-handling duties not adequately segregated</li><li>• Lack of controls to ensure fees collected were complete</li><li>• Billing-rate plans lacked policies and OFM approval</li></ul>

# Future audit work plan

- Our Office plans to conduct accountability audits of all state agencies at least every four years
- Agencies are selected for accountability audits based on a risk assessment that includes factors such as:
  - Size and complexity of agency
  - Prior audit issues
  - Significant legislative changes
  - Hotline or whistleblower complaints, and prior fraud reports

# Whistleblower investigations

State employees

**BLOW** the  
**WHISTLE**  
on  
**ABUSE**



Report improper actions in state government

State law  
protects you  
from retaliation

*Submit a report at [www.sao.wa.gov](http://www.sao.wa.gov)*

# Whistleblower investigations

- 3 full-time whistleblower investigators
- 2018 by the numbers:

**190** *complaints received*

**34** *Investigations opened*

**43** *reports published*

**21** *reasonable cause findings*

# Whistleblower program

## Common investigative findings:

- Personal use of State resources
  - More than de minimis (brief and infrequent) in nature
  - Computer use
  - Not working required hours and failing to submit leave
- Non-compliance with contracting laws and required State policies (SAAM)



# Fraud investigations

**State law (RCW 43.09.185)** requires state agencies and local governments to immediately report known or suspected loss of public funds or assets or other illegal activity to our Office.

- New website – three clicks





# Fraud investigations

We continue to see an uptick in loss reports for:

- Payroll misappropriation
- Purchasing personal items
- Improper uses of purchase cards
- Cyber crimes



# Fraud cases

## Payroll red flags

- Is it reasonable that the employee worked this many hours in the week for his or her job duties?
- Is the overtime approved? Does it appear unusual?
- Direct deposit warning



# Fraud cases

## Accounts Payable red flags

- Is a valid receipt attached for purchase-card purchases?
- Does the receipt look familiar and similar to other receipts from the vendor?
  - In some cases, fraudsters create fake invoice or receipt, and with improving technology, can make these look authentic
- Do quantities bought with a purchase card make sense?
- Does the vendor or contractor exist?
- Has anyone verified that the payment has not already been made?

# Fraud Cases

Accounts payable – cyber risks



# Contacts

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