

# State Audit Division Annual Recap



Office of the  
Washington  
State Auditor  
Pat McCarthy

**Sadie Armijo** - Director of State Audit and Special Investigations

**Scott Bills** - Team Financial Audit Manager

**Jim Brownell** - Team Single Audit Manager

**Sarrah Superville** - Special Investigations Program Manager

**Steve Wendling** - ACFR Specialist

May 27, 2021

# Today's Agenda

- Annual Comprehensive Financial Report (ACFR)
- State of Washington's Single Audit (SWSA)
- Accountability Audits
- Data Sharing Agreements
- Special Investigations
  - Reorganization
  - Fraud and Whistleblower Investigation Summary

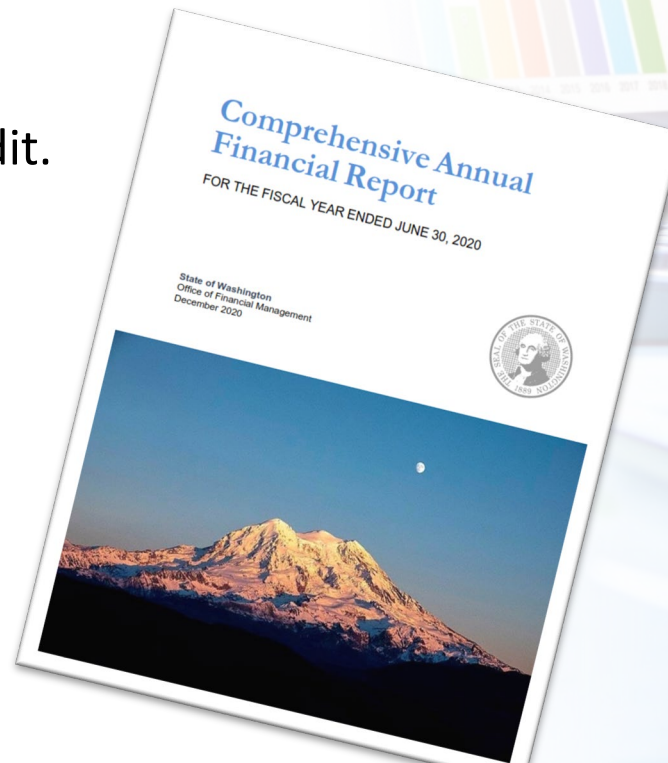


# State ACFR audit



## Overview:

- We perform an independent audit of the state’s Annual Comprehensive Financial Report (ACFR) in accordance with generally accepted governmental auditing standards (GAGAS).
- This is SAO’s second largest audit.
- Around 9,800 hours.
- 34 staff members worked in this audit.



# State ACFR audit

- Audited 12 agencies with 176 account balances material to the state's basic financial statements
- Historically, one of the nation's fastest issuers of a state ACFR, this year we issued our financial statement opinion on December 17, 2020



# State ACFR audit



- Changes for the FY20 Audit:
  - The audit was mainly performed remotely
  - We requested agencies provide us documentation describing key internal controls they put in place to provide reasonable assurance of accurate financial reporting.
  - We began focusing audit work on the state's health insurance funds.



# State ACFR audit



- Performed additional work on the unemployment insurance funds
  - Identified control weaknesses contributing to the imposter fraud
  - Expanded samples of benefit payments
  - Performed tests of federal contributions
  - Performed tests of accounts receivables related to the recovery fraudulent payments.



# State ACFR audit



## Audit results

- Clean (unmodified) audit opinion
- Internal controls over financial reporting needed improvement in several areas:
  - **The State's internal controls were insufficient to prevent fraudulent unemployment benefit payments** – Verification of a claimant's employment information to establish eligibility and the performance of a discovery process to identify claims at high risk of identity theft for investigation was not always performed prior to payment. Over 122,000 known or probable fraudulent claims totaling over \$600 million were paid in the fiscal year ending June 30, 2020.



# State ACFR audit



- **The State did not have adequate internal controls over financial reporting to ensure financial activity is properly classified, recorded in the correct period and reconciles to its financial statements –**
  - The SBCTC did not complete a timely and accurate reconciliation of college financial data with amounts recorded in the State’s accounting system before the State closed its books.
  - In preparing the State's financial statements, OFM did not identify, and separately report fraudulent unemployment benefit payments from legitimate unemployment benefit payments.
  - The ESD did not report all receivables in the State's accounting system at June 30, 2020, that resulted from fraudulent claim payments.

Current year	1,774,576
Comprehensive income	15,897
Change in governmental assets	88,905
Transfers	23,853
Previous year	166,630
Comprehensive income	110,327
Change in governmental assets	56,303
Transfers	67,676

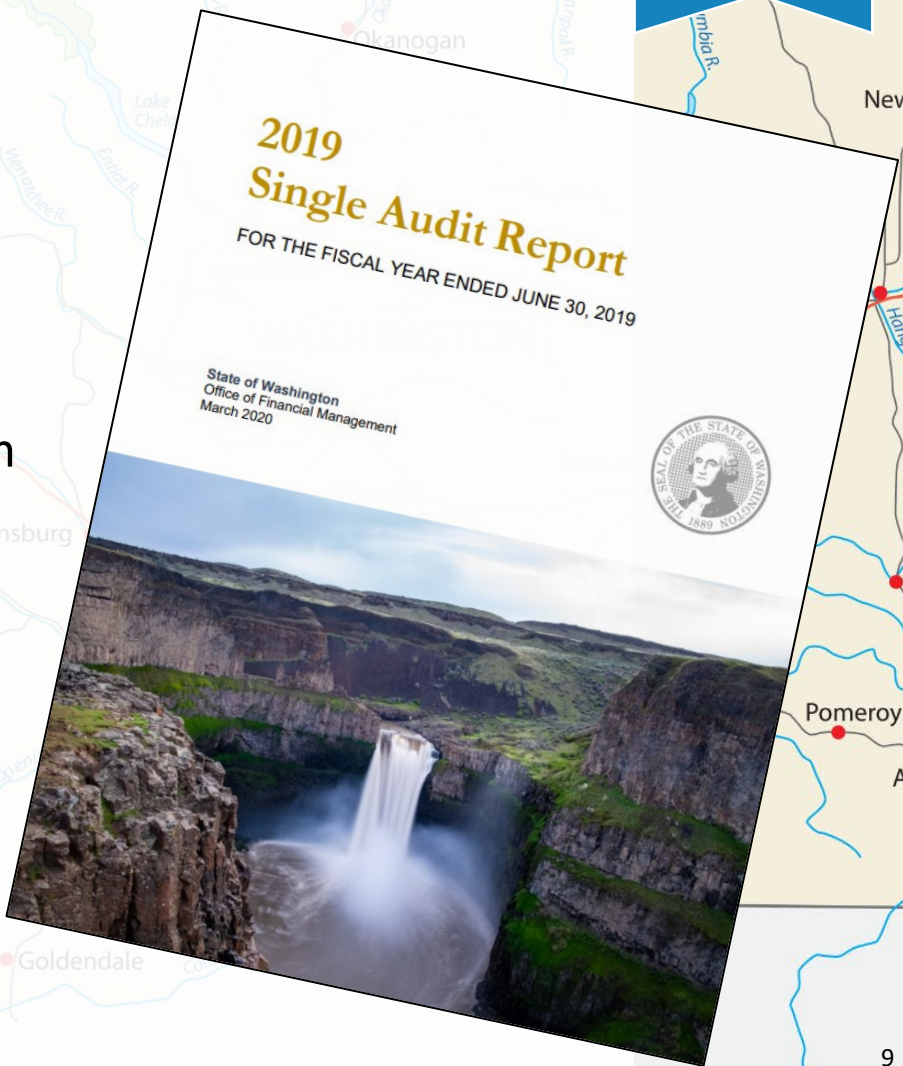
Operations	12,978,516
Net earnings	12,873,892
Depreciation	104,624
Investing	6,372,535
Real estate	1,886,985
Equipment	4,439,118
Financing	6,505,981
Notes payable	6,506,981



# State of Washington's Single Audit (SWSA)



- Overview
- Independent audit of internal controls and compliance for federally funded programs
- Audit is conducted to meet OMB requirements and 2 CFR (Uniform Guidance)
- Conducted annually for the state



# SWSA Audit Coverage and Reporting



- We audited 27 major and type B programs in FY20
  - Major programs typically more than \$30 million
  - Threshold increased to \$39 million in FY20 due to significant increase in federal spending
- Performed audit work at 16 state agencies (including universities and community colleges)
- The FY20 report will be published next month on both the OFM and SAO websites



# SWSA Audit Results



- We issued 65 audit findings
  - Adverse opinion on one major program for the fifth consecutive year
  - 10 findings related to the Medicaid program
- Estimated improper payments were significant for some findings
- State agencies resolved 83 audit findings from previous years!



# SWSA Findings and Improper Payments – 2016 to 2020



**SWSA Findings and Estimated Improper Payments - 2016 to 2018**

<b>Audit year</b>	<b>Total federal assistance</b>	<b>Programs audited</b>	<b>Audit findings</b>	<b>Known and estimated improper payments</b>
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
2019	\$17,959,238,413	21	70	\$787,228,334
2020	\$25,926,145,740	27	66	\$1,002,941,633



# SWSA Finding Themes

- Subrecipient monitoring requirements
  - Audit monitoring and follow-up
  - Risk assessments
  - Fiscal monitoring
- Payments made outside grant period of performance
  - Coronavirus Relief Fund (March 1, 2020)
- Lack of written policies and procedures that cover compliance requirements
  - Especially important for complex requirements

# Fiscal Year 2021 SWSA



## Looking ahead

- Expecting significant federal spending again for state fiscal year 2021
- New federal programs that will be “Type A” and are required to be audited
- A lot of accounting adjustments (JV’s)
  - It is critical agencies have an “audit trail” that clearly shows how funds were spent
  - Need to be able to trace to the transactional level
  - Be aware of the grant period of performance

2021

# Accountability Audits



- These audits assess whether agencies have adequate internal controls in place to safeguard public resources and comply with laws, rules and their own policies.
- Since January 1, 2020, our Office has completed 43 accountability audits of state agencies.
- Recommendations range from exit comments to audit findings.

# Accountability Audits Findings



- Used computer assisted auditing techniques (CAATs), which identified improper payments for some medical claims
- Inadequate internal controls over use of purchase cards
  - Required policies not in place (DES requirement)
  - Inadequate supporting documentation for payments
  - Lack of monitoring/oversight by management





# Accountability over Pandemic-related Funds



- **Many different funding sources for COVID-19 related activities**
  - Combination of both federal and state funding, such as:
    - CARES Act
    - American Rescue Plan
    - Disaster Response Account (state)
  - Critical state agencies maintain supporting documentation to prove funds were spent for permissible programs and activities





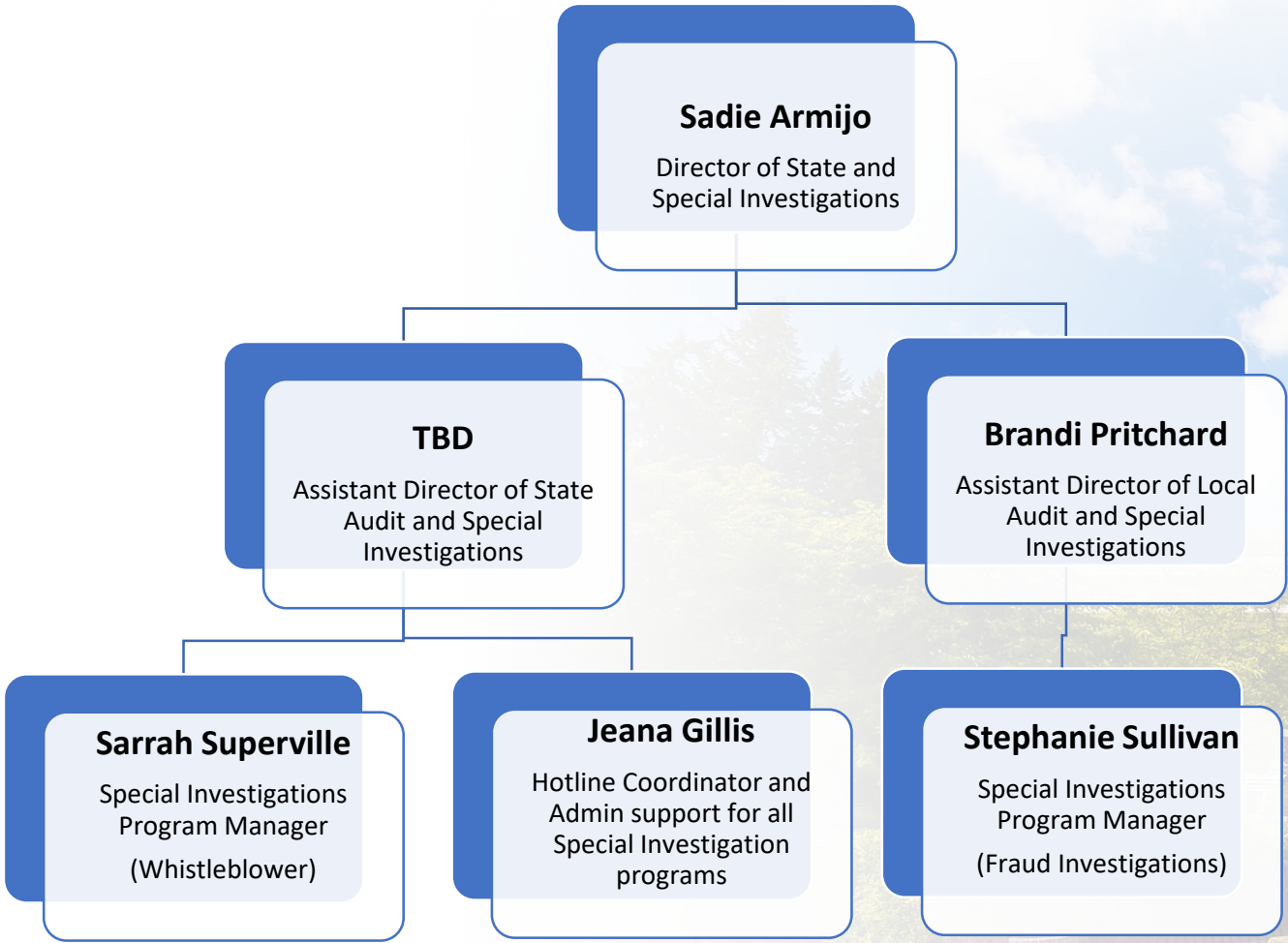
# Data Sharing Agreements

**Data sharing agreements (DSAs)** will be required for all state and local governments

- **SB5432:** “Concerning cybersecurity and data sharing in Washington state government.”
- Passed House and Senate
- SAO is in the process of implementing having data sharing agreements in place for audits **effective July 1<sup>st</sup>**



# Special Investigations Reorganization

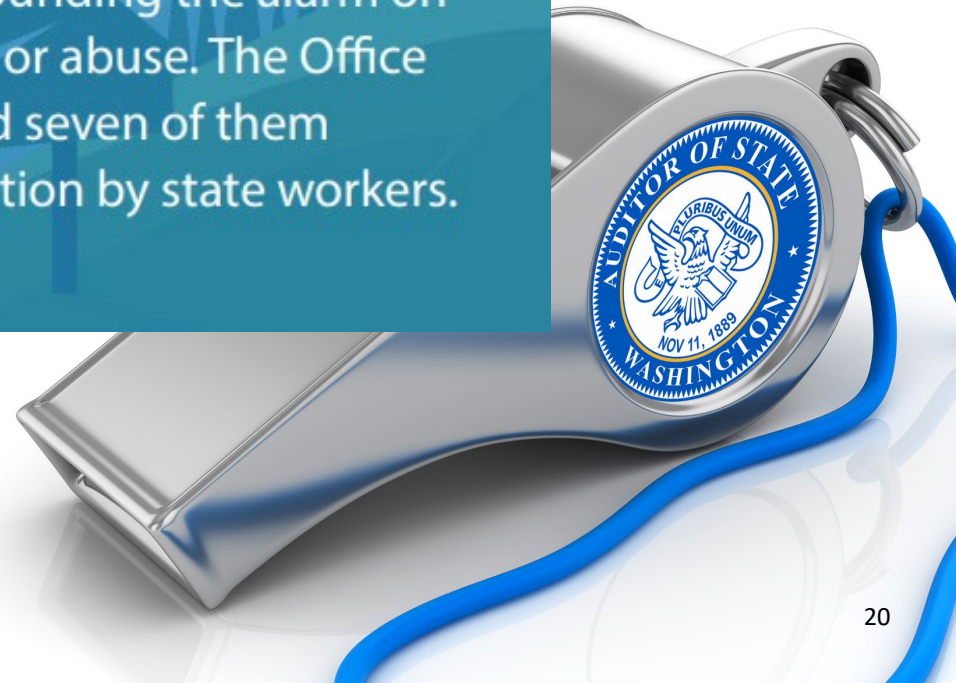


# Whistleblower Investigations for FY 2020

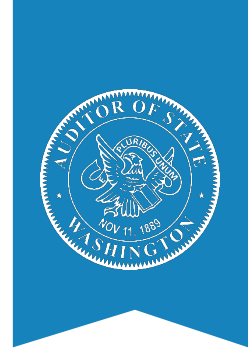


## Whistleblower investigations

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.



# Fraud Investigations for FY 2020



## Fraud investigations

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.



\* Amounts listed above include state and local investigations

# Questions



# Information

Jim Brownell, Single Audit Manager

(564)999-0782

[brownlj@sao.wa.gov](mailto:brownlj@sao.wa.gov)

Scott Bills, Financial Audit Manager

(564)999-0887

[billss@sao.wa.gov](mailto:billss@sao.wa.gov)

Steve Wendling, ACFR Specialist

(564)999-0885

[wendlings@sao.wa.gov](mailto:wendlings@sao.wa.gov)

Sarrah Superville, Special Investigations

Program Manager

(564)999-0503

[supervilles@sao.wa.gov](mailto:supervilles@sao.wa.gov)

