

State Audit Update

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Agenda



SAO Organization Overview



Annual Comprehensive Financial Report (ACFR)



Statewide Single Audit (SWSA)



Accountability audits

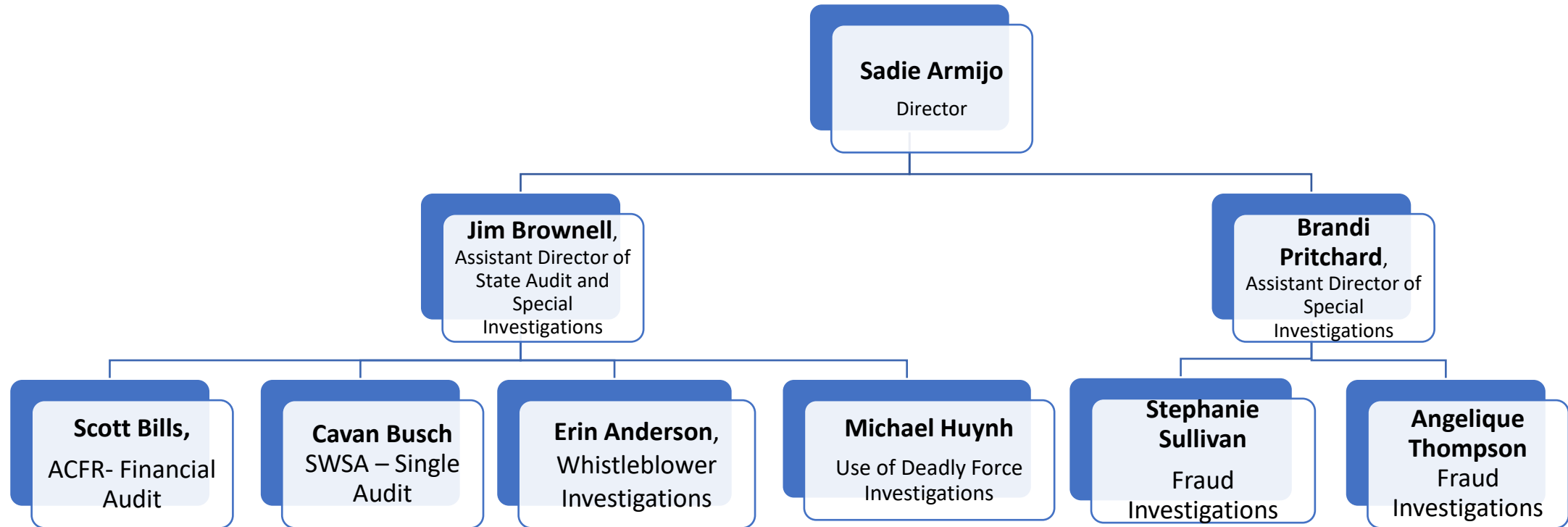


Special investigations



SAO resources

SAO – State Division and Special Investigations Organizational Overview



State Division Book of Business

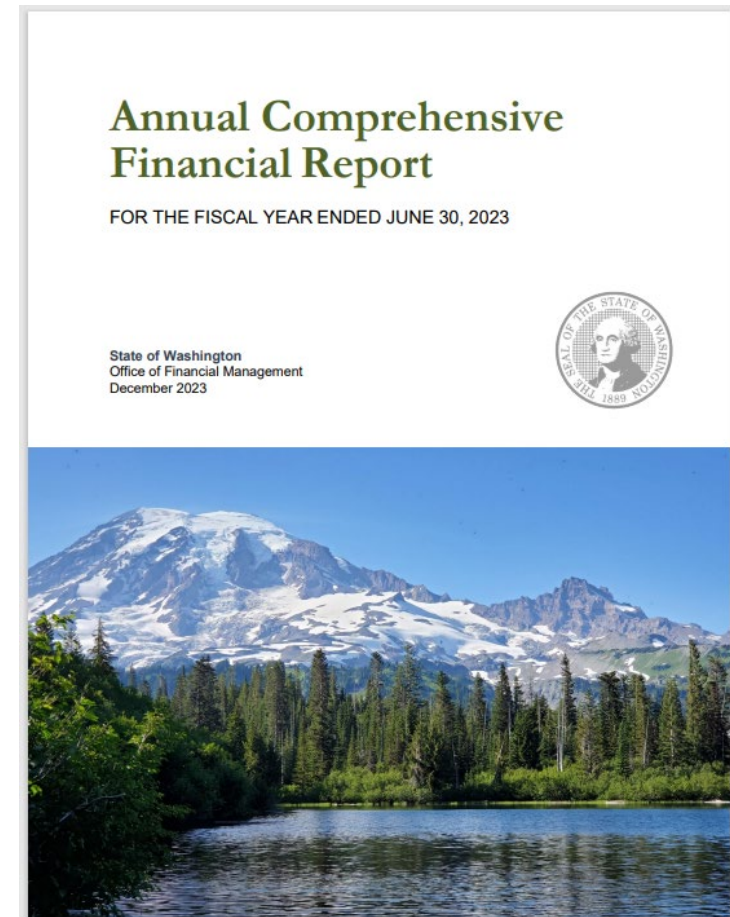


- Financial Audits
 - State ACFR
 - Agency/college financial statements
 - Agreed-upon-procedures
- Single Audit (SWSA)
- Accountability Audits
- Special Investigations



FY 2023 ACFR – Recap

- SAO's second largest audit at 8,900 hours
- 28 staff members worked on this audit
- Audited 12 agencies with 197 account balances material to the state's basic financial statements
- Clean opinion – Issued December 7, 2023





FY 2023 ACFR – Areas of Emphasis

- **State Board for Community & Technical Colleges** - We followed up on prior year findings regarding the consolidation and reconciliation college financial data to the AFRS.
- **Department of Employment Security** - We followed up on prior year issues regarding financial reporting errors in cash, claim payments, accounts receivable.

FY 2023 ACFR – Audit Results



Audit finding

The State lacked adequate internal controls over financial reporting to ensure accurate recording and monitoring of financial activity in its financial statements.

- Department of Employment Security – incorrect calculation of estimated receivables for claimant overpayments
- Health Care Authority did not obtain a service organization control audit report for the ProviderOne system for fiscal year 2023

ACFR – FY23 Management Letter



- **Office of Financial Management**

- Year-end exception reports designed to identify potential errors in financial reporting were not thoroughly investigated. As a result several likely errors were not investigated and corrected.
- A misstatement of \$1.01 billion was made in adjusting restricted portions of net position and fund balance.
- Component unit program revenues totaling \$584 million were misclassified
- Licenses, permits and fees revenue totaling \$857 million were misclassified as miscellaneous revenue.

- **State Board for Community & Technical Colleges**

- We found unchanged balances, negative assets, negative liabilities likely needing adjustment as well as misclassified federal grants revenue.



ACFR – Changes for FY24

New Opinion Units

- **The Wildlife and Natural Resources Fund**
 - Climate Commitment Act auction revenue – Department of Ecology
 - Hazardous Substance Tax – Department of Revenue
 - Clean Water State Revolving Fund Loans Receivable - Department of Ecology
- **Component Units**
 - Fred Hutchinson Cancer Center
 - Health Benefit Exchange
 - Valley Medical Center
 - Washington State Housing Finance Commission



ACFR – Changes for FY24



Statement of Auditing Standards 145 - *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*

- Requires the auditor to obtain an understanding of general IT controls and determine whether they have been implemented **when there is a key automated control.**

ACFR – 2024 Areas of Emphasis



- **Employment Security Department** - Accounts receivable overpayments of unemployment benefits during the pandemic. There is a risk receivables have not been properly adjusted to reflect waivers of federally funded unemployment benefits
- **University of Washington** - Converted to Workday in FY24. Increased risk data converted from Workday to AFRS is not accurate and complete.



WA Single Audit Filing History

- Since 2020, WA has not met the March 31st filing deadline

Year	Due Date	Federal Waiver?	WA Report Date
2018	3/31/2019	No	3/26/2019
2019	3/31/2020	No	3/24/2020
2020	9/30/2021	Yes	5/27/2021
2021	9/30/2022	Yes	8/8/2022
2022	3/31/2023	No	6/21/2023
2023	3/31/2024	No	5/10/2023 - Est

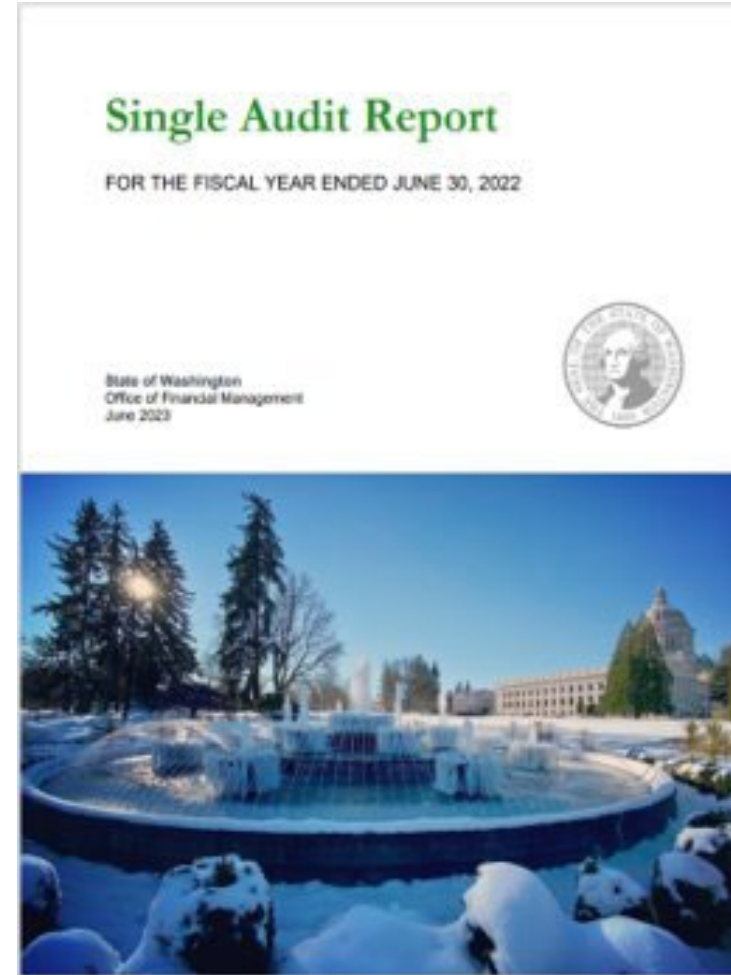
Single Audit Results – 2018 to 2023



Year	Federal Spending	Programs Audited	Type A Threshold	Findings Issued	Repeat Findings Issued
2018	\$17,688,563,290	24	\$30,000,000	61	32
2019	\$17,959,238,413	21	\$30,000,000	70	34
2020	\$25,926,145,740	27	\$38,889,219	65	33
2021	\$36,841,556,675	25	\$55,262,335	62	31
2022	\$30,799,719,832	28	\$46,199,580	70	35
2023	\$29,388,253,052	30	\$44,082,380	86	44

SWSA – 2023 Recap

- Audited **31** federal programs
- Fieldwork at **13** agencies
- Issued 86 findings
- \$1.17 billion in known questioned costs



Common SWSA Finding Issues



- **Subrecipient monitoring**
 - Risk assessments
 - Audit tracking
 - Required provisions in grant awards
 - Fiscal monitoring
- **FFATA Reporting**
- **Special Tests and Provisions**
 - Specific grant requirements in the compliance supplement that auditors must test

Strategies to improve the audit timeline



- OFM engagement letters with agencies
- Internal controls in writing
- Exception review process and timing
- Regular check-in meetings

How to best prepare for a Single Audit



- Be familiar with the compliance supplement
- Have internal controls written down
- Know where documentation is kept
- Work to resolve prior year findings



2024 SWSA - Workplan



- Estimated # of programs
 - Many repeats due to prior year findings
 - Need SEFA to finalize workplan
- Fieldwork timeline
 - Internal control and preliminary information requests sent out early



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
- From January 2023 to April 2024, we published 72 accountability reports
- Frequency of audits



Accountability Audit Trends



Audit Area	Areas for Improvement
Purchase Cards	<ul style="list-style-type: none">• Outdated policies• Lack of supporting documentation• Insufficient statement reviews
Gift Cards	<ul style="list-style-type: none">• Not adequately safeguarded• No documentation supporting use
Payroll	<ul style="list-style-type: none">• Outdated policies• No prior approval when required

Special Investigations – Fiscal Year 2023



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Whistleblower investigations

Whistleblower investigations are the result of state employees sounding the alarm on possible waste, fraud or abuse. The Office issued 14 reports, and three of them revealed improper action by state workers.



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Fraud investigations

A fraud investigation results in a written report if we find significant misuse or theft of public money. In FY2023, 13 of our 43 investigations met this standard, identifying \$152,219 in misappropriated public funds and \$168,118 in questionable transactions.

Whistleblower Program



What can we look at? 👍

Violation of state law or rule	Ethics violation
Gross waste of public funds or resources	Gross mismanagement
Danger to public health or safety	Preventing dissemination of scientific opinion or altering technical findings
Violations of the Administrative Procedures Act	

What can't we look at? 👎

Hiring	Firing
Grievances	Personnel
Promotions/Demotions	Discrimination
Retaliation	Things outside our authority

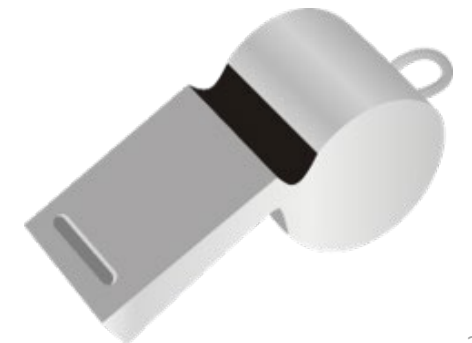
Whistleblower Program: 2023/2024 Trends



Personal Use of State Resources

Gross Mismanagement

State Procurement Law RCW 39.26





State Losses reported to us this year:

Entity Type	Losses Reported
Agency, Commission, or Board	\$2,335,577
Community and Technical Colleges	\$2,984,183
University and College	\$ 217, 080
TOTAL	\$5,536,838

Top 3 loss areas	Losses Reported
Cyber Losses	\$2,387,548
Payroll	\$960,298
Purchase Cards	\$905,445

Fraud Trends: 2023/2024

Credit Card misuse

Paid for time not worked

Employee working 2 jobs simultaneously

Fuel cards

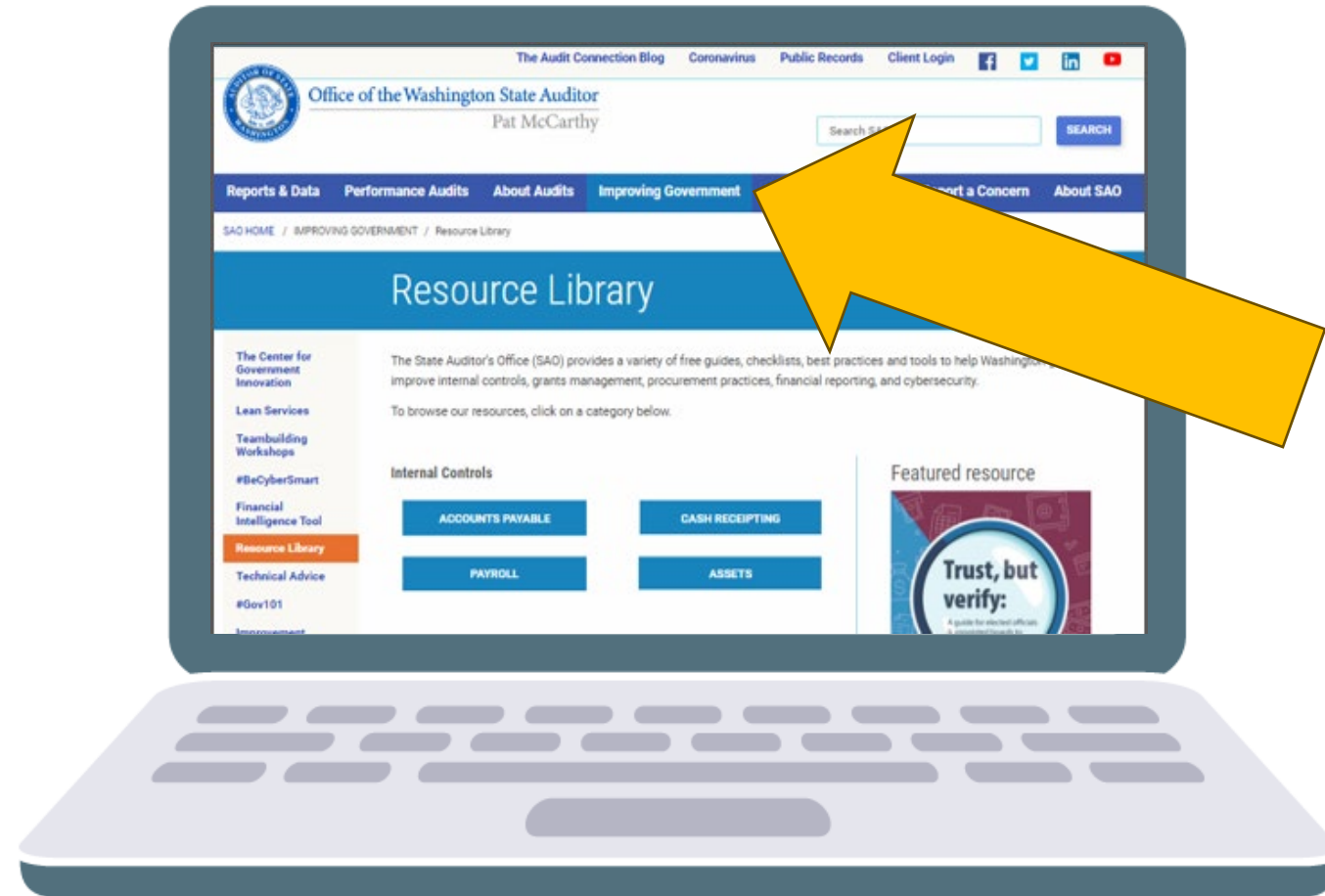


Use of Deadly Force Investigation Audits (UDFI)





Where to find these resources



sao.wa.gov/improving-government/resources-database



SAO's Resource Library

Accounts payable
and receivable

Cash receipting

Payroll

Assets

Cybersecurity

Federal funds



Fraud prevention

Procurement

Public records & OPMA

GAAP and cash-basis
financial reporting

Revenues, expenditures
and operations

Technology

Newest resources



Center for Government Innovation

Office of the Washington State Auditor
Pat McCarthy

Best practices for travel and reimbursable expenses

January 2024

Best practices for travel and reimbursable expenses | 1

Center for Government Innovation

Office of the Washington State Auditor
Pat McCarthy

Best practices for credit card programs

Government credit card programs vary greatly in size and purpose, as they allow employees to pay for travel, fuel or small purchases. They reduce your procurement and payment costs, allowing you to avoid processing purchase orders, individual invoices and checks – especially for small transactions. Some programs also offer rebates.

While credit cards can provide many benefits, they also carry a high risk of fraud, waste and abuse. When you provide credit cards to employees, it gives them a lot of control over a single transaction and puts considerable pressure on your review and monitoring processes.

April 2024

Center for Government Innovation

Office of the Washington State Auditor
Pat McCarthy

Best Practices for Tracking Capital Asset Information

Local governments own a variety of capital assets to support the communities they serve, ranging from vehicles, equipment, and buildings to infrastructure like road and utility systems. They represent some of the largest assets on a government's Statement of Net Position. One of your accounting department's most important responsibilities – and often one of the most challenging – involves properly tracking, reporting and depreciating those assets.

Typically, accounting departments use a management system to track capital assets. This system is a set of policies and procedures established to control the capital assets for operational and financial reporting purposes. Oftentimes, governments created these systems decades ago and have not reevaluated or improved them in some time. Today, many accountants struggle to navigate the massive amount of capital asset records and the cumulative effects of years of inconsistent accounting practices.

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