



Office of the Washington State Auditor

Report to the Legislature Audits of State Agency Local Funds 2019-2021 Biennium

Introduction

As part of routine audits of state agencies, the State Auditor's Office is responsible for auditing public funds and accounts that are not managed by or in the care of the State Treasurer. These funds are commonly referred to as "local funds." The Legislature has established some of these funds; others are authorized under state law (RCW 43.88.195), which allows the Office of Financial Management to establish local funds outside the State Treasury for compelling reasons of economy and efficiency, which could not be achieved by placing such funds in the state treasury.

The State Auditor's Office is required by law (RCW 43.09.420) to report to the Legislature on the status of local funds and accounts that were examined during the preceding biennium and recommendations that were made about how state agencies can improve their financial management of the funds.

This report highlights key audit findings and reports we issued during the 2019-2021 biennium that involved local funds.

State agency local fund balances

As of June 30, 2020, state agencies (including the six state colleges and universities and the community and technical college system) held over \$12.8 billion in cash and investments that were local funds. **Exhibit A** in this report shows the amount of local funds held by each agency.

Each agency is responsible for establishing accounting policies and internal controls over the use of local funds. In our audits, we generally find that the risk of misuse or loss of local funds increases when cash receipting operations are decentralized and when job duties are not adequately separated. The risk of non-compliance with state laws and policies also increases when internal controls are not in place or not operating effectively.

Audit results and recommendations

During the 2019-2021 biennium, we reported several findings regarding how state agencies can improve their management of local funds.

Fraud Investigations

State law requires all public agencies to immediately notify our Office in the event of a known or suspected loss of public resources or other illegal activity. We use our experience and knowledge of governments and programs' legal requirements to determine which potential losses to investigate, ensuring we conduct investigations into the most significant issues and use our resources effectively. We report the results of the investigations, make recommendations for improved operations and help recover public funds when appropriate.

Seattle Colleges

In March 2021, we published a [fraud report](#) regarding a cashier who misappropriated funds using multiple cashier register sessions and voids. We recommended the College strengthen its system of internal controls over cash receipting and deposit activities to ensure adequate safeguarding of public resources

Washington State Beef Commission

In February 2020, we issued a [fraud report](#) regarding an office manager who used a commission credit card for personal use, wrote two checks from the Commission's bank account to pay down their personal charges on the credit card and deposited two assessment checks intended for the Commission into their personal bank account. We recommended the Commission strengthen internal controls over credit card purchases and revenue tracking to ensure adequate oversight and monitoring to safeguard public resources and compliance with Commission policies.

Walla Walla Community College

In December 2019, we issued a [fraud report](#) regarding a coach who misappropriated student meal funds and rodeo stall rental revenues. We recommended the College strengthen internal controls over credit card charges, student meal funds, and cash receipting of rental revenues to ensure adequate oversight and monitoring to safeguard public resources and to ensure compliance with College policies.

Department of Children, Youth, and Families

In December 2019, we reported a [fraud report](#) of a supervisor at Oakridge who misappropriated youth funds. We recommended the Administration strengthen internal controls over youth fund management at its community facilities.

Statewide Single Audit

The Single Audit is an independent audit of systems and internal controls over federally funded programs the state has designed to ensure it complies with federal regulations. This audit is required annually as a condition of grant funds received by the state and is intended to assess how well the state is ensuring that federal dollars are spent properly. The Single Audit report is published by the Office of Financial Management in March each year.

The following are summaries of audit findings we issued to agencies in [Washington's Single Audit report](#) that covered the state fiscal year ending June 30, 2020. The report was published by the Office of Financial Management in June 2021:

We found the State's internal controls (finding 2020-001) were insufficient to prevent fraudulent unemployment benefit payments. We recommended the Employment Security Department continue working with the federal Department of Justice to recover the fraudulent payments and improve internal controls to better detect and prevent fraud before payments are made.

We found the Employment Security Department (finding 2020-010) did not have adequate internal controls to ensure only eligible claimants received Unemployment Insurance benefits. We recommended the Department ensure it verifies claimant employment status before issuing payments and ensures its cross-matching with other State systems functions as intended.

Annual Comprehensive Financial Report

We audit the state's Annual Comprehensive Financial Report (ACFR) every year. The following is a summarized excerpt of an audit finding we issued to the Office of Financial Management for the [ACFR report](#) that covered the state fiscal year ending June 30, 2020.

The State Board for Community and Technical Colleges (SBCTC) advocates for, coordinates and directs Washington's system of 34 public community and technical colleges. One of SBCTC's responsibilities is to collect and consolidate community and technical college financial data for reporting in the State's general ledger accounting system.

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. We found numerous unexplained variances between consolidated college financial data and amounts recorded in the State's accounting system. We recommended SBCTC perform a complete and timely reconciliation of college financial data to the State's accounting system throughout the fiscal year.

EXHIBIT A

Summary of cash and investment balances – by state agency

Agency Name	Cash and Investments held in local funds (as of June 30, 2020)
University of Washington	\$6,914,219,743
Employment Security Department	\$2,972,974,322
Community & Technical College System	\$944,029,949
Washington State University	\$404,623,540
State Lottery Commission	\$173,601,823
Eastern Washington University	\$154,237,310
Western Washington University	\$142,301,945
Office of the Attorney General	\$116,401,544
State Investment Board	\$107,714,408
Bellevue Community College	\$90,659,377
Department of Social and Health Services	\$85,005,412
Green River Community College	\$81,648,487
Seattle Community College	\$79,316,183
Central Washington University	\$65,155,606
Yakima Valley Community College	\$45,567,321
Pierce Community College	\$42,626,400
Highline Community College	\$42,105,882
Olympic Community College	\$40,060,579
All Other State Agencies	\$321,459,077

Total Local Funds as of June 30, 2020**\$12,823,708,903**