



Washington State Auditor's Office

Report to the Legislature Audits of State Agency Local Funds 2017-2019 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 2017-2019 biennium that involved local funds.

State agency local fund balances

As of June 30, 2018, state agencies (including the six state colleges and universities and the community and technical college system) held over \$13.6 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 2017-19 biennium, we reported several findings regarding how state agencies can improve their management of local funds.

Accountability Audits

Our Office conducts accountability audits that evaluate whether there is reasonable assurance that state agencies adhere to laws, rules and policies. These audits also assess whether agencies have adequate internal controls in place to safeguard public resources. State agencies are responsible for developing corrective action plans for all audit findings. The plans must be submitted to the Office of Financial Management within 30 days of the issuance of audit reports.

Department of Veteran's Affairs

In July 2017, we reported as an [audit finding](#) that the Department of Veteran's Affairs lacked adequate internal controls over its issuance of gift cards to veterans. We recommended the Department strengthen its internal controls by strengthening its policies and procedures, and obtaining receipts from clients to support the funds were used for the intended purpose.

Eastern Washington State Historical Society (a.k.a. Museum of Arts & Culture)

In June 2018, we reported as an [audit finding](#) that the Eastern Washington State Historical Society lacked adequate internal controls to ensure its donations were properly deposited and accounted for. We recommended the Museum deposit all public funds in the agency bank account, develop written policies & procedures over its donation receipting process and implement a supervisory review and reconciliation process to ensure all donations are properly accounted for.

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 is a summary of an audit finding we issued to an agency in [Washington's Single Audit report](#) that covered the state fiscal year ending June 30, 2017. The report was published by the Office of Financial Management in March 2018:

We found the Employment Security Department¹ did not have adequate internal controls to ensure only eligible claimants received Unemployment Insurance benefits. We recommended the Department address system errors that were detected during the audit and monitor to ensure all selected work search verifications are complete and staff adequately document their reviews.

¹ Finding 2017-005

Exhibit A

Summary of cash and investment balances – by state agency

Agency Name	Cash and investments held in local funds (as of June 30, 2018)
University of Washington	\$5,972,584,956
Employment Security Department	\$4,497,091,077
Community & Technical College System	\$920,599,227
Washington State University	\$323,908,061
Bellevue Community College	\$167,619,706
State Lottery Commission	\$156,599,514
Western Washington University	\$145,813,965
Eastern Washington University	\$144,421,829
Central Washington University	\$113,341,187
State Investment Board	\$93,397,482
Seattle Community College	\$93,325,431
Green River Community College	\$89,158,974
Office of the Attorney General	\$65,554,824
Pierce Community College	\$63,088,276
Spokane Community College	\$61,273,014
Shoreline Community College	\$50,511,259
Yakima Valley Community College	\$48,697,981
Highline Community College	\$40,882,637
Columbia Basin Community College	\$40,144,662
Everett Community College	\$37,935,494
State Board of Community and Technical Colleges	\$37,455,422
Evergreen State College	\$36,646,492
Bates Technical College	\$32,558,155
Edmonds Community College	\$31,920,347
Olympic Community College	\$31,805,198
Clover Park Technical College	\$31,094,540
South Puget Sound Community College	\$28,925,117
Whatcom Community College	\$28,558,565
Department of Social and Health Services	\$28,132,521
Big Bend Community College	\$25,693,080
Tacoma Community College	\$23,531,385
Skagit Valley Community College	\$22,979,406

Cascadia Community College	\$20,165,698
Clark Community College	\$18,035,872
Centralia Community College	\$16,309,703
Grays Harbor Community College	\$15,926,894
Lower Columbia Community College	\$15,564,947
Department of Commerce	\$13,091,987
Department of Corrections	\$12,319,266
Renton Technical College	\$11,550,154
Peninsula Community College	\$10,662,554
Bellingham Technical College	\$10,207,454
Walla Walla Community College	\$8,088,320
Department of Veterans Affairs	\$7,478,003
Lake Washington Technical College	\$6,855,917
Wenatchee Valley Community College	\$3,176,608
Department of Natural Resources	\$3,099,854
Washington State Historical Society	\$1,748,392
Liquor and Cannabis Commission	\$1,358,077
Department of Transportation	\$1,291,012
State School for the Blind	\$1,069,490
Washington State Patrol	\$1,010,838
Superintendent of Public Instruction	\$830,192
Washington State Gambling Commission	\$651,343
Eastern Washington State Historical Society	\$389,686
Office of the State Treasurer	\$323,461
Center for Childhood Deafness & Hearing Loss	\$221,373
Administrative Office for the Courts	\$65,327
Workforce Training & Education Coordination Board	\$20,287

Total Local Funds as of June 30, 2018

\$13,666,762,492