



2024 Annual Report

From the Office of the Washington State Auditor

A MESSAGE FROM THE AUDITOR

As I traveled our beautiful state over the past year, members of the public would often remark on our Office's good work – although sometimes under unfortunate circumstances. As this annual report details, we reported on several high-profile fraud cases in fiscal year 2024. Losses of public funds affected small towns like Cusick, a community of less than 200 people that saw its bank account drained to just \$249. And they affected a state agency that lost \$878,115 in credit card schemes.

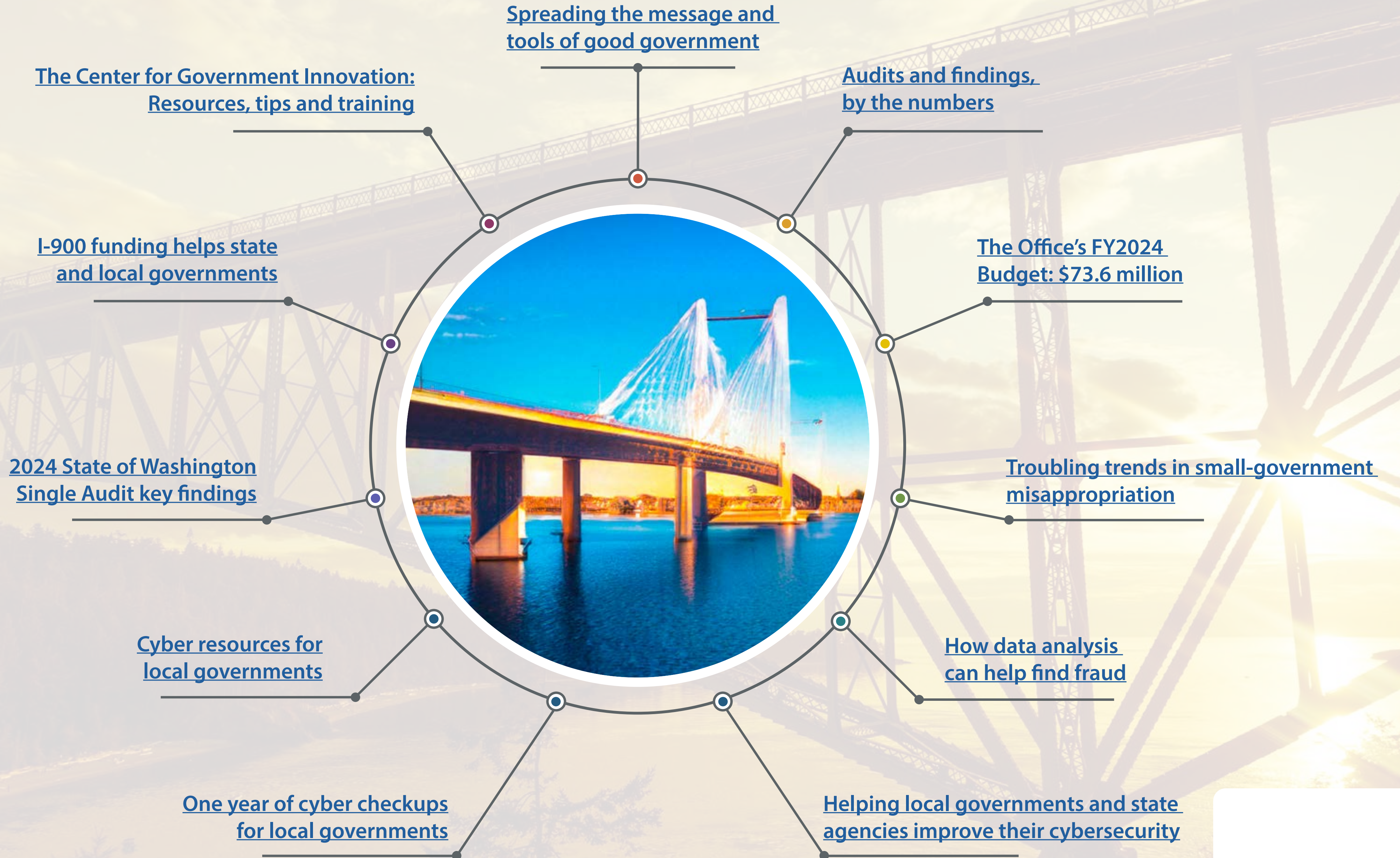
We work hard to help our partners in state and local government prevent fraud. This report highlights those efforts, as well as many other ways we strive to increase public trust in government. In the past year, we also invested in outreach to the tribal governments across our state.

Above all, we delivered the accountability and transparency the public expects. We published 2,724 audits, from reviews of small special purpose districts to the State of Washington Single Audit, which included 86 findings across 25 federal programs. We reviewed investigations of police use of deadly force – and so much more.

Everyone who works at the Office of the Washington State Auditor contributes to that effort. By reading this report, you are also part of what I like to call the “accountability community.” Like so many of us in Washington, you have taken an interest in ensuring our governments meet a high standard, make corrections when necessary, and deliver for the larger community. Thank you for reading.



Highlights



Spreading the message and tools of good government

SAO's HelpDesk

We answered 1,138 HelpDesk requests from governments on questions related to accounting, reporting and compliance.

Good government training

Fiscal year 2024 was full of learning together. The Office saw a 45% increase in event participation compared to last year.

169
events

12,222
attendees

Online annual filing system update

In January 2024, the Office refreshed its annual filing system for the state's local governments, which are required by law to submit their financial information every year. Upgrades include a dashboard that shows filing progress, checks of possible errors, a live chat with a specialist, and more. Before launch, we hosted 12 live webinars, which had 786 attendees, and we shared details about the system's new features at several conferences across the state. We also maintain a library of resources, including a step-by-step handbook and error guide, to help local governments.

Hosted
12 live
webinars

786
attendees

Audits and findings, by the numbers

Every year, we issue thousands of reports, reflecting the results of many different kinds of audits. Just a small percentage of the audits find a significant problem – in other words, a “finding.” Here’s what we did on the public’s behalf in fiscal year 2024:

2,724 audits

July 1, 2023 – June 30, 2024

1,127
audits



136 findings

Accountability audits

Accountability audits determine whether public funds are accounted for and if controls are in place to protect public resources from loss, misappropriation and abuse.

777
audits



86 findings

Financial audits

Financial audits determine whether the financial statements present an accurate picture of a government’s finances.

477
audits



260 findings

Federal audits

Federal audits determine whether federal money is being used according to federal regulations.

Audits and findings, by the numbers *(continued)*



With every audit, I have gained knowledge. Each audit team has taken time to help us understand BARS, policies, procedures, and other financial processes. It is much appreciated. – Town of Ione

8



Whistleblower investigations

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

21



Fraud investigations

A fraud investigation results in a written report if we find significant misuse or theft of public money. In FY2024, 21 of our 90 investigations met this standard, identifying \$533,892 in misappropriated public funds, \$112,725 in questionable transactions and \$80,625 in other losses.

4



Unauditable governments

State law requires local governments to be audited and for them to submit annual financial reports, yet every year some governments do not meet these obligations. These governments once numbered approximately 40 and now are considerably fewer due to the Office's concerted efforts.

Audits and findings, by the numbers *(continued)*



We value the guidance available on the SAO website and at meetings throughout the year. It truly feels like a partnership, with the goals of improving transparency and building trust amongst the communities we work in and represent. – Port of Anacortes

29



Use of deadly force investigation audits

These audits examine four aspects of a law enforcement use of deadly force investigation: credibility, independence, transparency and communication. We do not determine whether the officers were justified, nor whether prosecutors made the right choice to charge or not charge officers with a crime.

22



Energy compliance

These evaluate whether certain utilities are complying with the requirements of the Energy Independence Act and the Clean Energy Transformation Act. These independent examinations detail how utilities are meeting the state's long-term energy independence, clean energy and equity goals.

205



Other engagements

This covers a variety of topics, including assurance for National Transit Database reporting, reviewing and publishing the reports of private CPA firms, or verifying passenger facility charges at public airports.

Audits and findings, by the numbers *(continued)*

The ability to be transparent with our residents is the most important thing. Participating in an audit is, in our opinion, the best way to do this. – Town of Rockford

9



Performance audits

Performance audits evaluate the efficiency and effectiveness of government programs with the goal of making them work better. These audits improve public services and provide valuable information to the public, program leadership and elected officials.

45



Cybersecurity audits

Cybersecurity audits, a type of performance audit, examine the security posture of specific state agencies and local governments. These audits look for weaknesses and propose solutions to help strengthen those systems. Cybersecurity audits are provided at no cost to the client.



Citizen Hotlines

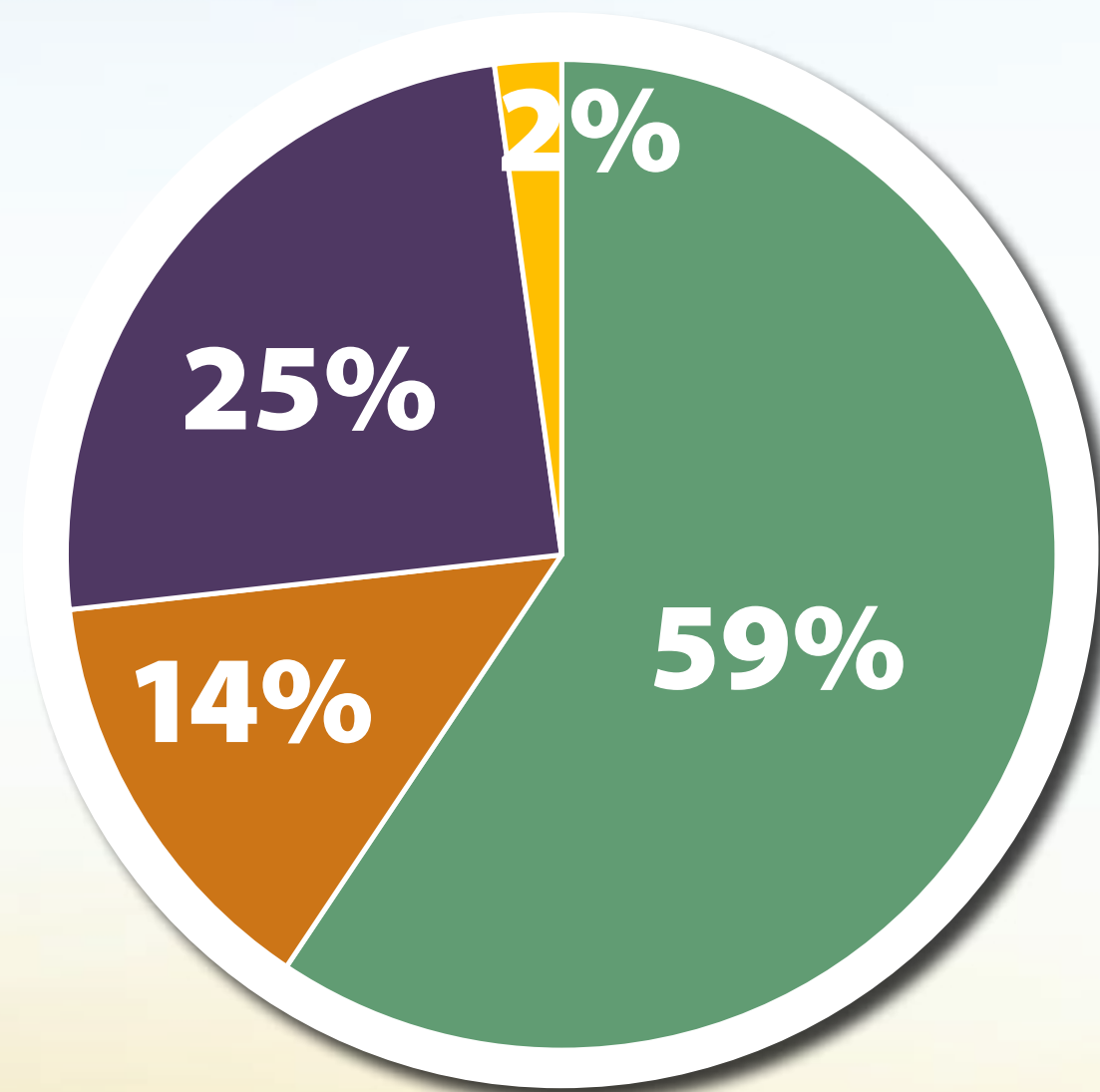
558 received, 327 merited further consideration

The Office's FY2024 Budget: \$73.6 million



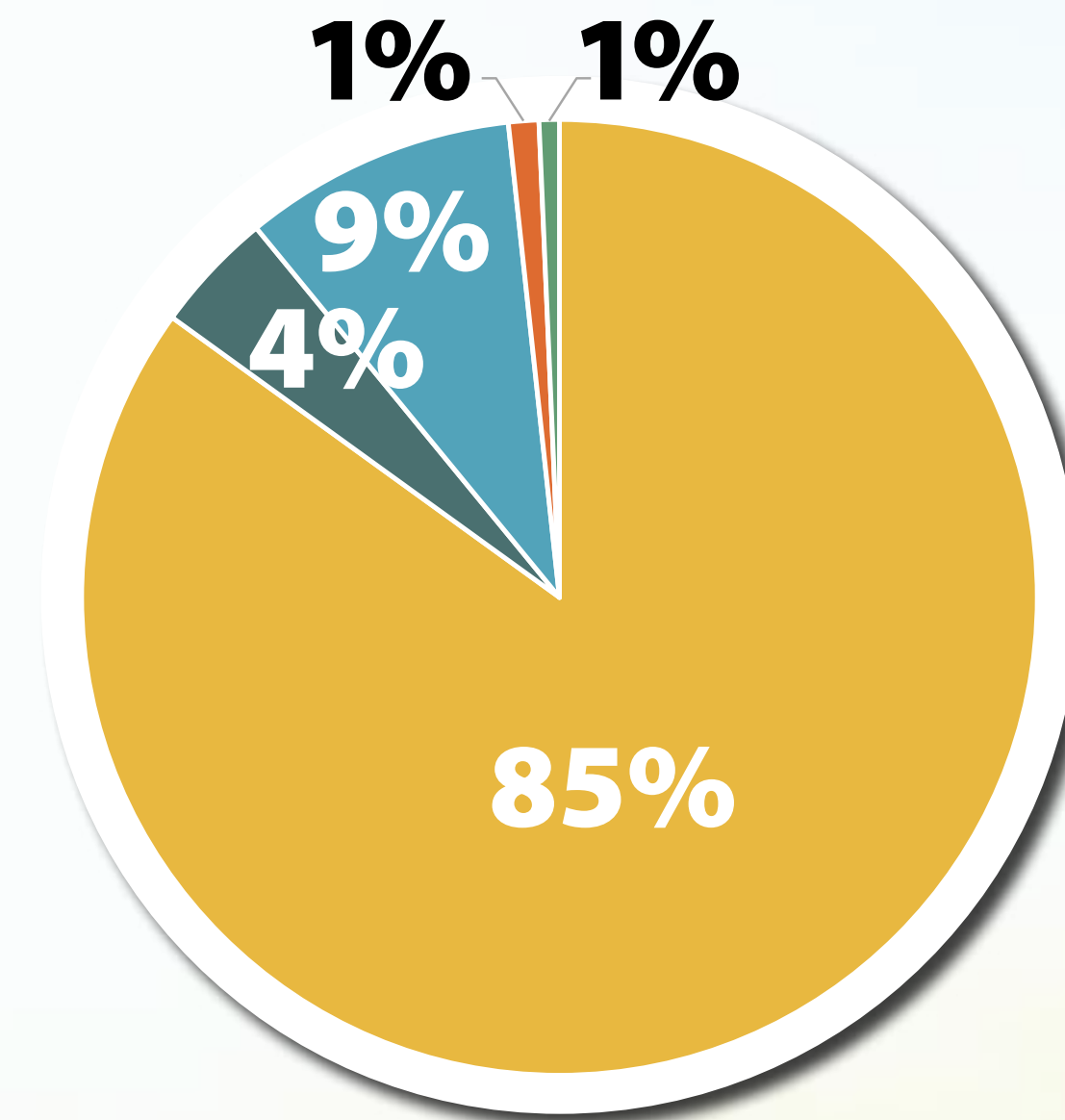
Having a consistent working relationship with the SAO allows us to strengthen our internal controls and ensure our mission to be professional stewards of the public's money. Our agency is better for our audits.
- Yakima Health District

Where does the money come from?



- \$43.7 million paid for by local governments
- \$10.2 million from the Legislature for state agency audits
- \$18.1 million from sales tax for performance and cybersecurity audits
- \$1.6 million from the Legislature for use of deadly force investigation audits and special request audits

Where does the money go?



- \$58 million in salaries and benefits
- \$2.8 million in contracting
- \$6.3 million in goods and services
- \$700,000 in travel
- \$400,000 in equipment

Troubling trends in small-government misappropriation

Small-government misappropriation has been an unfortunate issue through the years, but two things stand out recently: While governments themselves still discover most of the fraud, our auditors are discovering more than in the past, and in higher dollar amounts.

We reported on the [Town of Cusick](#), whose account balance dropped from \$233,822 in August 2022 to just \$249 by the spring of 2023 due to one employee's actions. Other recent examples include a [bookkeeper misappropriating](#) \$9,151 from seven Yakima-area irrigation and drainage districts. In Springdale, north of Spokane, the [mayor was responsible](#) for more than \$15,000 in misappropriated public funds using the town's debit card. And in Tenino, south of Olympia, the [utility clerk misappropriated](#) \$22,783.

How SAO emphasizes fraud prevention

"[Trust, but verify](#)" is a guide produced by the Office, showing elected officials how even the smallest governments can establish effective controls and prevent fraud.

"[Segregation of duties](#)" explains how even one-person accounting departments can implement appropriate reviews and controls. It is one of many [resources](#) the Office offers to help governments safeguard public resources and meet accounting requirements.

Coming in 2025:

Opportunities to attend free internal controls training from SAO specialists.



How data analysis can help find fraud

At the state agency level, auditors discovered the [largest internal misappropriation](#) in a state agency in at least the last 15 years by using a new data analysis tool.

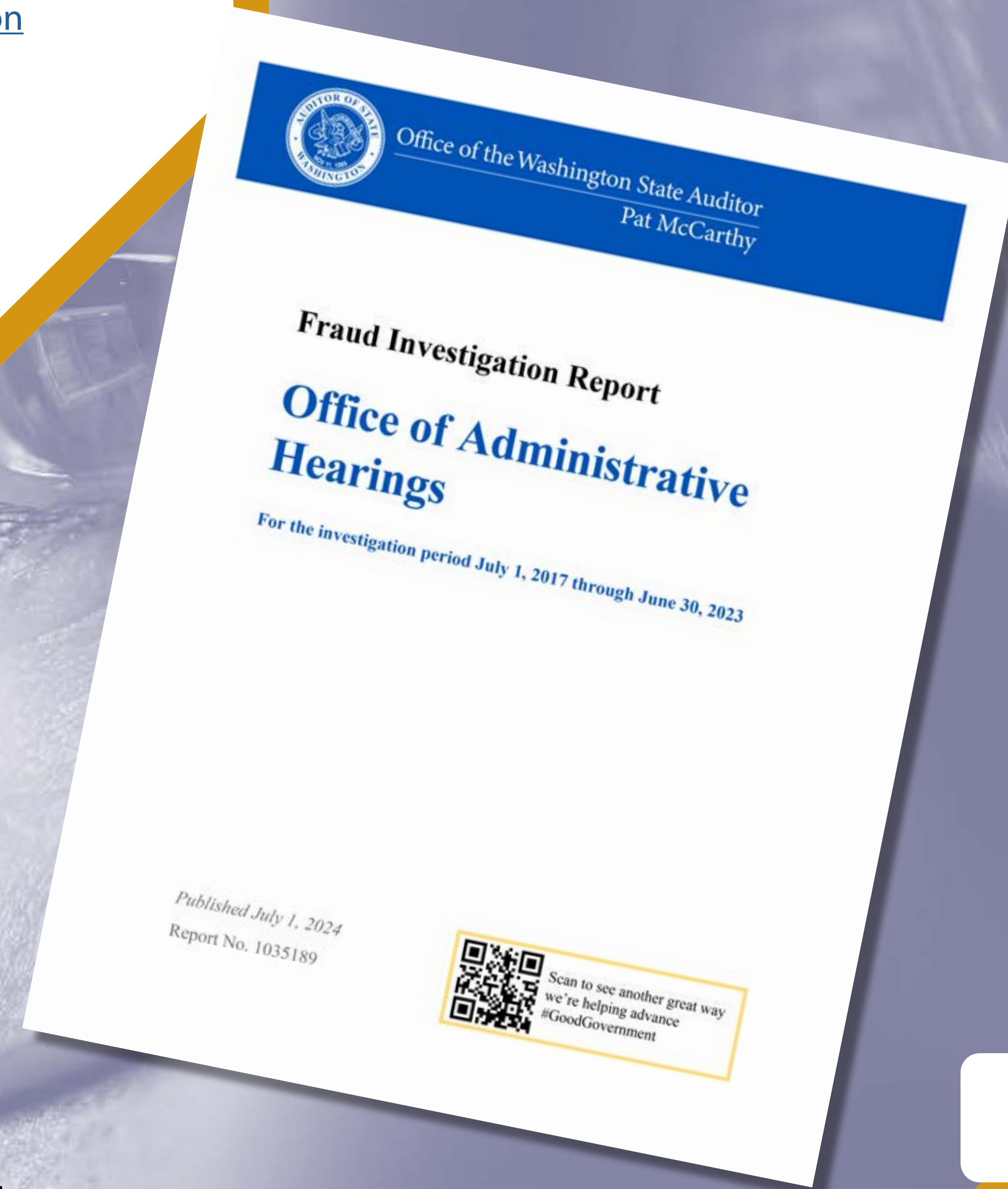
Auditors have long known that fraud frequently begins with a series of small transactions that people use as a test scheme to secretly move money to themselves or others. If the smaller misappropriations are not detected, they often balloon in frequency and size. SAO's data scientist created a tool that identifies such patterns of exponential growth and scans large datasets of state purchase card transactions.

The analysis highlighted a credit card belonging to the Office of Administrative Hearings, which auditors reviewed. That is how they found \$878,115 in misappropriations between 2019 and 2023 at the agency.

We will continue to employ and expand on exploratory data analytics, making audit results easier to understand, and helping governments be more transparent, increasing trust in government.



We value learning about new best practices or ways we can improve. Since we are a public agency, that is what the public expects. – Snohomish County Public Transportation Benefit District



Helping local governments and state agencies improve their cybersecurity

Moving the Needle on Cybersecurity



Cybersecurity audits

Our full cybersecurity audits dig deep into IT systems used in government operations to identify weaknesses that could expose the government to a wide range of possible risks. Audit teams conduct penetration and technical tests, and interview IT staff and managers to learn about controls already in place. Auditors then propose solutions to help strengthen those systems. To learn more about the cybersecurity audits listed here, or to request one, governments should email SAOITAudit@sao.wa.gov

Cyber checkups

While not intended to be a replacement for a detailed audit, these checkups are designed to be a high-level assessment of a local government's cyber health to identify gaps that could leave its IT systems vulnerable to common threats. Every checkup offers ideas on how to improve. Performed by SAO's Center for Government Innovation, these checkups are built on the framework developed by the Center for Internet Security in its Critical Security Controls. The checkups are done remotely and can be completed in less than a month, depending on a government's availability. There's no waitlist! To schedule a cyber checkup, governments should contact the Center at center@sao.wa.gov.

Ransomware audits

These audits examine a government's resiliency to ransomware, a type of cyberattack designed to deny access to a computer system or the data it stores until the victim pays the demanded ransom. We examine five control areas that apply to distinct facets of ransomware prevention, detection and response. These audits can benefit governments large enough to employ cybersecurity staff as well as smaller governments that use contracted IT services.

Critical infrastructure audits

These audits are designed around the special security needs of governments that provide essential services such as hospitals, power stations and water. These smaller scoped audits focus on finding "low-hanging fruit" for improvements. We look at internet-facing assets, such as public websites, to identify vulnerabilities that an attacker anywhere in the world could leverage. We also interview IT staff and assess publicly available information to identify risks including compromised email accounts and potential data breaches.

The best way to assess a government's cyber health? Schedule a checkup with SAO

Cyber checkups, provided by SAO's Center for Government Innovation, are part of a suite of services available to governments. The checkups provide a fast, no-cost, independent review of a local government's cybersecurity programs. Cyber checkups are not substitutes for an audit, but they give local governments actionable recommendations and resources to help address any weaknesses. The National State Auditors Association [recognized this novel program](#) with the 2024 Excellence in Accountability Award for special projects.

As of December 1, 2024, the Center has completed 62 checkups for all types of local governments, from cities and towns to fire districts and school districts. Our checkups have helped governments both large and small, including those with annual revenues as high as \$661 million and as low \$225,000.

Learn more about the common successes and improvement areas the checkups have found: [Cyber checkups: Common results from the first year of reviews](#)



Cyber resources for governments

Coming in 2025:

In-person workshops to help your government create a customized incident response plan.



It starts with policy: A guide to jump-starting your cybersecurity program:

This guide's creation stemmed from common issues we identified in cyber checkups. IT policies are the foundation of any strong cybersecurity program, and without them, local governments are at a higher risk of security breaches and other harmful cyber incidents.



Improve your cybersecurity without breaking your budget:

This short guide provides links to free and low-cost tools, resources and trainings to help local governments improve their cybersecurity posture.



Managing outdated IT applications:

This short guide is designed to help local governments assess their outdated IT systems and manage them more effectively.

State lawmakers support essential audit work



Bridges don't just lead us to new places; they remind us that the journey is as important as the destination. – Ralph Waldo Emerson

2024 State of Washington Single Audit key findings

Washington's federal spending continues to exceed pre-pandemic averages. Over the past few years, the state has used these funds – including the \$29.3 billion spent in fiscal year 2023 – to make historic investments in our communities and deliver critical services.

Every year, [the State of Washington Single Audit \(SWSA\)](#) examines whether state agencies spent federal funds as expected and complied with federal grant requirements. **The 2023 single audit was our third to review an entire year of how the state spent COVID-19 emergency funding.** We issued 86 findings across 25 federal programs, and we are questioning almost \$1.2 billion in costs – meaning we were unable to verify those dollars were spent according to federal requirements. Key takeaways:

- **Half of our findings relate to issues we have previously reported to state management**, including some for more than a decade. Unresolved findings increase audit costs for taxpayers because we are required to follow up on issues until the agencies resolve them.
- **Nearly one-third of our findings report significant problems** with how state agencies monitored the federal funding they awarded to other organizations. Many agencies' monitoring was inadequate, or didn't happen at all.
- **For the third year in a row**, all child care payments from the Child Care and Development Fund at the Department of Children, Youth, and Families – totaling \$356 million – were unauditible because of insufficient records.

State lawmakers support essential audit work *(continued)*



We consider the SAO a partner in ensuring we are good stewards of public funds, and auditors' input throughout the audit process and subsequent recommendations is always valuable. – Green River College

Annual Comprehensive Financial Report (ACFR)

This report is the result of our independent audit of the state of Washington's financial statements. The outcome of this audit affects the state's credit and bond ratings. The 2024 ACFR is scheduled for release in December 2024, and will cover state expenditures of at least \$85 billion.

Use of deadly force investigation audits

This year is the second year of our Office conducting these first-in-the-nation independent examinations of how law enforcement investigates use of deadly force incidents. Our [capstone report](#) on this program offers insights into common themes and areas for improvement.



I-900 Fund: SAO's portion of I-900 funding helps state and local governments

What work does the Performance Audit of Government Accounts support?



Washington voters passed Initiative 900 in 2005, giving our Office authority to conduct performance audits. To pay for them, the initiative established the Performance Audits of Government Account and set aside a dedicated portion of the state sales tax as a funding stream. Today, SAO receives just a portion of the fund.

We use our portion of this fund to help state and local governments be fiscally accountable and high-performing organizations through three programs. We complete 15 to 20 performance audits a biennium, depending on their complexity. Additionally, we conduct cybersecurity audits and operate the Center for Government Innovation.


Traditional performance audits evaluate the efficiency and effectiveness of government programs with the goal of making them work better. The next few pages of this report highlight some of our fiscal year 2024 work.

Click to the next page to see the highlights.

I-900 Fund: SAO's portion of I-900 funding helps state and local governments *(continued)*

Preserving drinkable water requires updating the state's water efficiency efforts

(December 2023)



With limited supplies in greater demand, Washington needs to better understand current water system data to reduce the loss of drinkable water. The Department of Health is tasked with increasing the efficiency of the state's 2,065 local municipal water systems. Our audit found the department does not know how much drinking water most municipal water systems lose through their distribution pipes. Furthermore, some systems are not metered, although this is required by law. The audit made several recommendations for improvement.

I-900 Fund: SAO's portion of I-900 funding helps state and local governments *(continued)*



Bridges are great metaphors for connection, bringing together what was separated and distant.
– Rasheed Ogunlaru

Only a quarter of Washington's Medicaid-enrolled children were tested for lead

(December 2023)

Auditors found only 26% of children enrolled in Medicaid received a blood test for lead between their first and sixth birthday – the program's minimum requirement. Federal guidelines set a specific goal of two lead tests, at 1 and 2 years of age. Only 3% of enrolled children had blood lead level tests at both these ages. Since there is no safe level of lead in the body, testing is intended to identify exposure early and allow for immediate mitigation.

I-900 Fund: SAO's portion of I-900 funding helps state and local governments *(continued)*

Washington's civil asset forfeiture process has areas of concern

(April 2024)



Law enforcement officers can seize property they believe has been involved in or is the proceeds of a crime through a legal tool called civil asset forfeiture. The process does not require an arrest, charge or criminal conviction of the property's owner. This report, the first of its kind in Washington, found several notable aspects of forfeiture in our state, including that state law gives police broad authority but few protections to property owners, and that forfeiture typically involved low-value property.

The Center for Government Innovation: Resources, tips and training

The Center for Government Innovation expands the reach of I-900 by providing tools and services that help Washington governments solve problems and improve operations.

In September 2024, we published a first-of-its-kind guide to help local governments manage federal awards such as grants.

Meeting accountability requirements for federal funding can be one of the most challenging tasks for local governments. To help, we created [Essentials of managing federal awards: A compliance handbook](#). While it is designed to accompany the free training we offer several times a year, the resource covers the essentials of the federal regulations for managing, spending and auditing federal awards in an easy-to-digest format.



The Center for Government Innovation: Resources, tips and training *(continued)*

Best Practices for Tracking Capital Asset Information: This resource includes time-saving ideas, such as how to reduce redundancy in your capital asset tracking efforts, various internal controls you might put in place to learn about asset retirements, many examples to help you better design your asset records, and more.

Customized Lean experiences: Training and facilitation to help make any local government work process more effective, sustainable and deliver better service to the people it serves.

Engaging and interactive teambuilding workshops: Customized to each government's needs, these workshops help local governments discover how everyone contributes and can be valued for their strengths and talents.



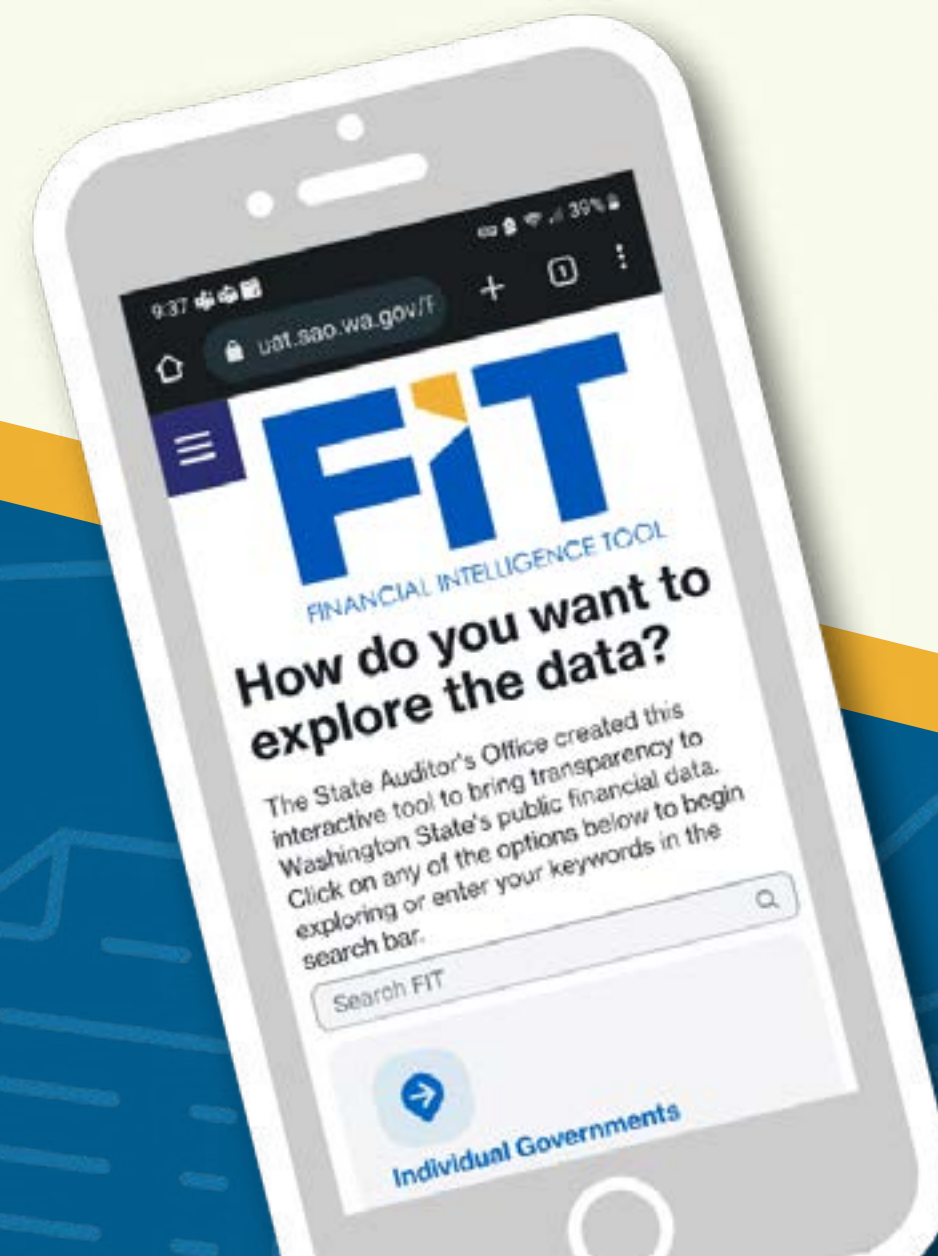
The Center for Government Innovation: Resources, tips and training *(continued)*



I learn something every time we go through the audit process, and especially appreciate that the auditors are more than willing to spend time helping us resolve issues. – Granite Falls School District No. 332

Schools data added to redesigned FIT, now mobile friendly and offering data for more than 2,300 local governments

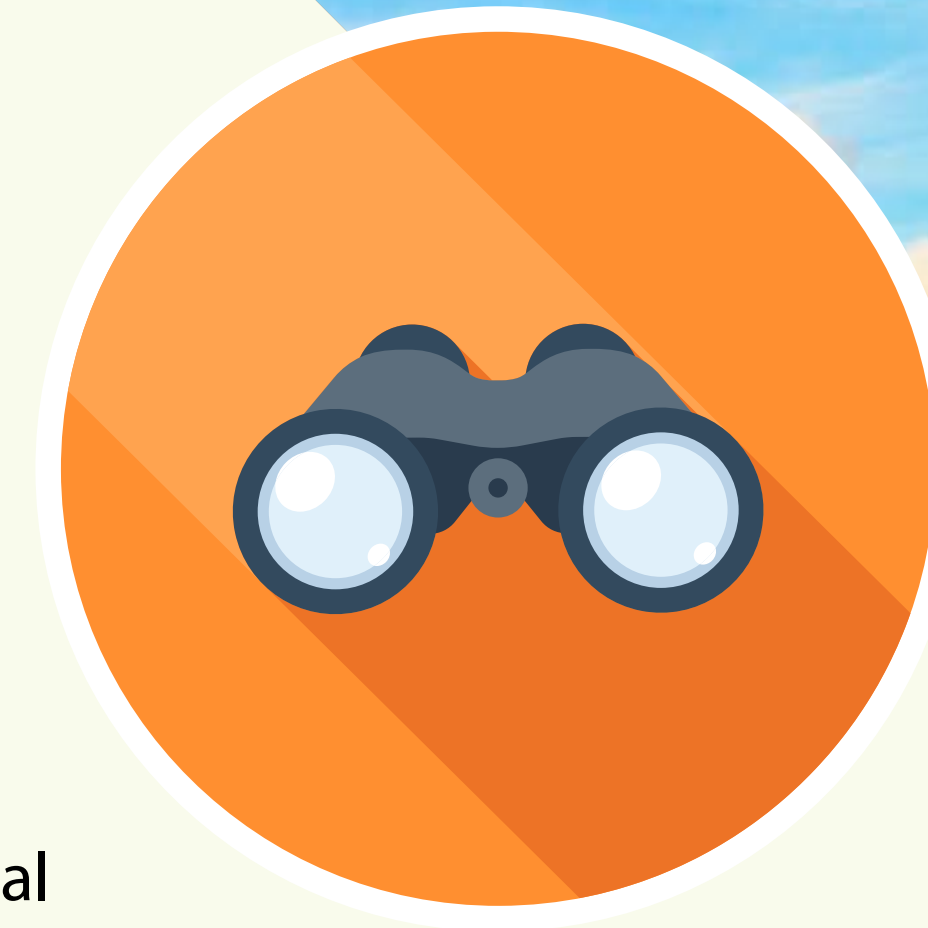
SAO's [Financial Intelligence Tool](#) now includes data from all 295 Washington public school districts. Anyone with internet access can explore this data on their phone or computer in a few clicks or taps. You can enjoy unique FIT profiles for any school district, including four years' worth of revenues and expenditures, as well as financial health indicators and enrollment numbers. If you want to compare data from school districts statewide, FIT can gather all of that in one place.



Looking ahead to 2025: Emerging audit issues

Schools: State law requires our Office to audit every school district, charter school and state-tribal education compact (STEC) school to ensure they spend local levy dollars only on activities beyond basic education. For the most recent school fiscal year – 2022-23 – we audited 122 districts, nine charter schools and four STEC schools on this topic. Our work showed general compliance with state law in the area of local levy spending. However, reporting enrollment accurately is challenging. For the 2022-23 school fiscal year, we audited the enrollment of 15,000 students across 72 districts, charter schools and STEC schools. We found 2.6% of those students were “overreported” – in other words, the state paid for more than it should have for about 400 students. Audits revealed similar overreporting in special education student enrollment. We anticipate continuing our audit effort in these areas in addition to examining the overall financial condition of school districts.

Clean energy: To ensure Washington’s electricity supply is free of greenhouse gas emissions by 2045, state law requires public utilities to meet several goals and requires the Department of Commerce to develop rules, reporting requirements and regular assessments of progress. Our Office is charged with auditing the utilities to make sure they are complying. During this year, our audits have shown that sometimes utilities are not clear on the law’s requirements, so they are having difficulty complying. We anticipate similar results in the remaining audits of those 22 public utility districts, 16 cities and towns, and one irrigation district. Our Office will work with both utilities and Commerce to ensure a common understanding of the rules and requirements.



Audit timeliness and collaboration are key to maintaining your government's bond rating

We urge our local government clients to keep in close communication with our Office to achieve cost-effective and timely audits, which is critical to help governments maintain their bond rating.

Rating agencies such as Fitch, Standard & Poor's, and Moody's rely on financial audits as a window into a local government's financial health, and they require governments to provide a recent audit as part of their process.

To explore the issue from multiple angles, we have put together a special report, ["Three Perspectives: How Audit Timeliness Impacts Government Bond Ratings,"](#) which includes detailed viewpoints on the topic from a city finance director, a bond underwriter to local governments, and an audit leader from our Office.

This information first appeared in September 2024 as part of a larger newsletter for the Washington Finance Officers Association annual conference. For convenience, we have made this special [standalone report a downloadable PDF.](#)

Clients who have questions should contact their [local audit team.](#)





Any Washington resident can contact us to report concerns of government waste or abuse. We examine all reports and open full investigations when appropriate.

Call: 866-902-3900

Send mail to:

Washington State Auditor's Office
ATTN: Hotline
P.O. Box 40031, Olympia, WA 98504

Or file the report on our website:

<https://www.sao.wa.gov/report-a-concern/how-to-report-a-concern/the-citizen-hotline/>



How to print this report:

- Move your mouse cursor to the bottom of your browser window. A bar will appear with several icons. Click the "download PDF" button.
- Open the downloaded PDF, and choose the "print" option from your PDF reader.
- Be sure to check "landscape" orientation and, if possible, at least legal-sized paper for better ease of reading.
- Consider "printing on both sides, flip on short edge" to save paper.
- Finally, decide whether you want full color or grayscale – we know folks rooted in #GoodGovernment are judicious with printer ink.