STATE OF WASHINGTON

November 3, 2026

The Honorable Bob Ferguson
Governor of Washington
P.O. Box 40002
Olympia, WA 98504-0002

The Honorable Members of the Legislature
110 Legislative Building
Olympia, WA 98504-0600

Dear Governor Ferguson and Members of the Legislature:

State law (RCW 39.26.220[1]) requires the State Auditor and Attorney General to annually provide the Governor and the policy and fiscal committees of the Legislature a collaborative report on state agency contract audit and investigative findings, enforcement actions and the status of the state agency resolution.

This letter serves as our report of findings and actions taken on audits issued in fiscal year 2026 (July 1, 2025, to June 30, 2026).

STATE AUDITOR'S OFFICE

Accountability Audits

During fiscal year 2025, our Office issued three compliance and accountability audit reports that contained findings related to contracting issues.

Military Department[2]

On July 3, 2025, our Office issued an accountability report to the Military Department that included a finding documenting that the Department did not have adequate controls over and did not comply with departmental policies for its rental lease program.

We recommended the Department:

- Follow established policies and procedures over the rental lease program
- Ensure staff understand roles and responsibilities and receive training on department policies and procedures
- Strengthen management oversight to ensure it is in compliance with its internal policies and procedures

[1] RCW 39.26.220:
[2] ar1037584.pdf

The Construction and Facilities Management Office (CFMO) reviewed and agreed with the finding. CFMO is working with the finance department to develop standardized reports and update internal procedures to create documentation to establish and monitor proper internal controls for the rental/lease program it operates. Additionally, CFMO is increasing management oversight on the program to ensure compliance with internal policy and state law. The Department and CFMO are committed to improving the operations and tracking of the Rental/Lease Program.

Department of Fish and Wildlife[3]

On August 7, 2025, our Office issued an accountability report to the Department of Fish and Wildlife that included a finding documenting that the Department did not have adequate internal controls over and did not comply with state regulations for conducting auctions and raffles for wildlife hunts.

We recommended the Department:

- Strengthen its contract monitoring of organizations to ensure they pay out auction revenues in full and within 30 days in accordance with state regulations and contract terms and conditions
- Review contractual requirements to ensure all contract terms and conditions are met, and ensure that they comply with state regulations
- Review all auction and/or raffle proposals organizations submit to ensure they contain the minimum required information
- Maintain documentation to demonstrate it contacts raffle winners and alternates by writing via certified U.S. mail and telephone, in accordance with state regulations
- Determine if any unpaid auction revenues should be given to the state, and consider taking action to address any outstanding payments owed to the Department, as necessary

The Department did not agree with this finding; however, the Department said in its response that it wants to strengthen program administration and align regulation language with operational needs. The Department said it will initiate rulemaking to review WAC 220-412-040 and 220-412-060. Revising these rules will allow the Department to establish appropriate procedures that uphold fairness and transparency. We will review the status of the Department's corrective action during the next audit.

Department of Commerce[4]

On August 11, 2025, our Office issued an accountability report to the Department of Commerce that included a finding documenting that the Department did not have adequate internal controls over and did not ensure reimbursements for the Digital Navigator Program were allowable and properly supported.

While the Digital Navigator Program is no longer funded, we recommended that the Department:

- Develop and implement written policies outlining documentation standards, approval responsibilities and payment processing requirements
- Establish segregation of duties to ensure different staff perform the review and approval processes
- Train staff adequately to fulfill job duties effectively
- Implement proper management oversight
- Consider reviewing the payments made without adequate support or evidence of services performed to ensure they were allowable
- Consult with its legal counsel to assess whether to request reimbursement for unallowable payments made to the grantee

[3] ar1037864.pdf
[4] ar1037901.pdf

The Department agreed with the finding. In fiscal year 2025, agency management became aware of the compliance issues related to the prepayment, lack of segregation of duties and proper supporting documentation used for recipient payments and the Department took measures to apply contract requirements to support compliance with all state laws and policies. The Department is moving forward under new leadership with renewed attention to internal controls and compliance, including establishing a Contracts and Compliance Division. We will review the status of the Department's corrective action during the next audit.

Financial and Federal Audits

During fiscal year 2026, our Office issued five financial and federal audit reports that contained findings related to contracting issues.

Washington State Potato Commission[5]

On March 30, 2026, our Office issued a financial and federal report to the Washington State Potato Commission that contained a finding documenting that the Commission lacked adequate internal controls and did not comply with federal suspension and debarment requirements. We recommended the Commission strengthen its internal controls to verify all contractors it pays $25,000 or more, all or in part with federal funds, are not suspended or debarred from participating in federal programs and maintain documentation demonstrating compliance with this requirement.

The Commission agreed with the finding. To address this issue, the Commission will implement stronger internal controls to verify that all contractors it pays $25,000 or more, either fully or partially with federal funds, are not suspended or debarred from federal programs before entering into contracts. This will include regularly checking exclusion records in the U.S. General Services Administration's System for Award Management (SAM.gov) before performing work with contractors included in the Specialty Crop Block Grant Program contracts. We will review the status of the Commission's corrective action during the next audit.

State of Washington [6]

On March 30, 2026, our Office issued our annual financial and federal audit report for Washington state. This report covered the fiscal year that began on July 1, 2024, and ended June 30, 2025. The report included four findings regarding contract-related matters.

2025-008*: The Department of Social and Health Services did not have adequate internal controls to ensure payments were allowable and made only to eligible beneficiaries for the Summer Electronic Benefits Transfer Program for Children.*

We found the Department did not obtain or review data from its third-party contractor detailing all participants determined eligible during the audit period.

We recommended the Department:

- Establish internal controls to ensure all participants awarded benefits under the program meet eligibility criteria
- Improve internal controls to ensure it documents any improper payments identified
- Retain supporting documentation to demonstrate that all participants receiving benefits under the program are eligible
- Monitor its third-party contractor to ensure eligibility determinations are accurate and in accordance with state and federal requirements
- Consult with the grantor to determine if the questioned costs identified in the audit should be repaid

[5] ar1039401.pdf
[6] ar1039325.pdf

The Department agreed with the finding. The improper payments identified resulted from challenges of implementing a new program in its first year. Errors occurred when school and Department users migrated data into new templates, leading to the inclusion of ineligible students and inaccurate dates of birth. The Department agreed that thorough data validation before issuance would have better identified systemic issues related to age and enrollment. Upon discovery, the Department promptly expunged ineligible benefit issuances to limit the state's liability. The Department is taking various steps to strengthen internal controls in its Community Service Division including a mandatory data reconciliations process requiring the contractor to provide a full participant dataset, including dates of birth and eligibility status, for the Department to review and approve before issuing benefits. We will review the status of the Department's corrective action during our next audit.

2025-024*: The Department of Health did not have adequate internal controls over and did not comply with fiscal monitoring requirements for the Epidemiology and Laboratory Capacity for Infectious Diseases program.*

We recommended that the Department identify and track all subrecipients and strengthen internal controls that ensure it completes fiscal monitoring timely for all subrecipients.

The Department of Health disagreed with the finding. Its response stated that at no time during the audit period were subrecipients operating without oversight, nor were there any identified misuse of funds, questioned costs, or programmatic noncompliance resulting from the issues described. The matter noted relates primarily to administrative tracking documentation and internal scheduling practices rather than a breakdown of fiscal monitoring controls. Although the Department disagreed with the finding, it recognized opportunities to strengthen documentation controls and tracking standardization.

2025-040*: The Health Care Authority did not have adequate internal controls over and did not comply with managed care financial audit requirements.*

We recommend the Authority ensure managed care organizations (MCO) contracts require audits of financial statements that are conducted in accordance with generally accepted accounting principles (GAAP) and generally accepted auditing standards (GAAS).

The Authority implemented new contract language in January 2025 requiring MCOs to submit audited financial reports in accordance with GAAP and GAAS. MCOs are required to submit the GAAP and GAAS statements beginning with the June 2026 submission.

2025-049*: The Health Care Authority did not have adequate internal controls over and did not comply with Recovery Audit Contractor (RAC) requirements for the Medicaid program.*

We recommend the Authority establish internal controls over and complete implementation of the RAC program, including the development and execution of RAC-specific policies, conducting claims reviews and recoveries, establishment of fraud referral procedures, and ensuring compliance with CMS-64 reporting requirements. States must report recoveries on the CMS-64 report, ensure RACs coordinate with other auditing entities, refer suspected fraud or abuse to the Medicaid Fraud Control Unit or law enforcement and set limits on the number and frequency of medical records RACs should review.

The Authority partially agreed with the finding. The Authority agreed it did not have a RAC contract in place during the fiscal year under review but expected to have the contract in place by October 2025. However, it did not concur with the auditor's recommendation. The work of a RAC contractor is one of many tools the Authority uses to identify and report fraud, waste, and abuse and is meant to supplement the Authority's Program Integrity work. The Authority has policies and procedures in place over claim reviews and recoveries, fraud referral procedures and CMS reporting requirements, and will simply add the results of the RAC contractor reviews into its current workflow. We will review the Authority's corrective action during our next audit.

Performance Audits

During fiscal year 2026, our Office issued one performance audit report that contained contracting issues.

Department of Commerce[7]

On January 26, 2026, our Office issued a performance audit report that documented contracting issues. During this performance audit we took an in-depth look at the Digital Navigator program within the Department of Commerce. This program was a key part of the state's effort to help underserved communities access and navigate online services.

We made a series of recommendations to the Department of Commerce to strengthen grant management practices, including establishing clearer procedures around contract expansion, reimbursement, eligibility verification, data collection and performance management. We also recommended the Department improve staff training, oversight and leadership responsibilities.

The Department agreed with our findings and recommendations for this report. The Department committed to:

- Competitive processes to award or expand grant funds
- Proper vetting of direct grantees and subgrantees
- Clear and specific responsibilities and compliance for grantees and subrecipients
- Performance management
- Reimbursement oversight

The Department said it would continue to make improvements in grant management practices, staff training, oversight, and leadership responsibilities to improve internal controls and oversight for program effectiveness and integrity.

Fraud and Whistleblower Audits

During fiscal year 2026, our Office issued one fraud report that included a contracting issue. We did not identify any whistleblower investigative reports that included contracting issues.

Bellevue College[8]

On November 24, 2025, our Office issued a Fraud Investigation Report that identified a contracting issue. The College detected a loss after noticing a student engagement department expense in whole round numbers, which is atypical for the department's spending. A program specialist in the department had submitted a vendor contract requisition for review. This employee was responsible for administering program activities, services, and trainings, and for selecting vendor contracts for leadership events. However, the Program Specialist did not disclose her personal relationship with a vendor the department contracted, as required by the College's conflict-of-interest policy.

The department approved the vendor contract and authorized payments totaling $70,000 for online leadership events. Four of these payments were for events that never occurred. After completing its investigation, the College concluded a misappropriation totaling $20,000 occurred. We reviewed the College's investigation and agreed with its conclusions.

[7] ar1038954.pdf
[8] ar1038137.pdf

We recommended the College strengthen its internal controls over the contract requisition process to safeguard public resources. At a minimum, the College should ensure adequate oversight of the scope of services performed, require documentation supporting completed work before approving payment, and provide training to employees on conflict-of-interest requirements.

The College agreed with the finding. It acknowledged deficiencies in controls over contracts and the requisition process. The College stated it will continue to strengthen its contract review process by training budget authorities to more closely scrutinize contracts submitted for approval, ensuring services are an appropriate use of public funds.

ATTORNEY GENERAL'S OFFICE

The Auditor's Office did not issue any audit or investigative findings that required referrals to the Attorney General's Office for enforcement.

Sincerely,

Pat McCarthy
State Auditor

Nick Brown
Attorney General