



## STATE OF WASHINGTON

October 3, 2022

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

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

Dear Governor Inslee and Members of the Legislature:

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

This letter serves as our report of findings and actions taken on audits issued in fiscal year 2022 (July 1, 2021, to June 30, 2022).

### **STATE AUDITOR'S OFFICE**

#### *Compliance and Accountability Audits*

During fiscal year 2022, our Office issued two compliance and accountability audits that contained findings related to contracting issues.

#### *Military Department<sup>2</sup>*

On November 15, 2021, our Office issued an accountability report for the Military Department that contained a finding reporting that the agency did not comply with state law and departmental policies for the Rental Lease Program.

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<sup>1</sup> <https://app.leg.wa.gov/RCW/default.aspx?cite=39.26.220>

<sup>2</sup> <https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1029377&isFinding=false&sp=false>

We recommended the Department improve its internal controls over the Rental Lease Program by:

- Following established departmental procedures over the program
- Ensuring staff understand their roles and responsibilities, and receive training on department procedures
- Ensuring management oversight is sufficient to ensure compliance with policies and state law

The Department agreed with our recommendations and submitted a corrective action plan to the Office of Financial Management, as required by the State Administrative Accounting Manual. We will follow up on these matters in our next audit.

### *Washington State Blueberry Commission*<sup>3</sup>

On May 16, 2022, our Office issued an accountability report for the Washington State Blueberry Commission that contained a finding reporting inadequate controls to ensure expenditures were allowable and supported, as well as noncompliance with laws related to research and administrative contracts.

We recommended the Commission:

- Establish written policies and procedures over its disbursement processes
- Improve oversight of its contracted management company to ensure disbursements have adequate support, it spends public funds only for allowable purposes, and that it meets state records retention requirements
- Comply with the Department of Enterprise Services' (DES) procurement requirements
- Ensure it keeps documentation to demonstrate compliance with state law and its own rule for evaluating Washington State University's facilities for awarding research projects.

The Commission partially agreed with the issues outlined in the finding. Commodity commissions are not required to submit corrective action plans to the Office of Financial Management. However, we will follow up on these matters with the Commission during its next scheduled audit.

### *Performance Audits*

On January 25, 2022, our Office issued a performance audit report that identified contracting issues.

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<sup>3</sup> <https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1030307&isFinding=false&sp=false>

*University of Washington*<sup>4</sup>

In fiscal year 2020, the University of Washington spent more than \$1.6 billion for goods and services. During this period, the Procurement Services office managed about 3,400 contracts with an estimated value of about \$900 million, and UW Medicine Supply Chain managed about 300 contracts totaling almost \$85 million. We reported the university entered into some unauthorized contracts, which are when employees make purchases exceeding \$10,000 without prior approval from Procurement Services or UW Medicine Supply Chain. We also found the university could do more to make its contracting activities more transparent.

Procurement Services identified 25 purchases related to contracts that its staff did not authorize. These unauthorized purchases represent less than 1 percent of the total contracts the office manages. The estimated value of the 25 unauthorized purchases was about \$3 million (this was the total amount available to spend, not the actual amount the University spent). Unauthorized contracts at UW Medicine Supply Chain also appear to be rare, but because this office does not track unauthorized contracts, we were unable to determine how often they actually happen.

Our audit found that both procurement offices have gaps in how they prevent, track and respond to unauthorized contracts. For example, while Procurement Services tracks unauthorized contracts, it does not collect the information it needs to understand why they happen.

To prevent employees from signing unauthorized contracts, we recommended:

- Procurement Services modify and UW Medicine Supply Chain develop a tool to track unauthorized contracts and gather specific information about why they happened. In addition, when UW implements Workday—a single financial system that stores all of the university’s contracts—the system should be configured to track unauthorized contracts.
- Analyze the causes of unauthorized contracts to identify why they happened and possible trends. The offices should then develop appropriate plans to address the causes of unauthorized contracts. This could include targeted outreach to ensure employees who are most likely to sign an unauthorized contract know the correct procedures.
- Require employees who are involved with unauthorized contracts to prepare and implement a corrective action plan to prevent unauthorized contracts from happening again.

To ensure the public has access to transparent contract information, we recommended both offices:

- Provide more, and more easily accessible, information about procurement contract activities on their web pages. This information should include a link to the DES contract transparency reporting page and a link to procurement spending reports that the offices provide to the Board of Regents.

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<sup>4</sup> <https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1029710&isFinding=false&sp=false>

- Improve their processes for preparing annual reports to DES by establishing a secondary level of review for the contracts that are considered exempt from reporting, to minimize the possibility of excluding contracts. The university should also reach out to DES for guidance to ensure all of the required contracts are included in the report.

The university agreed with our recommendations. In response to these recommendations, management said the university will:

- Identify opportunities to improve the current processes of tracking and approving contracts, which includes expanding and documenting the questions and responses from units upon detection of an authorized purchase
- Enhance the current escalation path for employees who are involved with unauthorized contracts. This may include required additional training and communication to the senior leadership of the unit to establish a corrective action plan, which could involve denying or suspending access to one or more of their systems until certain requirements are met.
  - Additional mitigation measures are also being considered. This includes additional training and clearer guidance on the Procurement Services website, and partnering with other campus units to provide guidance and resources when a contract is awarded that anticipates significant procurement of goods, services, and/or equipment.
- Establish a link from its website to the DES contract reporting site for improved transparency regarding annual contracting activities. This link will also include the relevant spend for UW Medicine.
- Continue to make improvements to the reporting process as reporting requirements evolve

### *Financial and Federal Audits*

During fiscal year 2022, our Office did not issue any financial or federal audit reports that contained findings related to contracting issues.

### *Fraud and Whistleblower Audits*

During fiscal year 2022, our Office did not issue any fraud or whistleblower reports that contained findings related to contracting issues.

## **ATTORNEY GENERAL'S OFFICE**

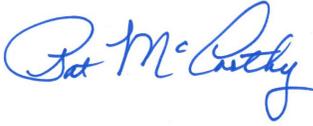
The Auditor's Office did not issue any audit or investigative findings that required referrals to the Attorney General's Office for enforcement.

Governor Inslee and Members of Legislature

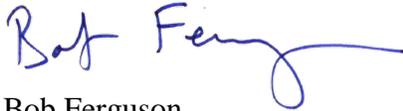
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Sincerely,

A handwritten signature in blue ink that reads "Pat McCarthy". The signature is written in a cursive style with a large initial "P" and a long, sweeping underline.

Pat McCarthy  
State Auditor

A handwritten signature in blue ink that reads "Bob Ferguson". The signature is written in a cursive style with a large initial "B" and a long, sweeping underline.

Bob Ferguson  
Attorney General