



# ANNUAL REPORT

2022



North Head Lighthouse on the Pacific coast,  
Washington

# A MESSAGE FROM THE AUDITOR

Washington's public auditors spent fiscal year 2022 expanding the work of government accountability envisioned in 1889 by our state's founders.

This report highlights the excellent work done on behalf of the public. We conducted hundreds of audits of state agencies and local governments, including their use of federal COVID-19 funding.

Our annual audit of how state agencies spend federal money revealed significant problems – some related to pandemic funding and some recurring issues. The Legislature's investment in extra auditing hours allowed us to review 86 percent of all the federal funds the state received.

We also began two new audit programs focused on issues important to Washingtonians:

- Ensuring electricity providers are complying with the state's Clean Energy Transformation Act
- Assessing the work of investigation teams that review police actions when their use of force kills or injures someone. These are the first audits of their kind to be conducted in the United States.

Finally, we launched a new, easy-to-use library of more than 60 free resources to help local governments improve their operations and better serve their residents.

The State Auditor's Office has served Washington for more than a hundred years – evolving to meet the needs of a more complex world but never losing sight of our foundation: serving the public with an independent eye.



Pat McClellan



# 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 2022.

# 2,566 audits

July 1, 2021 -  
June 30, 2022

**1,124**  
audits

**79** findings

## Accountability audits

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

**756**  
audits

**72** findings

## Financial audits

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

The Cable Bridge in the Tri-Cities

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

**473**  
audits

**117** findings

## Federal audits

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

**7**

## Whistleblower investigations

Whistleblower investigations are the result of state employees sounding the alarm on possible waste, fraud or abuse. We issued seven reports, and five of them revealed improper action by state workers.

Diablo Lake reservoir in the North Cascade mountains

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



## Citizen Hotlines

427 received, 303  
merited further  
consideration

11

### Fraud investigations

A fraud investigation results in a written report if we find significant misuse or theft of public money. In FY2022, 11 of our 42 investigations met this standard, identifying \$811,688 in misappropriated public funds and \$176,724 in questionable transactions.

3

### 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. However, following accountability reforms we proposed, the number fell from around 40 to only three.

180

### Other engagements

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

Olympic National Forest

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

5

### 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.

7

### Cybersecurity audits

Cybersecurity audits are a type of performance audit that 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.

Rainbow trout, Banks Lake near Coulee City

# Essential audit work on the state's largest expenditure of federal funding in history

FY 2021 federal funds:  
state agencies spent

almost  
**\$37b**



**42%**  
increase compared  
to 2020

The 2021 [State of Washington Single Audit \(SWSA\)](#) was the first to review an entire year of how the state spent COVID-19 emergency funding. Because of the Legislature's investment in ongoing federal funding audits, SAO dug into the funding increase associated with COVID-19 response and relief. We ultimately audited 86 percent of all the federal funding received in that fiscal year.

We issued 61 findings across 21 federal programs, and we questioned more than \$1 billion in costs — meaning we were unable to verify those dollars were spent according to federal requirements.

**Click to the next page to see the findings.**

Chain Lakes Trail, Mount Baker

# Essential audit work on the state's largest expenditure of federal funding in history *(continued)*

## 2021 State of Washington Single Audit key findings

- Significant problems with how state agencies monitored the COVID-19 relief funding and other federal money they awarded to other organizations
- State agencies continue to lack safeguards to ensure they spend federal money only for allowable purposes and properly document their expenses. One agency's entire program costs — more than \$273 million — were unauditible because of insufficient records.
- More than half of our findings are about problems that we have previously reported to state management.

Wind turbines on the hills above the Columbia River Gorge



## State lawmakers support other essential audit work

**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 2022 ACFR is scheduled for release in December 2022, and will cover state expenditures of more than \$80 billion.

Mukilteo Lighthouse Park from Puget Sound

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

## What work does the Performance Audit of Government Account support?

Washington voters passed Initiative 900 (I-900 for short) in 2005, giving our Office authority to conduct performance audits. To pay for them, the initiative established the Performance Audit of Government Account (PAGA) 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. Depending on the complexity of the work, we complete 15 to 20 performance audits each biennium. The money also funds our cybersecurity audit program and the Center for Government Innovation.

Traditional performance audits evaluate the efficiency and effectiveness of government programs with the goal of making them work better.

**Click to the next page to see the findings.**

Arnica in alpine meadows, Sauer's Mountain in the Central Cascades

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

### Evaluating Washington's Ballot Rejection Rates (February 2022)

Washington's mail-ballot elections are carried out by counties, with support and guidance from the Secretary of State. This audit conducted a detailed statistical analysis of ballots in the 2020 general election, and – after accounting for certain demographic factors – found ballots in some counties were four to seven times more likely to be rejected than in others. However, the audit found few discernable patterns that could help explain differences and no evidence of bias in accepting or rejecting voter signatures. The audit made recommendations to help counties reduce the number of ballots rejected. We also issued a booklet of resources for county election officials, summarizing leading practices to help them improve voter education and their internal procedures around voter signatures and ballot curing.

Orca whales, San Juan Islands

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

### Medicaid Program Integrity (July 2021)

Medicaid serves one in four Washingtonians, and accounted for about \$14.6 billion in state and federal funding in fiscal year 2020. The state's Health Care Authority (HCA) is responsible for oversight of program integrity efforts at managed care organizations, as well as at sister state agencies. The audit found that while HCA has taken steps to improve its oversight in recent years, it could do more to reduce fraud and other improper payments, for example by prioritizing its own audit resources for high-risk cases. We recommended the agency address gaps in the areas of strategic planning and performance measurement to help ensure it continues to improve.

### Legislative request for 2023

SAO is seeking additional funding from the voter-approved PAGA account to conduct an additional four to six performance audits each biennium. Topics could include follow-up audits on charter schools, processing sexual assault kits and bail reform.

Aerial view Alder Lake Dam, Eatonville

# Helping local governments and state agencies improve their cybersecurity

## Specialized cybersecurity audits

These audits examine state and local governments' IT systems to identify weaknesses and propose solutions to strengthen them against threats to confidential data and critical systems. Cybersecurity audits are a special type of performance audit that aim to help improve a government's security posture through a detailed assessment of its security controls and real-time penetration tests of its systems. From the program's inception in 2014 through the end of this fiscal year, we have audited more than 60 state agencies and local governments to help them address cybersecurity issues.

The expertise of our auditors and specialists also help local governments protect their IT assets through the Center for Government Innovation. SAO's #BeCyberSmart campaign uses social media to point governments to our website, where we have tip sheets and resources designed for the different roles in government.

## Legislative request for 2023

SAO is seeking additional funding from the voter-approved PAGA account to expand our capacity to conduct full cybersecurity audits of local governments; add more governments to our critical infrastructure audit project; introduce audits to address attacks that result in cyber-losses; and augment the nonaudit cybersecurity services available through SAO's Center for Government Innovation.

Sunset over Vantage Bridge, near Wild Horses Monument

# The Center for Government Innovation: Resources, tips and training

The Center for Government Innovation expands the reach of I-900 by providing best practices and key results from performance audits in a manner tailored to local governments. Here are some examples of the resources and services the Center provided this year.

**Fighting the criminals:** Bad actors use social engineering to target Automated Clearing House (ACH) and wire transactions, and the risks are too large to ignore. Our resources can help.

- [Best practices for ACH electronic payments](#)
- [Best practices for sending wire transfers](#)



Seattle city skyline

# The Center for Government Innovation: Resources, tips and training

**Preparing for the worst:** Whether an earthquake or cyberattack, SAO has compiled information to help local local governments prepare financially.

- [Improve your cybersecurity without breaking your budget](#)
- [Are your government's finances ready for an earthquake?](#)

**Improving data quality:** Legislators, bond rating groups, reporters and the public are using government data. We updated and enhanced our tools to help governments file accurate annual reports.

- [Food for thought: Financial data accuracy](#)
- [Data quality checklist](#)

Leavenworth's decorations light up the winter night

# Spreading the message and tools of good government

## Good government training

While COVID-19 remains a factor in our lives, the 2022 fiscal year was a return to in-person events and learning together. Here are our numbers:

**93**  
events

**6,333**  
attendees

## SAO's Helpdesk an essential customer service tool

SAO's Helpdesk is a handy online tool for state agencies and local governments to seek auditing and accounting guidance.

We answered 1,150 Helpdesk requests in FY2022. The most common questions were related to the funding governments received from COVID-19 federal programs.

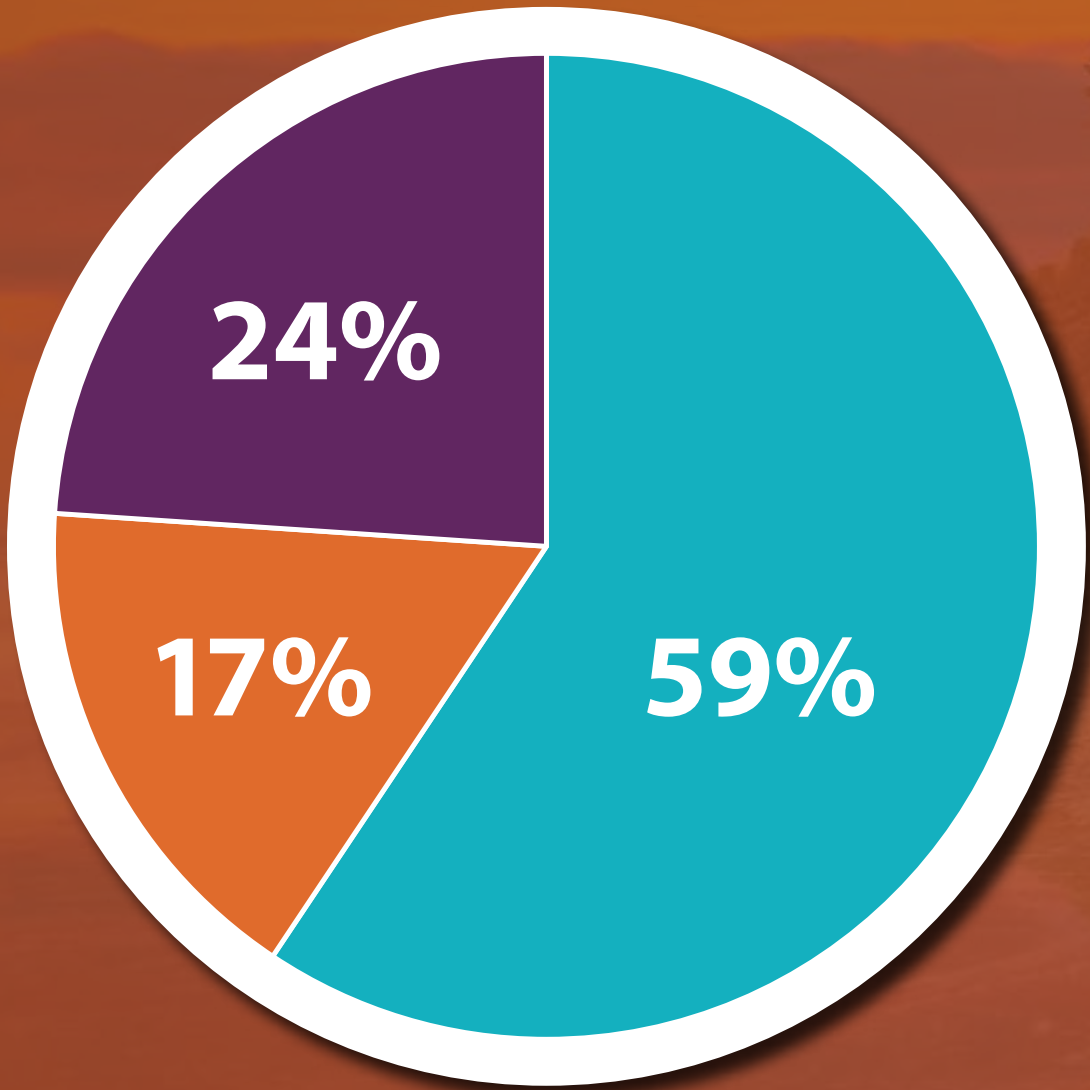


Landmark clock tower in Spokane's Riverfront Park



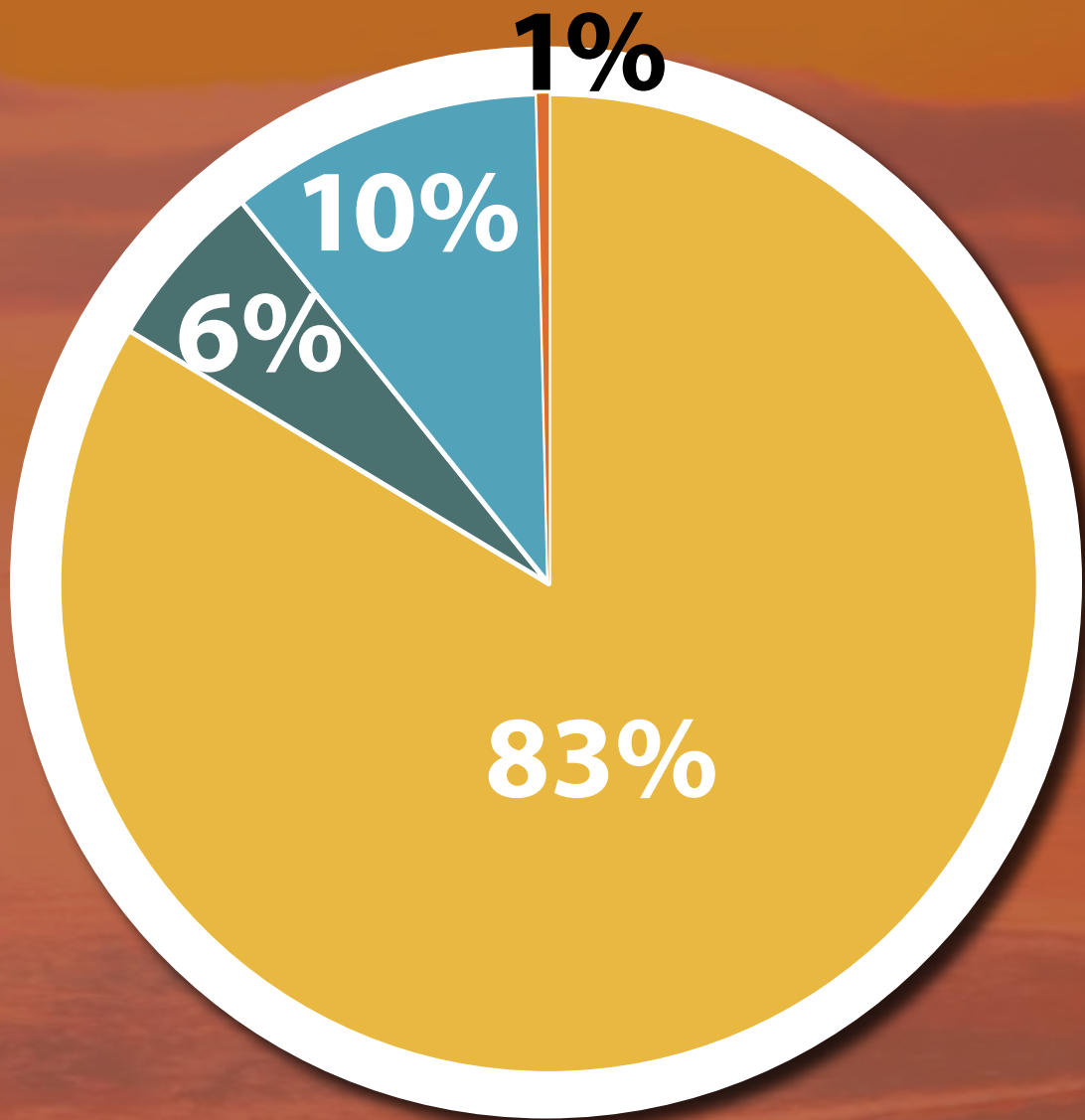
# The Auditor's FY2022 budget: \$53.8 million

## Where does SAO's money come from?



- \$32 million paid by local governments for their audits
- \$9 million from the Legislature for state agency audits
- \$12.9 million from sales tax for performance and cybersecurity audits

## Where does the money go?



- \$44.9 million in salaries and benefits
- \$3 million in contracting
- \$5.6 million in goods, services and equipment
- \$204,000 in travel

Sunset over Second Beach, La Push

## Recent successes, and those to come



### **New audits: Use of Deadly Force Investigations and Clean Energy Transformation Act compliance**

In fall 2022, we released the first reports in two new audit areas: Use of Deadly Force Investigations and Clean Energy Transformation Act. Our Office has begun reviewing investigations into police use of deadly force that happened after January 6, 2020. We also began auditing public utilities' compliance with the state's Clean Energy Transformation Act, which places new requirements on electric utilities to transition to clean energy resources for retail customers.

Steelhead trout, Kennewick

## Recent successes, and those to come



### Cyber Checkup program: A first step for local governments to identify cybersecurity gaps

Local governments are attractive targets for cyber criminals because they maintain vast amounts of sensitive data. That's why the Center for Government Innovation is developing a Cyber Checkup program. Designed as a first step in diagnosing security gaps, the checkups are built on the Center for Internet Security's Critical Security Controls framework, and can usually be completed in less than a month.

Museum of Glass, anchoring downtown Tacoma

## Recent successes, and those to come



### New fraud-prevention resource for elected officials and members of appointed boards

Elected officials and members of appointed boards have a key role to play when it comes to preventing, detecting and responding to employee fraud. In a first-of-its-kind guide for public entities, SAO's Special Investigations Team developed a resource for these leaders, including tips for policies and internal control best practices.



Wanapum Lake reservoir and recreation area

## Recent successes, and those to come



### Updated look, better functionality to help governments find SAO resources

SAO's new [Resource Library](#) offers dozens of free guides, checklists, best practices and tools to help Washington governments improve their internal controls, grant management, procurement practices, financial reporting and cybersecurity.

Black-tailed deer on Hurricane Ridge Trail, Olympic National Park

## Recent successes, and those to come



### **SAOshare: SAO's Microsoft-based tool for data sharing and audit collaboration**

In June, we began using SAOshare, a new data-sharing and collaboration tool. We developed SAOshare after consulting with Washington Technology Solutions (WaTech) and worked with Microsoft engineers to build a tool based on SharePoint Online.

Sunset at Palouse Falls



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/>



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- 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.