



Washington State Auditor's Office

Report to the Legislature Audits of State Agency Local Funds 2009-2011 Biennium

Introduction

The State Auditor's Office audits the financial activity and record-keeping practices of local funds as part of its audits of state agencies. This report contains the results of the audits for 2009-2011.

Local funds are state funds not in the care and custody of the Office of the State Treasurer. The Legislature established some of the funds; the rest are authorized under state law (RCW 43.88.105), which allows the Office of Financial Management to establish local funds outside the State Treasury when agencies present compelling reasons to do so.

2009-2011 Local Funds information

During 2009-2011, 32 state agencies, including five colleges and universities, and 22 community and technical colleges had money in 51 local funds. As of June 30, 2011, 51 local funds reported \$8.2 billion in cash and investments. Those funds reported \$7.3 billion as of June 30, 2010.

Table 1 shows the cash and investments in local accounts by fund type. [Attachment A](#) has detailed information about all 51 local funds and the agencies that use the funds.

Table 1 – Local Funds by Fund Type

Fund Type	2011	2010
Special Revenue Funds	\$ 1,740,180,445	\$ 1,511,267,751
Capital Projects Funds	88,316,198	117,114,660
Debt Service Funds	6,978,858	8,678,124
Permanent Funds	2,416,947,066	2,012,062,083
Enterprise Funds	3,193,230,098	2,983,264,327
Internal Service Funds	11,582,151	12,899,913
Private Purpose Trust Funds	61,726	52,760
Cash Held for Others	740,548,054	684,855,115
Total Local Funds	\$ 8,197,844,596	\$ 7,330,194,733

Each state agency is responsible for accounting procedures and internal controls over the local fund(s) it uses.

The risk of misuse or misappropriation of funds increases when cash-receipting and payment operations are decentralized. The risk of noncompliance with state laws and regulations also increases. During the biennium, we reported two findings on local fund misappropriations totaling \$302,059 at two four-year colleges.

Colleges and universities spend most of their money through various local funds. Table 2 shows the revenue and expenditures in local funds for the 2009-2011 biennium.

Table 2 – Revenue and Expenditures

Fund Type	Revenue		Expenditures	
	2011	2010	2011	2010
Special Revenue Local Funds	\$4,666,774,351	\$4,202,633,982	\$4,536,953,503	\$3,999,754,284
Capital Projects Local Funds	184,173,635	282,413,000	242,485,796	90,230,115
Debt Service Local Funds	(1,698,017)	275,999	1,249	43,179
Permanent Local Funds	345,022,591	196,930,383	3,705,679	464,404
Enterprise Local Funds	5,873,535,304	5,955,323,352	5,656,607,255	6,723,617,421
Internal Service Local Funds	309,204,212	232,779,111	266,183,260	248,489,495
Private Purpose Local Funds	20,033	936	11,066	922
Total Revenues and Expenditures	\$11,377,032,109	\$10,870,356,763	\$10,705,947,808	\$11,062,599,820

Local Funds descriptions

State agencies use eight types of local funds, including revolving funds. All fund types except agency funds have revenues and expenditures.

- **Special Revenue Funds:** Agencies use these 21 funds to collect and spend money earmarked for specific purposes. In fiscal year 2011 institutions of higher education and technical colleges received approximately \$4.7 billion, approximately 38 percent from federal sources.
- **Capital Projects Funds:** The Higher Education Non-Proprietary Facilities Account represents 100 percent of the 2009 revenues.
- **Debt Service Funds:** The Ecology Building Debt Service Fund represents 100 percent of the 2009 revenue. The 2011 negative revenue was due to payments made to refund payments to the certificates of participation escrow agent.
- **Permanent Funds:** Colleges and universities use three endowment funds. They can spend only the interest earned on the invested bequests.
- **Enterprise Funds:** Agencies use these 17 funds to provide goods and services to the public and to recover expenditures through user charges. They include fees from parking operations, bookstores, food service and housing at state colleges and universities. Other examples include institutional stores used by the University of Washington's hospital operations account, the state Unemployment Compensation account and the State Lottery Account. About 26 percent of the \$5.9 billion revenue in 2011 represents college and university activities described above. Another 67 percent is related to the state's Unemployment Compensation Account.
- **Internal Service Trust Funds:** These seven revolving funds contain money paid by one agency to another for goods and services. Colleges and universities use most of the \$309 million in these funds to operate stores and for data processing, printing, facilities and motor pools.
- **Private Purpose Trust Funds:** One hundred percent of the Veterans Memorial Account is held in trust by the state for the benefit of or that belongs to veterans.
- **Agency Funds:** The state holds these assets for other governments or individuals. These assets do not belong to the state. Agency funds report assets and liabilities but do not receive revenue from the state or make expenditures. Examples of agency funds are the Washington Higher Education Account and the Institutional Residents' Deposit Account.

General Audit procedures

In general, we cycle audits of local funds by agency and by fund, based on where we perceive the highest degree of risk or error, misuse, abuse or misappropriation. We do not audit all funds at every agency every year. Our goal is to include every fund at least once in a three-year period.

We report the results of our reviews to those we audit and recommend improvements as needed. In areas in which significant improvements are needed, we present our recommendation as findings in a published report. We communicate less serious conditions to agency management and recommend that the conditions will be improved before our next audit.

Local Funds audit procedures during the 2009-2011 Biennium

We performed audit procedures at 41 state agencies, community colleges, and/or colleges and universities. We issued seven findings covering \$1.3 million related to local funds at two state agencies, two commodity commissions, two four year colleges and found reasonable cause in five whistleblower assertions involving local funds, in addition to the two findings mentioned above.

Recommendations

Other than those in the findings, we made no recommendations concerning local funds.