



ANNUAL REPORT

From the Office of the Washington State Auditor



2023



“ We are the public’s window
into how tax money is spent ”

A MESSAGE FROM THE AUDITOR

The Office of the Washington State Auditor was created in the state Constitution to uphold timeless values: government accountability and transparency. Our audit work may be timeless, but our audit teams never rest, as this report for fiscal year 2023 shows.

Addressing the critical issues of our day included starting new lines of auditing over the past year. The Washington State Auditor's Office became the first in the nation to review every investigation into law enforcement's use of deadly force in our state. We launched audits to support the Clean Energy Transformation Act. And we developed cybercheckups, a new review aimed at helping local governments quickly assess their vulnerability to common threats, along with steps to take to improve their security.

Amid a continuing surge of federal funding, we also advocated for clear guidance to local governments using federal grants. For example, we identified an unusual number of findings related to the Federal Communications Commission's Emergency Connectivity Fund. In addition to working through the issue with school districts, we shared details of our concerns with the FCC, and met with agency officials.

And when we published a number of fraud reports involving small cities across the state, we reached out through our partners to help even the smallest governments establish strong internal controls.

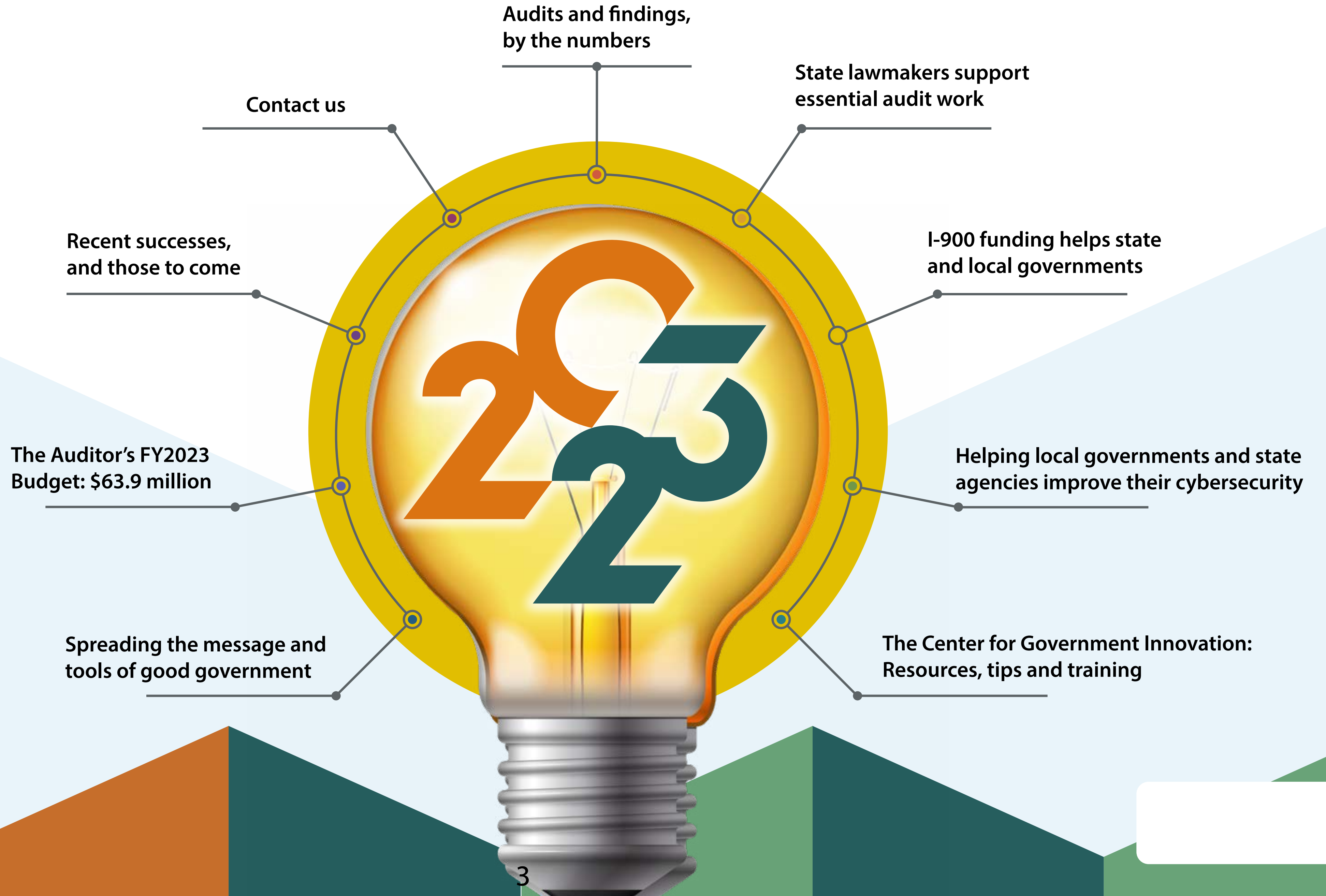
Those developments are just a small part of our Office's impressive body of work in 2023, which this report shares in more detail. Thanks to the dedication of our staff across the state, we delivered the outside, independent reviews our communities expect. Finally, part of upholding accountability is staying informed – so thank you for taking an interest in our work.



Pat McClellan



Highlights



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 2023:

2,402 audits

July 1, 2022 - June 30, 2023

1,014

audits

125 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.



697

audits

69 findings

Financial audits

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



405

audits

294 findings

Federal audits

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



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



14

Whistleblower investigations

Whistleblower investigations are the result of state employees sounding the alarm on possible waste, fraud or abuse. The Office issued 14 reports, and three of them revealed improper action by state workers.



13

Fraud investigations

A fraud investigation results in a written report if we find significant misuse or theft of public money. In FY2023, 13 of our 43 investigations met this standard, identifying \$152,219 in misappropriated public funds and \$168,118 in questionable transactions.



4

Unauditible 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 about 40 and now are considerably fewer due to the concerted efforts of the Office.

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

“ Every audit should be a chance to learn and grow. SAO auditors embody that.

– City of Everett ”

12

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.



25

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.



178

Other engagements

These cover 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)*

10

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.



30

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

**500 received, 323
merited further
consideration**

State lawmakers support essential audit work

2022 State of Washington **Single audit** **key findings**

In fiscal year 2022, state agencies spent almost \$31 billion in federal funds. We audited 82 percent of all the federal funding Washington received.

The 2022 State of Washington Single Audit (SWSA) was the third year of review that examined how the state spent COVID-19 emergency funding. Despite a decrease in state spending from the previous year, we examined more programs and issued more findings: 70 findings across 26 federal programs, compared to 61 findings across 21 programs the year before. This year we questioned more than \$1 billion in costs — meaning we were unable to verify those dollars were spent according to federal requirements.

- Nearly half of our findings relate to issues we have previously reported to state management, including some for more than a decade.
- For the second year in a row, we uncovered significant problems with how state agencies monitored COVID-19 relief funding and other federal money they awarded to other organizations.
- For the second year in a row, all child care payments from the Child Care and Development Fund at the Department of Children, Youth, and Families — totaling \$268.5 million — were unauditible because of insufficient records.

**State lawmakers support essential
audit work** *(continued)*

“ I appreciated that the auditors approached our audit from a teaching perspective. Things we didn’t know, auditors would take the time to really explain the recommendation and the “why” behind something.

– Department of Revenue ”

ACFR
**Annual Comprehensive
Financial Report**



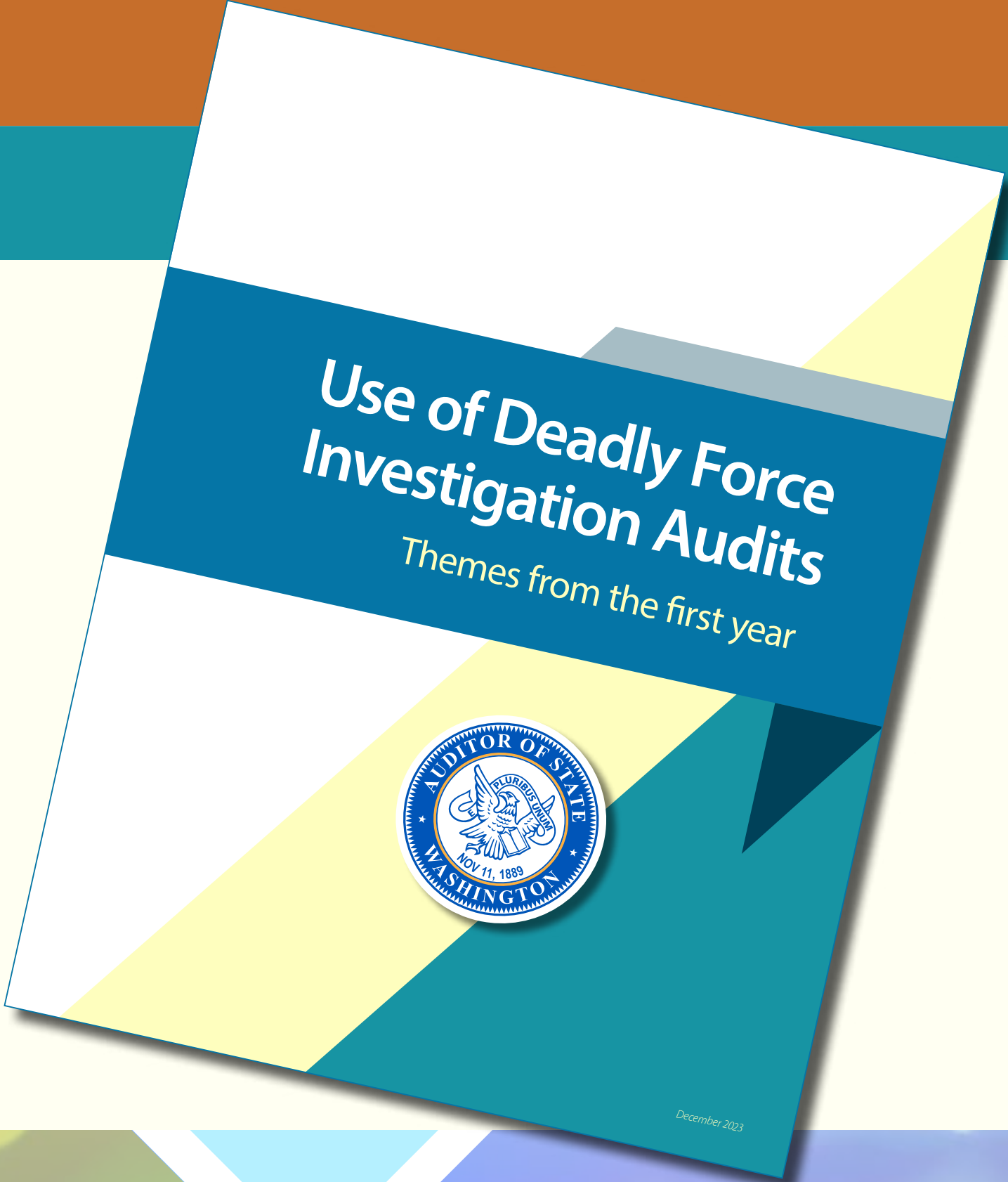
This report is the result of our independent audit of the state of Washington’s financial statements. The outcome of this audit affects the state’s credit and bond ratings. The [2023 ACFR](#) was released earlier this month, and covers state expenditures that total more than \$85 billion.



State lawmakers support essential audit work *(continued)*

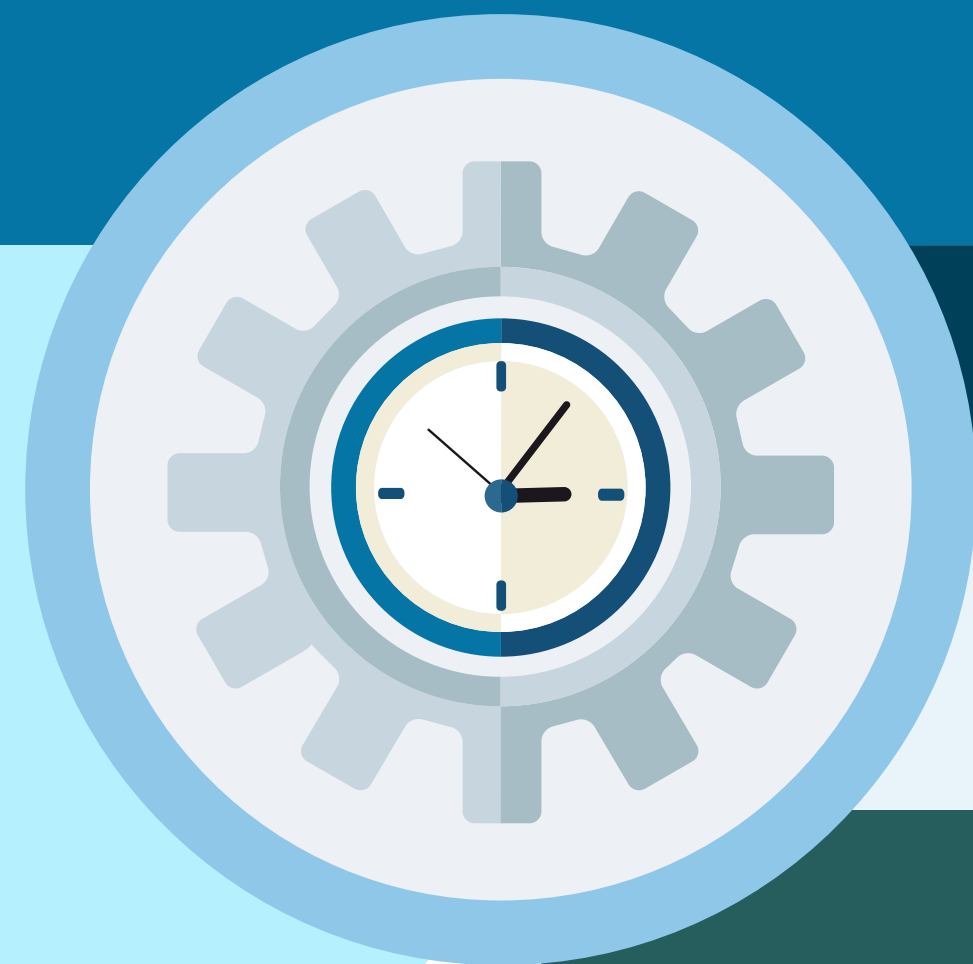
UDFI Use of deadly force investigation audits

This year marked the first full year of our Office conducting these first-in-the-nation independent examinations of how law enforcement investigates use of deadly force incidents. [Our first 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 account 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, our Office receives just a portion of the fund.

We use our allocation 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.

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)*

State has made progress in testing sexual assault kits, but backlog remains

(November 2022)



The Washington State Patrol followed best practices in speeding the testing of sexual assault kits and has implemented a kit tracking system. However, [this audit found more than 6,000 new and older kits remained untested](#) in January 2022. Auditors also reviewed the practices of the Patrol's State Crime Laboratory and found it had implemented recommended practices. Auditor McCarthy committed to another audit of the testing process in the future to determine whether the backlog has been eliminated.

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

Employment Security Department partially implemented customer service reforms

(December 2022)



Responding to a request from state lawmakers, [we evaluated the Employment Security Department on a number of measures](#) related to customer service during the COVID-19 pandemic. We found that shorter wait times for callers and faster benefit payments to Washington's unemployed were primarily due to a decline in the number of jobless people, not to state reforms. We also found the agency had partially implemented other requirements related to clarity in letters to customers, better customer service online, legislative updates and a training program for reserve claim adjudicators.

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

Washington's agricultural commissions effective, can do more

(December 2022)



Local agricultural industry producers believe they benefit from the state commissions that promote commodities from cranberries to beef, and Washington should consider a statewide brand to promote its homegrown goods. [Auditors reviewed the commissions' processes](#) and, with assistance from Washington State University, surveyed producers of the commodities they promote. Commissions said they needed help in navigating complex requirements, which the Department of Agriculture is well positioned to supply.

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 (CIS) 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.

Helping local governments and state agencies improve their cybersecurity *(continued)*

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. Since the program's inception in 2014 through the end of this fiscal year, we have audited more than 108 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.



Helping local governments and state agencies improve their cybersecurity *(continued)*

Cyber Checkup program



Local governments are targets for cyber criminals because of the vast amounts of sensitive data they maintain. That's why the Center for Government Innovation launched a [Cyber Checkup program](#). Designed as a first step in diagnosing cybersecurity gaps, the checkups are built on the Center for Internet Security's Critical Security Controls framework and designed to be completed in less than a month.

Our Office began offering Cyber Checkups in March 2023. As of Dec. 1, 2023, we have completed 37 cyber checkups and have two in the pipeline.



The Center for Government Innovation: Resources, tips and training

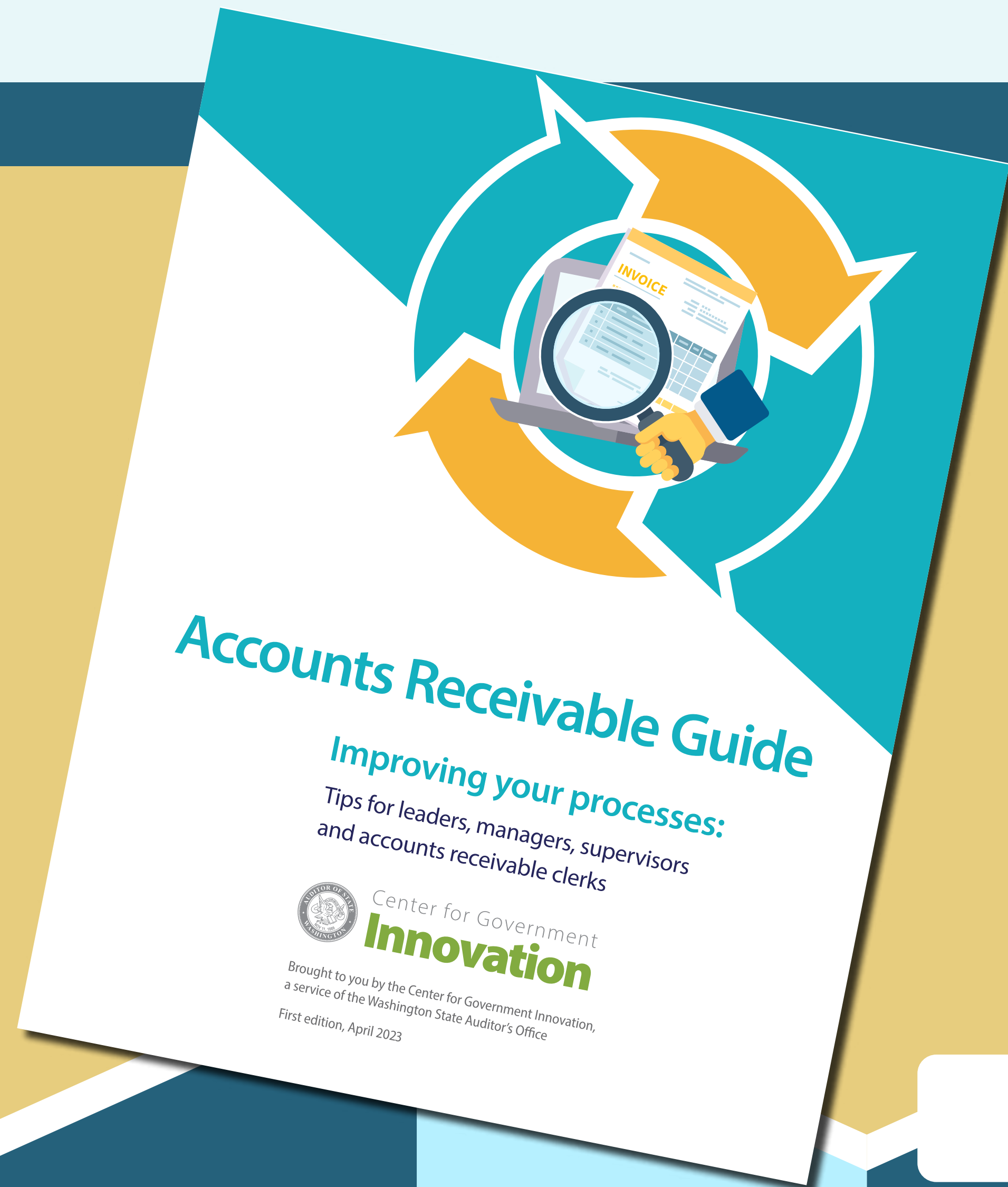
The Center for Government Innovation expands the reach of I-900 by providing tools and services that help Washington governments solve problems and improve operations.

Redesigned [Resource Library](#): easier access to a database of dozens of free guides, checklists, best practices, and tools to help Washington governments manage operations. Our latest resources include:

- **[New Accounts Receivable Suite](#):** Efficient and safe billing and collection processes for taxes, and a multitude of services like utilities, ambulance, property leasing and port terminal operations

“ I see the auditors and myself working together as a team to improve our processes. We are both here to better our district and confirm we are good stewards of public resources.

– Snohomish County Housing Authority ”



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

- **Meeting the challenges of remote open public meetings:** In partnership with the Municipal Research and Services Center, we [updated our guides and checklists](#) to include new requirements for hybrid and remote meetings
- **[Managing vehicle fleets](#) and the cost of fuel:** Best practices to prevent loss, waste and misuse

[Customized Lean Experiences:](#) Training and facilitation to help make any local government 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.



Spreading the message and tools of good government

Good government training

This fiscal year was a full return to in-person events and learning together. Here are our numbers for FY2023 – a two-thirds increase from last year alone:

147
events

8,439
attendees

SAO's HelpDesk

An essential customer service tool

The Office's HelpDesk is a handy online tool for state agencies and local governments to seek auditing and accounting guidance.

We answered 1,213 HelpDesk requests from governments. Questions related to accounting, reporting, federal grant and compliance topics.



Spreading the message and tools of good government *(continued)*

In the Know With SAO

A biweekly good government e-newsletter

Sent every two weeks to thousands of public servants and civic-minded Washingtonians, In the Know with SAO delivers high-quality information tailored to the workplace needs and interests of governments and the public, including exclusive guidebooks developed by our experts, BARS training, cybersecurity tools, and much more. [Sign up today](#) and start helping build better government with this invaluable information sent right to your email inbox.



Spreading the message and tools of good government *(continued)*

Bringing attention to gaps in federal guidance to school districts on a federal funding source

Auditors discovered an unusual cluster of findings relating to the Federal Communications Commission's Emergency Connectivity Fund, a pandemic-era program designed to facilitate remote learning for students. Auditor McCarthy met personally with FCC officials and [published an op-ed in The Seattle Times](#), outlining possible improvements for the FCC to consider. The matter is in the FCC's hands for resolution.

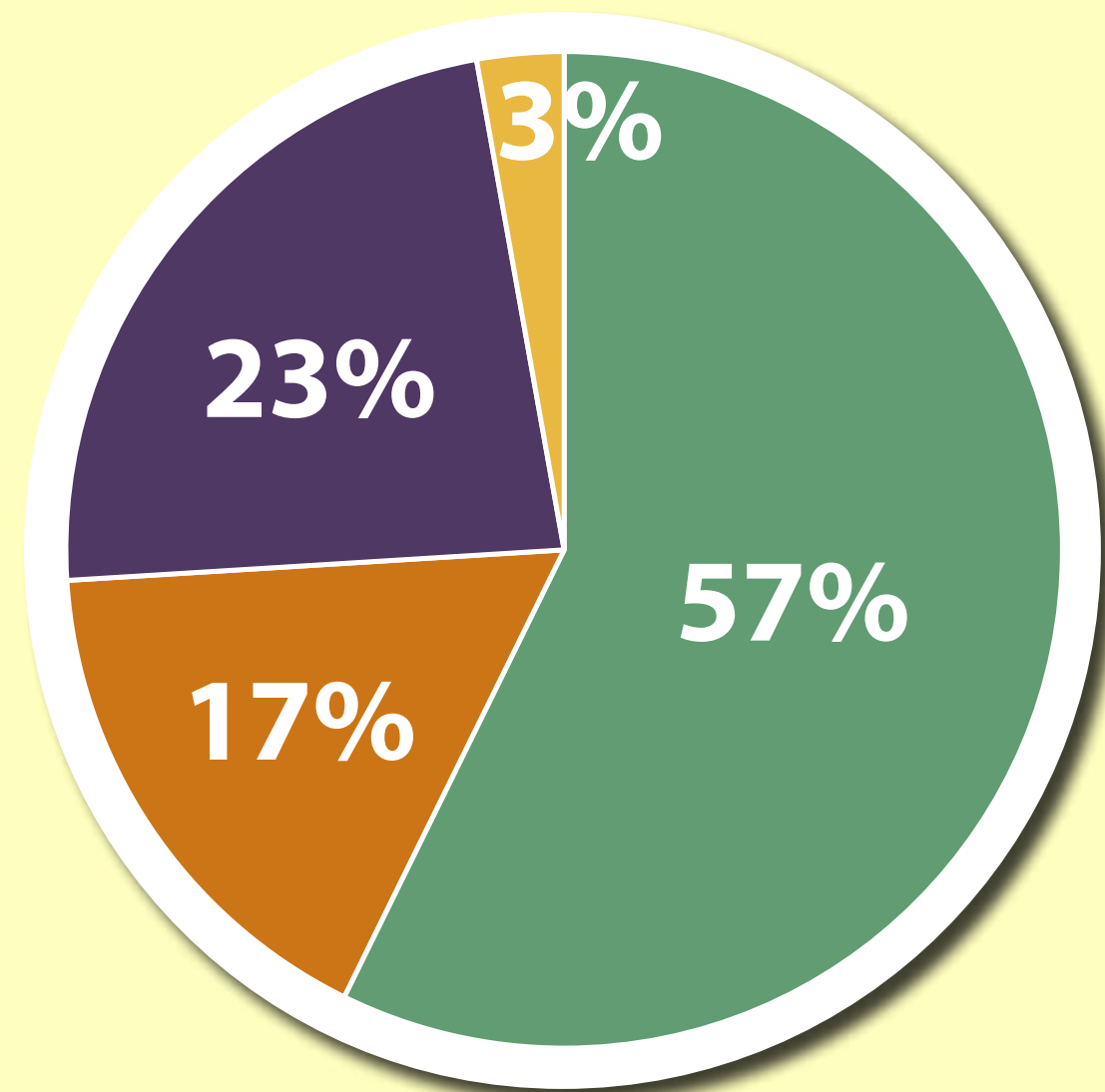


The Office's FY2023 Budget: \$63.9 million

“ We appreciated how knowledgeable, kind and caring the SAO staff were. They managed to add a human element to a very detailed, complex and sometimes stressful process and kept us on budget for both time and dollars.

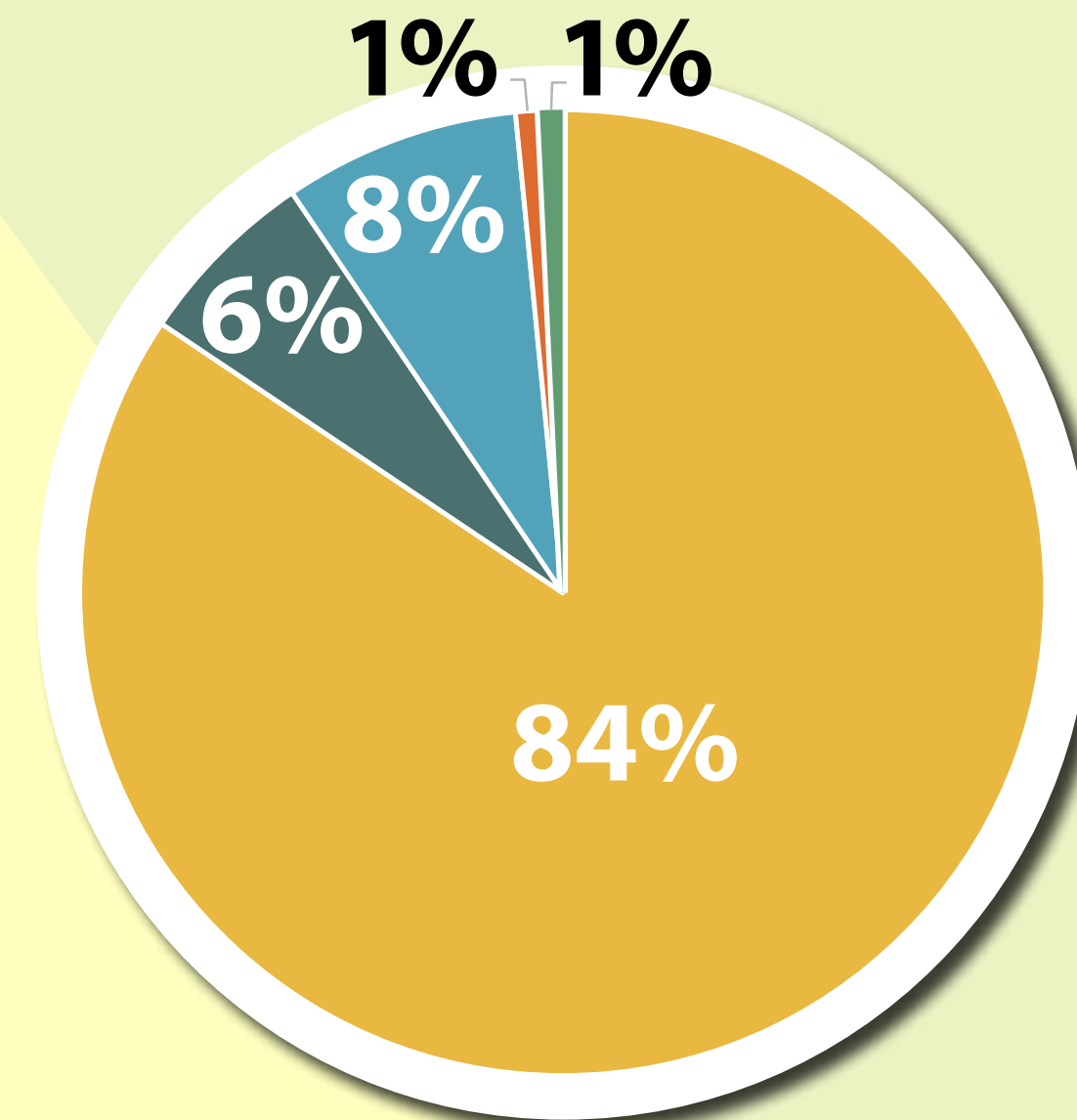
– Snohomish County Housing Authority ”

Where does the money come from?



- \$36.6 million paid for by local governments
- \$10.7 million from the legislature for state agency audits
- \$14.8 million from sales tax for performance and cybersecurity audits
- \$1.8 million from the legislature for Use of Deadly Force audits and additional cybersecurity work

Where does the money go?



- \$52.3 million in salaries and benefits
- \$3.8 million in contracting
- \$4.9 million in goods and services
- \$500,000 in travel
- \$468,000 in equipment

Recent successes, and those to come



Redesigned FIT offers easier access to financial data for nearly 2,000 local governments

In August 2023, we released an upgraded [Financial Intelligence Tool \(FIT\)](#), which contains a decade's worth of financial information for nearly 2,000 local governments. FIT now has a new mobile-friendly design, a quick-search tool, and a "near me" feature – perfect for finding governments that serve you. It's the same data-rich application, with improved features to explore financial facts.



Recent successes, and those to come



New guide on protecting unanticipated revenue from fraud

In November 2023, our Special Investigations Team released a guide to help local governments protect unpredictable revenue from misappropriation. *Expect the Unexpected: How to protect unanticipated revenue from fraud* can help them evaluate and improve their internal controls around unanticipated revenue. The guide also includes a list of common tactics fraudsters use to swipe these funds.

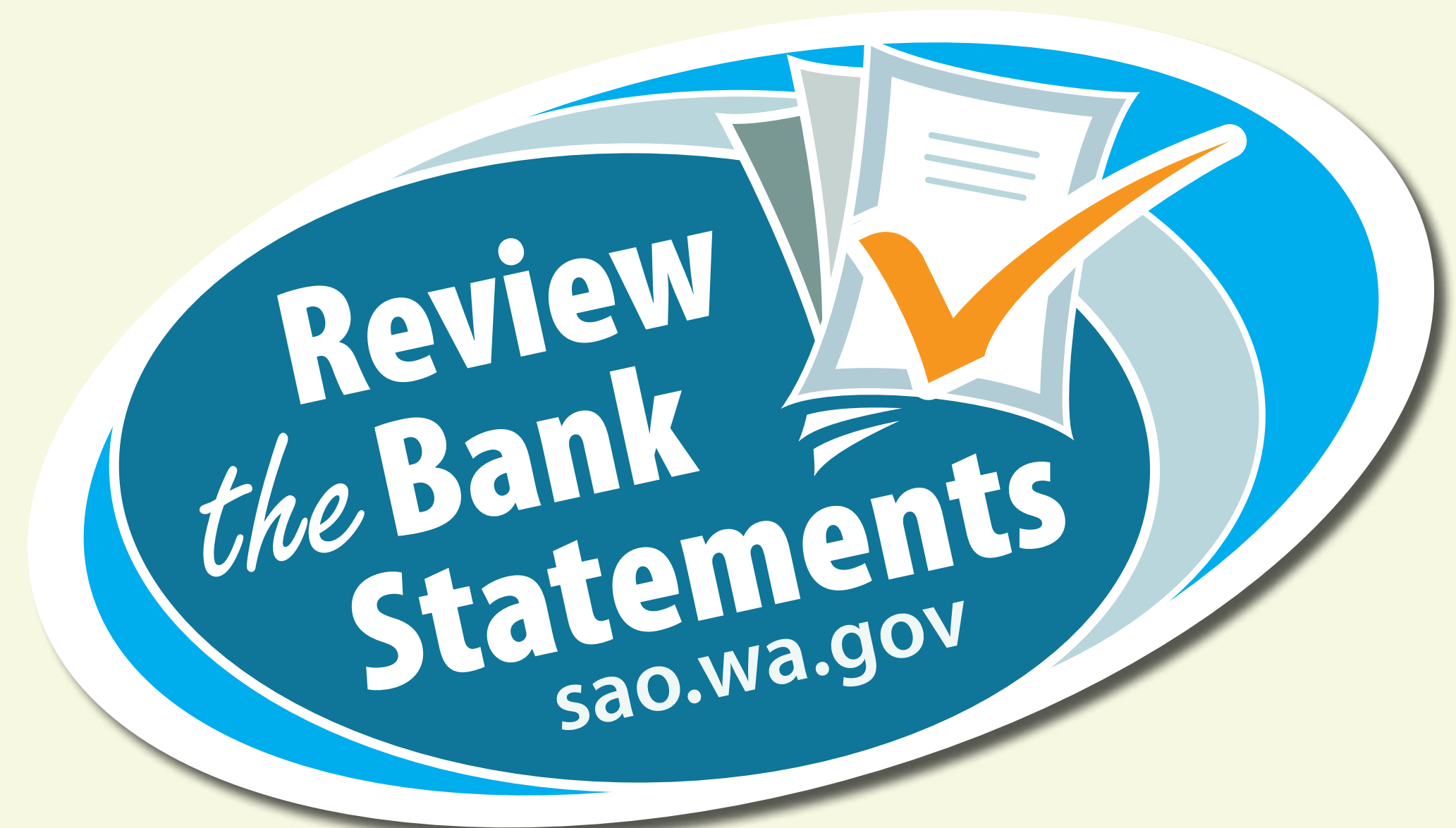


Recent successes, and those to come



One of the easiest, best methods for local governments to prevent and detect fraud

In September 2023, we took our anti-fraud message to the annual gathering of the Washington Finance Officers Association. Our “frauditors” gave hundreds of local government finance professionals the inside scoop on one of the easiest ways to catch fraud: [review the bank statements](#). Look for more emphasis on this simple, effective fraud-fighting tool throughout 2024.

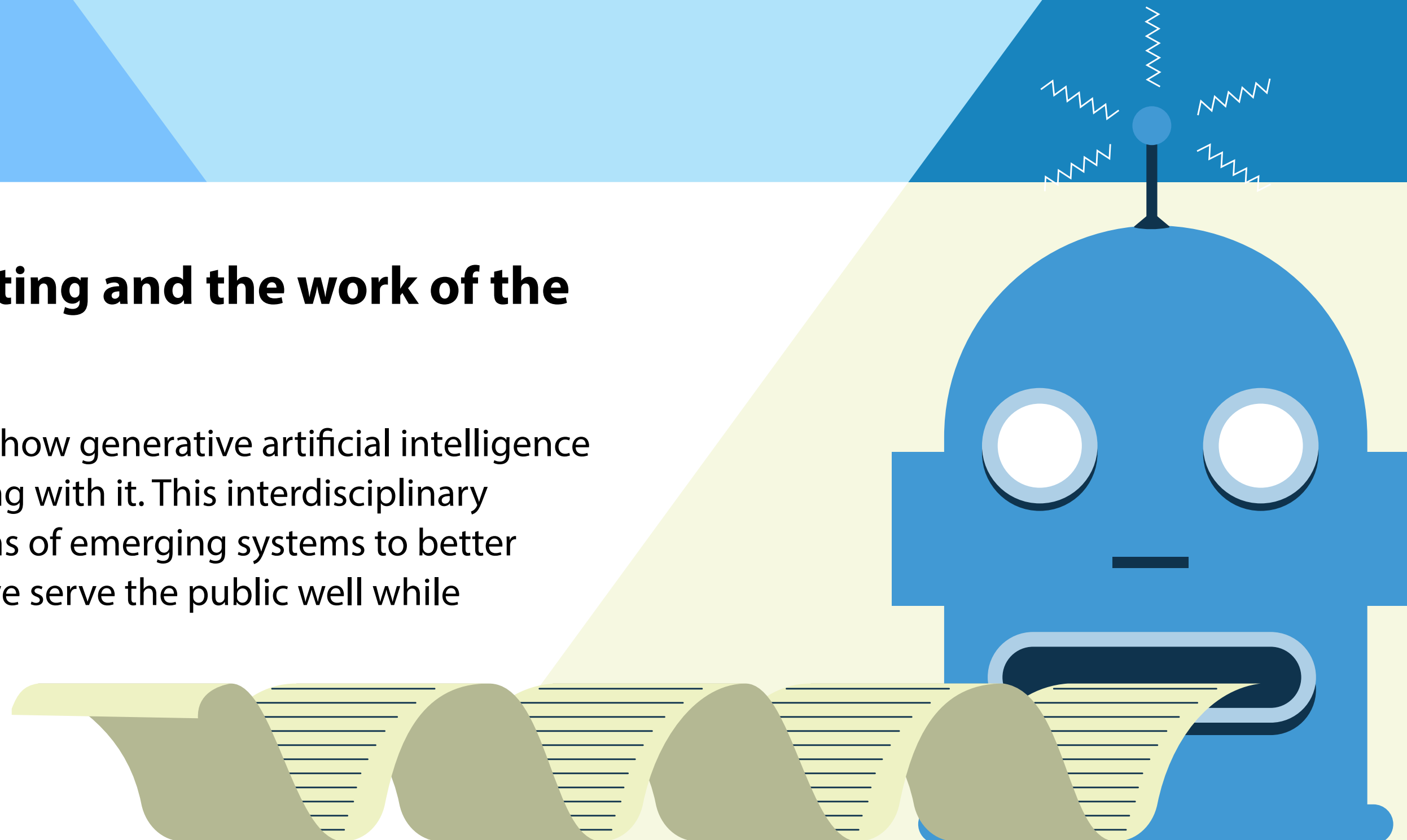


Recent successes, and those to come



How will generative AI affect auditing and the work of the State Auditor's Office?

The Office has formed a workgroup to investigate how generative artificial intelligence will affect our work, and how we can begin working with it. This interdisciplinary taskforce is examining the potential and limitations of emerging systems to better understand their usefulness. The goal: to ensure we serve the public well while maintaining trust and confidence.



Recent successes, and those to come



Coming in 2024: An improved annual filing system for local governments

In January, the Office will launch an improved annual filing system for the state's local governments, which are required by law to submit their financial information every year. The system will have many upgraded features including a dashboard that shows filing progress, checks of possible errors, a live-chat with a specialist, and more.





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 at 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.