



2005

Annual Report



Inside:

- New Performance Audit Authority*
- A Citizen's Alliance for Accountability*
- Fraud Detection and Prevention*
- Open Government*
- State & Local Government Auditing*



Washington _____
State Auditor
_____ Brian Sonntag

From The State Auditor

January 2006

To the Citizens of Washington:

I am proud to present this Annual Report summarizing our work for 2005 and continuing our advocacy for greater government accountability, openness and accessibility. Washington's founders valued accountability and created the Office of State Auditor in the Constitution as an independent check and balance on government operations. We take that responsibility very seriously, and we value the public's trust in us to carry it out.

This past year marked a significant turning point in our long standing efforts to improve government's effectiveness through the use of performance audits. By a wide margin, Washington's citizens approved a ballot initiative giving us independent, uninhibited performance audit authority of state and local government. In addition, the Legislature enacted bills giving us similar authority over state government programs and agencies with some conditions. The bills are now law.

These measures reflect citizens' ever-growing demands that government serve them more efficiently and effectively. The good work already performed by the Joint Legislative Audit and Review Committee will complement our new authority. Also augmenting our performance audits will be accountability-related initiatives undertaken by the Governor. The State Auditor's Office is committed to accomplishing our performance audit authority independently, objectively and constructively. We look forward to helping state and local governments achieve real results to better serve citizens.

Citizens also want greater transparency in government. In this report, we offer our thoughts and ideas to achieve it. We must find ways to give the public greater involvement and participation in their government. Government's doors must be open to citizens who want access to public information and those who want to observe actions by elected and appointed boards and councils.

We conduct about 1,000 audits annually, working to find and prevent fraud, checking the books and accounts of government entities, and making sure they follow applicable laws and requirements. We are continuously rethinking how we conduct audits to provide value to those governments we review as well as the citizens we work for. We value our positive relationships with the 2,700 units of state and local governments we audit.

Finally, I am privileged to work with a highly skilled, deeply committed team of auditors and administrative and support staff who make up the State Auditor's Office. We hope you find this report useful.

Sincerely,



BRIAN SONNTAG, CGFM
STATE AUDITOR



Making Government More Accountable

In November 2005, nearly one million Washington citizens prescribed a distinct, expanded role for the State Auditor. By a margin of nearly 57 percent, they approved Initiative 900, giving our Office clear authority and sufficient resources to conduct performance audits of state and local governments.

We have long advocated for this authority, and we appreciate the trust and confidence that the public has in our work. This new responsibility gives us the opportunity to expand our deep commitment to an open, accountable government that citizens demand, expect and deserve.

Earlier in the year, the Legislature passed a measure that gave the Office some performance audit authority in state government. Lawmakers also directed us separately to conduct a performance audit of the Department of Transportation and related agencies. But the results of the November election demonstrated that these actions were not compelling enough.

In light of the citizen-supported initiative, we recognize that House Bill 1064 will require further consideration by Legislature and Governor. We are willing to offer our ideas to make the provisions of House Bill 1064 and the Governor's existing accountability efforts complement the initiative's performance audit authority. It is important to note, neither piece of legislation affects or directs our responsibilities under Initiative 900.

We are committed to independent, fair and objective audits. Our performance audit work will be performed by competent professionals with assistance from experts in management and other fields. We will follow Government Auditing Standards established by the U.S. General Accountability Office. We will produce concrete, constructive recommendations to improve government efficiency and effectiveness.

How will we accomplish this?

We will draw on fundamental principles that are essential for effective performance audits, independence, highly visible reporting; and the involvement of citizens, state and local government employees and others.

The Requirement for Independence

"In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, should be free both in fact and appearance from personal, external or organizational impairments to independence."

-- Section 3.03 of Government Auditing Standards

Principles for Effective Performance Audits

To carry out our new authority, we will draw on the core principles a performance audit program must have to be successful:

Independence. Our audits will be free from even an appearance of partiality. Public confidence that performance audits are truly objective and uninfluenced by external pressures can boost public trust in government.



Employee participation. We value ideas and suggestions from front-line state employees and local government workers. They are often in the best position to identify inefficient, outdated systems and practices, as well as what is working well.



Citizen involvement. We will communicate with and listen to citizens. Their viewpoints and ideas will be among the elements we consider when we decide where to focus our audits.



Reporting audit results. Reporting our work is as important as performing it. Once the audits are done, we will report the results visibly and publicly. The report should be timely, complete, accurate, objective and clear.



Best practices. Identifying best practices that could be used successfully by other governments will be an integral part of our performance audit program.



Audit resolution. The Legislative Branch of government must work with the Executive Branch to resolve issues we find in our performance audits.

Performance Audit

Our Approach For Effective Audits

In the near term, we will develop a work plan in consultation with citizens, front-line public employees and others. The plan will address which areas could benefit the most from performance audits.

Beyond citizen and employee sentiment and suggestions, we will consider other factors in determining what will be audited. Among those factors are audit history from our prior financial and legal compliance audits and size of the agency, program or local government.

For state government, we will organize our performance audit teams around the state government management, accountability and performance (GMAP) issue areas. These areas include vulnerable children and adults, transportation, economic vitality, government efficiency, public safety, health care, natural resources and recreation, kindergarten-through-grade 12 education and higher education.

We will take into account the performance audit work that has been completed by other entities such as the Transportation Performance Audit Board, the Joint Legislative Audit and Review Committee and agency internal auditors. We will also consider accreditation reviews that are a regular part of the administration of hospitals and institutions of higher education.

For our audits of local governments, we initially plan to focus on broader service areas that apply to multiple governments and types of entities, instead of immediately auditing individual cities, counties, schools and others. We plan to audit the flow of taxpayer dollars from the state to the local level for public education, transportation and other areas. We intend to work constructively with local government associations to seek their help in identifying opportunities that can benefit from performance audits.

We will contract for the majority of performance audits in the initial years of our program while building internal capacity to do the work. We have begun to assess how we hire auditors and assign staff to our new responsibilities. We have an experienced, professional staff that will continue to provide value to the public through financial and legal compliance auditing.

Listening to Citizens And Public Employees

Citizens will make a critical contribution to our audits. We are designing an innovative process to gather the public's ideas on how government can be improved. We will use qualitative and quantitative research methods that could include surveys, interviews, focus groups and forums. Our intent is to get to the core of what citizens need and expect from government.

As part of this effort, we are offering a place on our Web site where citizens may participate in surveys and offer comments and ideas. We are also examining the creation of a waste, fraud and abuse access line to provide a way for people to report questionable government activities and actions.

Businesses, nonprofit organizations, organized labor and others will be asked to offer their perspectives on barriers to efficiency and to identify best practices.

State and local government employees will be another critical resource. Public employees are often best positioned to identify outdated and inefficient practices and systems. We will develop effective methods to tap into their knowledge and experience.

We will use all this information to set the scope of our audit program and establish priorities.



Citizen's Alliance for Accountability

Renewed Call For A Citizen's Alliance

Over the past several years, citizens have delivered loud and clear messages that government doesn't listen to them. These messages have come largely in the form of citizen-supported ballot initiatives designed to limit government and make it more accountable.

In such a time as this, particularly in the aftermath of Initiative 900's approval in November, public officials should not shrink from their responsibility to listen. They should seize the moment as an opportunity to rethink how state government serves Washington citizens, and to involve them in those decisions.

In our role as the citizens' window into government activities, the State Auditor's Office continuously hears from folks who want government to make good decisions with their money, remain open and accessible to them and listen to their needs and expectations. Citizens want to be engaged in policy decisions that affect them.

Several years ago, we proposed an idea for state government to engage the public in a fundamental, long-term look at how government provides services. We called it a "Citizens Alliance for Accountability."

We shared the concept with the governor at the time, legislators and others. Legislation was proposed in 2000. Support from the public, opinion leaders and legislators on both sides of the aisle was overwhelming, even though the proposal ultimately fell short of approval.

We envisioned an Alliance made up of the state's top leaders and best thinkers, representing broad interests and perspectives. This diverse group would have the task of tackling fundamental questions about how government should serve citizens and would develop a method to engage citizens and act on their ideas and suggestions. We advocated a citizen involvement process that would be permanent, not a one-time quick fix.

Now, we renew our call for a Citizens Alliance for Accountability. In light of the performance audit authority that citizens gave our office under Initiative 900, the idea for the Alliance is as relevant now as it was when we first presented it.

As the disconnect between citizens and their government continues to grow, we need to find a way to demonstrate that government is working to address their concerns about accountability for public resources. We need to throw open the doors and let the people and break the crust of distrust and cynicism. We stand ready to help, and will support any efforts by state policy makers to put an Alliance in place.

Key Elements of Our Alliance Idea

An Alliance composed of a brain trust of Washington's top leaders and best thinkers.

This group could include citizens, business, labor, front-line state employees, local government leaders and employees, loaned executives, college and university students and faculty, legislators, state elected leaders, cabinet members and leadership organizations.



A governance summit conducted by the Alliance on a scale that will ultimately lead to meaningful change.

The summit could address fundamental questions such as what services state and local government should provide, how they should be delivered, and how they should be financed.



A highly visible, large-scale process developed by the Alliance to engage citizens in a deep, comprehensive evaluation of state governance and other issues identified at the summit. The process should be continuous and an inherent part of state governance.



A method to evaluate thoughts and ideas that emerge from the citizens involvement process, and a commitment to act on them.

"Through this Alliance, we would create a public forum of great magnitude to restore citizens' trust in their government."

-- State Auditor Brian Sonntag in his 1999 letter to the Governor

Fraud Detection and Prevention

Our Emphasis On Combating Fraud

Rooting out and preventing fraud continues to be one of the most important focuses of our work. In our audits, we emphasize high-risk areas in which taxpayer dollars are most vulnerable to misuse, abuse and misappropriation. We also extensively train government managers to look for fraud and to put controls in place to prevent it.

We are proud of our nationally recognized fraud detection and prevention program. Over the past five years, we have conducted about nearly 500 hours of training to more than 17,000 state and local government administrators, financial managers, fiscal and clerical staff, and others. We see strong signs that this training is paying off.

Since 2001, governments themselves have detected cases of misappropriations and embezzlement at an increasing rate over the prior five years. And they are catching them earlier, before frauds can grow and lead to greater financial losses. We believe this is a direct result of training and managers following our recommendations to put effective controls in place and monitoring financial transactions.

During 2005, we reported 54 fraud cases at state agencies and local governments. The losses in those cases totaled \$257,227. The number of frauds and the amount of total losses has fluctuated each year, particularly when large-scale embezzlements that went undetected over several years were identified and reported.

But a growing number of cases are small. In the past year, for example, 76 percent of fraud cases had losses of less than \$5,000. Nearly half of them were below \$1,000. We attribute this to managers who are trained to detect fraud catching frauds before the losses have a chance to escalate.

Fraud has cost state and local governments \$8.5 million over the past 10 years in Washington. While annual losses have diminished in the past two years, we must point out that fraud is difficult – if not impossible – to eliminate.

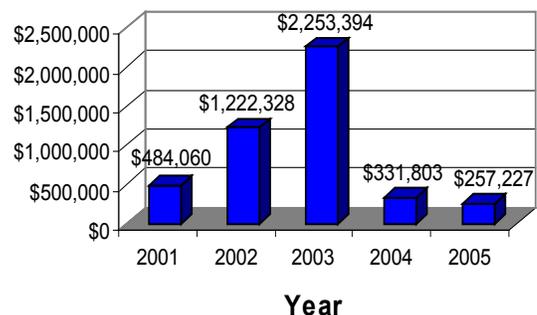
We remain dedicated to finding fraud, training government managers and ensuring they put effective checks and balances in place to detect and prevent it.

Fraud Training

Number of hours spent training managers to identify and prevent fraud.

Fiscal Year	July '01- June '02	July '02- June '03	July '03- June '04	July '04- June '05
# of Hours	81	67	78	106
# of People	2,940	2,315	2,285	2,900

Amount of Losses Due to Fraud (State & Local)



Government managers must not only put appropriate controls and procedures in place to guard against fraud, but also must monitor the activities of all employees.

Examples Of Frauds Reported in 2005

School Superintendent's fraudulent salary payments

The Superintendent of a small Grays Harbor County school district misappropriated nearly \$40,000 by drawing on her salary before the regular pay period. She then failed to fully deduct the amount she took when she received her monthly paycheck.

Our audit staff uncovered the fraud after finding unusual entries in the school district's general ledger, which records all financial transactions. In our audit, we identified 58 instances in which the superintendent drew on her salary between January and March 2005 without approval of the School Board. She subsequently admitted she did not repay her early payroll draws.

Failure by the district to monitor financial transactions led to the fraud. The superintendent was responsible for and carried out all financial activities without oversight.

The Superintendent's contract with the district expired this year and was not renewed. We have referred the case to the Grays Harbor County prosecutor.

Selling state assets on eBay

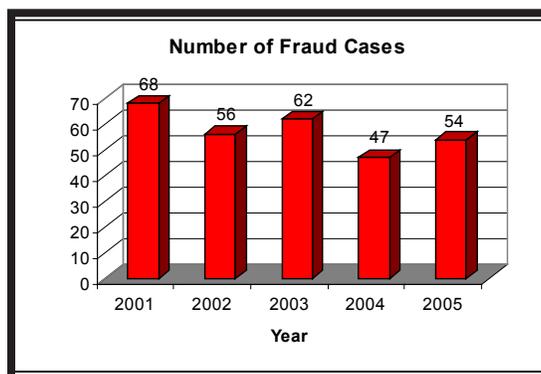
An observant employee at an Eastern Washington field office of the Department of Social and Health Services saw a co-worker selling Department equipment on eBay and alerted supervisors. A subsequent investigation found that the co-worker sold Department-owned alarm systems online at a fraction of the systems' value for personal gain. The loss was estimated at more than \$50,000. The worker was arrested and charged in the case, which is pending against him.

Stolen safe deposits

More than \$17,000 was put in a bank bag and locked in the safe at one of the City of Seattle's neighborhood service centers awaiting pickup by an armored security company. The funds encompassed customer receipts the center collected for utility bills, parking tickets, pet licenses and other payments. When the time came to open the safe again, the bank bag had been cut open and the funds removed.

Seventeen individuals working for the city at the center had the combination to the safe.

Without controlled access to the safe, it has been difficult to determine the perpetrator. But the City has since put controls in place limiting access and assigning specific responsibilities.



Leading Causes of Fraud

Cash-handling operations in which more than one employee has access to the same cash drawers, safes, vaults, and other places where cash is collected and stored. In those cases, no one can be assigned responsibility for a loss.

\$

Employees creating fictitious cash disbursements to either legitimate or false vendors, obtaining the check, and then using the proceeds for their personal benefit.

\$

Employees who fail to record customer payments by check and then converting the checks for their personal gain. Monitoring check and cash composition of bank deposits is one of the most important internal controls any government can implement to combat manipulations of daily bank deposits.

\$

Misappropriation of cash receipts in the accounts receivable system and manipulation of system records to write off the accounts.

\$

Abuse of the payroll system by making fraudulent transactions on employee time sheets.

Public Records Survey

As part of our long-time commitment to open government, we will be asking state agencies and local governments for some information on public records requests during our audits in 2006.



Our survey is not an effort to “ding” those who are not in compliance. Rather, we are trying to determine:

Agency awareness of revisions made to the public records law in 2005.

What kind of training in open public records laws would be helpful to public records officers.

The extent to which records are stored and made available electronically.

Best practices that can be used when responding to requests, especially those that are large and complicated.

How much agencies charge for copying records.

The annual cost to agencies of responding to records requests.



We hope that this information will help point us to some solutions for local governments and state agencies with limited resources that could be further stressed by a large records request.

A Commitment To Open Meetings, Records

Few rights are more fundamental and precious in a democracy than the right of citizens to have access to their government.

Yet in Washington we have seen repeated attempts in recent years to erode state laws regarding access to public meetings and public records, even though citizens themselves put those laws in place in 1972 by a statewide initiative.

We agree with the citizens’ belief that government should conduct its business in the public light of day. We have long advocated for strong, effective open government laws by seeking our own legislation and by supporting others.

Also, a check on compliance of the state Open Public Meetings Act and the Public Disclosure Act is an inherent part of the audits we conduct of state agencies and local governments.

From our experience, we find that the more transparent governments are to the public, the more accountable they are and a greater degree of public trust exists. We have also found that most government officials understand and respect these laws and are committed to following them.

Certainly, we know of circumstances in which executive sessions are held or records are determined to be exempt. But those instances should be the exception, not the rule.

We hope that policy makers will carefully consider attempts to enact new exemptions to open public meetings and public records laws without carefully considering whether a compelling public benefit exists for such exemptions.

We also think it is time for a comprehensive review of all existing exemptions to the laws that keep public information from citizens and that allow elected and appointed boards, councils and commissions to convene behind closed doors. These exemptions have been added over more than two decades, and many may no longer be needed. But during the 23 years since the open government initiatives became law, few exemptions have been repealed.

As public officials, we all should keep in mind this fundamental question: “Whose business is it?” The preamble to the state Public Disclosure Act makes that clear.

We will continue to work with the Attorney General, open government advocates in the Legislature and coalitions of citizens to keep government open, accessible, accountable and responsive to the public.

“The people of this state do not yield their sovereignty to the agencies that serve them. The people ... do not give their public servants the right to decide what is good for the people to know and what is not good for them to know. The people insist on remaining informed ...”

- Public Disclosure Act Preamble

Direction Needed For Alternative Learning

The state provides about \$20 million annually for 189 school districts to conduct Alternative Learning Experience programs, through which students receive instruction in settings outside traditional school classrooms.

In an audit we conducted with the Joint Legislative Audit and Review Committee, we concluded a lack of sufficient state guidance led to questionable instructional expenditures, including private horseback-riding lessons, ski lift tickets, visits to theme parks, boat trips and gym memberships. In addition, we found all but one of the 18 school districts we sampled incorrectly calculated the number of students enrolled in the program. As a result, those districts collectively received \$800,000 more than they were entitled to.

We did not believe funds were intentionally misused. Instead, we concluded that the questionable expenditures resulted from no clear definition of allowable use of the funding. Such direction is needed to help districts establish effective alternative education programs.

The Office of the Superintendent of Public Instruction already established a requirement that school boards adopt a process for approving allowable forms of alternative instruction in their districts.

In our audit, we recommended the Legislature put into law appropriate uses of alternative learning funds. While we recognize and value local control among school districts, we believe this state guidance would help school boards and their districts more closely direct and monitor instruction that takes place outside classrooms.

We also recommended the Legislature authorize a thorough study to determine actual cost of offering Alternative Learning Experience curriculum by school districts.

Alternative Learning Experience is different than regular education programs in which students spend between 20 and 25 hours in class each week. Because of different instruction methods, costs vary among districts. Some students are tutored by parents, some learn on-line and others self-direct their studies with the work overseen by district teachers. Districts also contract with private vendors and, in many cases, community colleges, to provide instruction. A thorough study would give an accurate picture of what these different methods actually cost.

Based on a cost study, the Legislature should develop a different funding method that better aligns with the cost of delivering the services.

Community Colleges Overbill Schools

To carry out the Alternative Learning Experience program, many school districts contract with community colleges to provide instruction to students who do not succeed in a regular classroom setting.

In our school district audits, we found instances of overbilling by some colleges. In one case, a college overbilled three school districts collectively about \$1 million.

Under the contractual arrangements, school districts pay the colleges based on the amount of scheduled time students are enrolled in college programs. Due to misunderstandings of how that time is reported, we found that colleges were not billing according to the terms of the contract. Colleges also were not tracking time and attendance as required for K-12 school districts in order to claim state funding.

We suggest closer oversight. The Office of Superintendent of Public Instruction should have the responsibility of providing direction for this arrangement.

State Government

Using Technology To Find & Prevent Misuse

Our innovative use of technology to find and prevent irregularities and abuse of information systems is a significant part of our audit of state government.

Using what we call Computer Assisted Audit Techniques (CAATs), our auditors compare and analyze databases maintained by state agencies to find inadvertent inaccuracies or deliberate manipulation of data.

We also work with state agencies to make recommendations on how they can build effective checks and balances into their systems to prevent alteration of electronic records that could result in fraudulent transactions.

These are examples of the types of analysis we perform:

- Comparing state prison inmate lists with databases of those who receive social service benefits to ensure inmates are not inappropriately receiving food stamps, welfare benefits or other payments.
- Matching state employee addresses with vendor payments to make sure transactions are legal.
- Comparing lists of unemployment recipients with recipients of injured worker compensation to verify no unallowable payments are made.
- Checking to ensure people who receive public pensions and social service benefits are eligible for those payments.

Our work is paying off. Last year, we identified pension and benefit payments that were going to deceased individuals.

In a prior year, we found a significant number of ineligible people receiving benefits under the state's Basic Health Plan. The state Health Care Authority subsequently removed ineligible recipients and enrolled needy individuals and families who had been on a waiting list to receive benefits.

Our experienced auditors assigned to this function provide value in protecting taxpayer dollars from waste and misuse. A few agencies have been reluctant to provide information, fearing that we might find a major embarrassing problem or that we would release sensitive personal data.

While we have a responsibility to report significant issues, we also help individual agencies correct inaccuracies, update data and ensure eligibility. We also recognize the sensitivity of some information and exercise due care to keep it confidential.

Because of our expertise, several agencies have asked us to review and analyze their electronic information to ensure accuracy and proper eligibility.

Our innovative work is becoming recognized nationally. Several states including North Carolina and Arizona have asked us to share our expertise as they prepare to launch CAATs programs. We also use our CAATs expertise extensively in our audits of local government.



State Contracts With Unregistered Businesses

During an audit of a state agency, we found that the agency had contracts with several businesses that were not registered to do business in Washington. We believe this may be occurring in other agencies.

Agencies are not currently required to verify that vendors are registered in the state before contracting with them for services. State law does require such verification for public works projects, but the law does not address other state contracts.

Since there is no requirement for state agencies, we will not pursue this issue in our agency audits. State policy makers should consider making agencies responsible for ensuring that the businesses they contract with are properly registered and are paying tax to the state.

Improving Relationships With State Agencies

What a difference a year makes.

A year ago, we reported significant problems at the Department of Social and Health Services, particularly in its Medicaid Program. We faced a lack of cooperation and resistance to correcting major issues such as payment of benefits to ineligible and deceased persons. Deliberate actions to withhold information forced us to issue a disclaimer on our federal audit of the \$6.1 billion Medicaid Program for the 2004 fiscal year.

Now with a new administration and DSHS Secretary, we are working positively and constructively with the agency to resolve the financial management issues we found. The issues are major and complex, and they will take time to fully resolve. But we believe DSHS is committed to putting the proper checks and balances in place.

The cooperation extends beyond DSHS. We are fostering a positive relationship with the Governor's Office and Office of Financial Management as well as individual agencies to maintain sound fiscal stewardship. With the Governor's year-old administration, we truly see a partnership in accountability.

Our Effective Whistleblower Program

The State Employee Whistleblower Program continued to serve as a valuable means for achieving greater government accountability. Established by state law in 1982, the Program gives state employees an avenue to confidentially report suspected instances of improper governmental actions by other employees while performing their official duties. We administer the program.

During 2005, we investigated more than 90 assertions of improper government action. This was the largest number of assertions we have investigated since 2002. In about 32 percent of the cases we investigated, we found reasonable cause to believe improper governmental action occurred. The others were not substantiated.

More than one-half of the assertions we substantiated related to violations of state ethics laws. Many of these issues involved state employees using state assets for personal use. A detailed description of these cases will be contained in the Program's Annual Report, which will be issued later in January 2006. The report will be available on our Web site.

As has been the case in the past, most of assertions of improper governmental activity occurred at the Department of Social and Health Services. This is to be expected because of the size and complexity of the agency. Another large number of assertions were reported at colleges and universities.

Sell Property at Market Value

Should local governments be required to sell property at market value unless they demonstrate the public benefit of selling for less?

In 2005, a small Skagit Valley town sold a historic mansion to a nonprofit organization for \$25,000. The assessed value of the mansion was \$353,000.

The town based the selling price on a private appraisal done for the nonprofit organization minus the organization's estimate of the cost of repairs to the mansion.

The town wanted to dispose of the mansion, which had been donated to it earlier, and did not obtain its own appraisal or solicit purchase offers from others. The town council approved the sale without showing the public benefit of the reduced price.

We believe state law should require local governments to get an independent, professional appraisal before they sell property to a private party. If they sell property for less than market value, those governments should be required to demonstrate why that is in the public's interest. Such a requirement exists for school districts.

Financial Health Of Local Governments

Washington's county governments, schools, municipalities and taxing districts continue to face dwindling resources amid increasing demands for services. While most are able to manage assets and remain on solid financial footing, we see an alarming growth in the number of entities in serious financial health that is significant enough to call into question their ability to continue to operate.

In the past two years, we issued 54 audit reports raising serious concerns about the financial condition of individual local governments. While that number is a tiny percentage of the roughly 900 audit reports we issue annually, it represents a 350 percent increase in the number of "going concern" issues we raised during the prior two-year period.

Most of these troubled entities are small. Thirty two are school districts while others are small cities and towns, housing authorities, special purpose districts and a county.

In those entities, we found consistent patterns of spending exceeding revenues, steadily eroding or zero reserve fund balances, escalating deficits and the use of restricted funds for other than the intended purposes.

The causes of the financial difficulty differ by type of entity. Voter-approved initiatives have restricted funding sources for cities and counties. Housing authorities and hospital districts have experienced reductions in federal funding. Some school districts have seen a drop in student enrollment, from which state funding is based.

We also found that some elected boards or councils do not appear to recognize the severity of the problems, and in some cases, we found an inability or unwillingness to act. Many of these small governments do not yet have a plan to restore their fiscal health. Others have additional taxing capacity and are able to make spending cuts.

Sound financial management is another issue. In the past six months, we were forced to issue four adverse audit opinions, finding significant inaccuracies in the entities' financial statements. We also had to report eight disclaimers, which means that financial records were insufficient or in such disarray that the entity could produce no financial statements for us to audit. Adverse opinions and disclaimers have been infrequent in past years.

The growth in the number of these issues is beginning to receive legislative attention. Some lawmakers have expressed interest in delving into the financial problems faced by local governments. We recommend the Legislature work with local government associations to find solutions. Meanwhile, we will continue our commitment to work with local governments to promote fiscal integrity.

In 2005, no appeals were filed by local governments regarding our audit costs.

Greater Accountability For PDAs

Public Development Authorities (PDAs) were created for worthy public purposes – to administer federal grant programs and to build and operate convention centers, stadiums, museums and redevelopment projects. But with public benefits to a community come risks.

While we have only had a handful of findings in our audits of PDAs, we have identified conditions that make these unique entities vulnerable to violating state laws.

Created mostly by municipal and county governments – and a few by the Legislature – the number of PDAs is growing. At last count, we found nearly 50 are in various stages of operation.

State laws that authorize the creation of PDAs are vague and do not give local governments clear direction on laws they must follow. In addition, the city and town councils and county commissions that create them often provide little if any oversight, leaving PDAs to operate autonomously and with limited accountability.

Unelected appointed boards set policy for PDAs and carry out their duties with little public scrutiny and unaware of legal requirements such as keeping their meetings open to the public.

The Legislature should review the laws that apply to these entities, create greater oversight and provide measures of accountability. By making changes to the laws, lawmakers can clarify the intent of PDAs and give them more direction to better ensure they follow applicable laws.

State law presently requires cities, towns and counties who create PDAs to exercise control and oversight over these entities. These governments that create PDAs must face up to their statutory responsibilities to monitor the districts and ensure they follow state laws and regulations, remain financially sound and achieve the purpose in which they were created. We recommend that cities, towns and counties require PDAs to provide an accounting of their finances and operations at least annually.

In addition, we recommend the creating governments notify our Office of their action so we ensure they are audited.

Comments From Local Governments

“Your auditors could not have been more courteous, friendly and knowledgeable – very professional!”
- County community center



“The auditors were very polite, unobtrusive and helpful. The audit was a pleasant experience, which was great!”
- Small town in Eastern Washington



“The State Auditor’s Office staff is accessible knowledgeable and a pleasure to work with.”
- City in Western Washington



“Audit staff was extraordinary. Work was accomplished effectively and efficiently, without undue impact on district staff. Auditors were knowledgeable and responded very quickly to questions. Professionalism was always highly evident.”
- Public facilities district

Our Web site: www.sao.wa.gov

We are proud of our Web site, and use it as a tool to share information with citizens and other users.

Every one of the roughly 1,000 audit reports issued each year are posted on the site. Also, you can learn about our Office and the important role we play in ensuring government is accountable to citizens. Learn about our new expanded responsibilities to conduct performance audits of state and local governments. You can also take a survey and share your thoughts and ideas about how government should serve you and where we should focus performance audits.

We continue to make improvements to the site. In the coming months, we will redesign and update it to make it even easier to navigate and more interactive. We hope you continue to find our Web site useful.

State Auditor's Office

About The Office

The founders of Washington created the Office of State Auditor in the Constitution as an independent check and balance on government finances and operations. Accountability is fundamental to that constitutional responsibility. As the “auditor of all public accounts,” we examine the finances of all 2,700 units of state and local governments. We also audit to determine whether state agencies, cities, counties, schools and various taxing districts follow applicable laws and regulations related to their financial management practices. We take seriously our role to ensure that governments are good stewards of public resources.

During the past year, our responsibility expanded significantly. As a result of citizens’ approval of Initiative 900, we received the authority to conduct performance audits of state and local governments. This marks a significant turning point for the Office, enabling us to recommend ways for government to operate more efficiently and effectively and to provide better service to the public.

Independence is paramount to our audits. As a statewide elected official, the State Auditor reports directly to the citizens of Washington. The Legislature and Governor have no direct oversight of our work beyond approval of our budget and enactment of laws and policies that affect our operations. And while the office is partisan, the work is not. It must remain fair, objective and free from bias or partiality.

We based our financial and legal compliance audits on risk. That means we concentrate our examinations on areas in which taxpayer dollars are most vulnerable to misuse and abuse. We have a nationally recognized fraud program that investigates fraud and provides extensive fraud prevention training. We also administer the State Employee Whistleblower Program, in which state workers can confidentially bring to us assertions of improper government actions. We investigate those assertions and publicly report the results.

Our Office is composed of about 300 highly trained and professional auditors and executive and support staff located in Olympia and 14 locations throughout the state.

About State Auditor Brian Sonntag

When Washington voters first hired Brian as their State Auditor in 1992, he became the eighth elected Auditor in state history. Now in his fourth term, Brian is a senior statewide elected official. Throughout his 13 years as State Auditor, he has advocated for an open, accessible government and one that bases its performance on results and outcomes instead of outputs and processes.

Brian has a long career of public service. He was elected Pierce County Clerk in 1978 when he was 26 years old and served eight years in that office. Brian was also elected twice as Pierce County Auditor, an office his father held for 22 years.

He attended Tacoma Community College and the University of Puget Sound and studied public affairs at the University of Washington.

He is a Certified Government Financial Manager, a member of the National State Auditors Association’s Performance Audit Committee and a Board Member of the Washington Coalition for Open Government.

Brian has received the Seattle Municipal League’s Warren G. Magnuson Memorial Award for his contributions to help improve state and local government operations. He also is the recipient of the Washington Newspaper Publishers Association’s Freedom’s Light Award for his advocacy of open government.

Brian and his wife, Jann, are lifelong residents of Tacoma. He has three sons, a grandson and two stepsons.

Mission Statement

Our Mission Statement reflects our responsibility and philosophy:

The State Auditor's Office independently serves the citizens of Washington by promoting accountability, fiscal integrity and openness in state and local government. Working with these governments and with citizens, we strive to ensure the proper use of public resources.

Contact Us

Our headquarters are located on the State Capitol Campus, on the Second Floor of the Insurance Building.

You may write or call us at:

Washington State Office of State Auditor
P.O. Box 40021
Olympia, WA 98504-0021

Main number: (360) 902-0370
Toll Free: (866) 902-3900
Web Site: www.sao.wa.gov



Washington _____

State Auditor

Brian Sonntag

Insurance Building, Rm. 200

P.O. Box 40021

Olympia, WA 98504-0021

