State of Washington

Decision Package

Agency:	**095**	**Office of State Auditor**
Decision Package Code/Title:	**90**	**Maintenance Level Revenue**
Budget Period:	**2015-17**	
Budget Level:	**M1 - Mandatory Caseload and Enrollment Changes**	

Recommendation Summary Text:

Agency Total

Fiscal Detail

Operating Expenditures	**FY 2016**	**FY 2017**	**Total**
996-Z -Estimated All Other Funds-Other	0	0	0

Staffing

FTEs

Revenue

Fund	**Source**	**FY 2016**	**FY 2017**	**Total**
413 Municipal Rvolvng	0420 Charges for Services	23,653,000	23,979,000	47,632,000
483 Auditing Serv Revl	0420 Charges for Services	4,907,000	4,808,000	9,715,000
Total Revenue		**28,560,000**	**28,787,000**	**57,347,000**

Package Description:

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

Performance Measure Detail

Activity

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

What are the other important connections or impacts related to this proposal?

What alternatives were explored by the agency, and why was this alternative chosen?

What are the consequences of adopting or not adopting this package?

What is the relationship, if any, to the state's capital budget?

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

Expenditure and revenue calculations and assumptions

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

Object Detail	Total
Total Objects	

Decision Package

FINAL

Agency:	**095**	**Office of State Auditor**
Decision Package Code/Title:	**A0**	**ASRA 15% reduction decision package**
Budget Period:	**2015-17**	
Budget Level:	**PL - Performance Level**	

Recommendation Summary Text:

OFM requested 15% reduction

Agency Total

Fiscal Detail

Operating Expenditures	**FY 2016**	**FY 2017**	**Total**
483-1 -Auditing Services Revolving Account-State	(717,975)	(717,975)	(1,435,950)

Staffing

FTEs

Revenue

Fund	**Source**	**FY 2016**	**FY 2017**	**Total**
483 Auditing Serv Revl	0420 Charges for Services	(717,975)	(717,975)	(1,435,950)

Program 020-Division of Audit Services

Operating Expenditures	**FY 2016**	**FY 2017**	**Total**
483-1 -Auditing Services Revolving Account-State	(717,975)	(717,975)	(1,435,950)

Revenue

Fund	**Source**	**FY 2016**	**FY 2017**	**Total**
483 Auditing Serv Revl	0420 Charges for Services	(717,975)	(717,975)	(1,435,950)

Package Description:

As required in the 2015-17 OFM budget instructions, central services agencies are required to submit performance level budget reductions equal to 15% of unprotected Near-General Fund Maintenance Level budgets. This also includes funds administered by central service provider agencies where the revenue is derived from the General Fund.

Narrative Justification and Impact Statement

Performance Measure Detail

Activity A004 State Government Audit

	Incremental Changes	
	FY 2016	**FY 2017**
Process - Efficiency Measures		
001940 State audit costs as a % of expenditures audited	0.00%	0.00%

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

No. This decision package will actually limit our ability to meet our agency strategic goals.

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

No. It actually hinders priority #5 - Efficient, Effective and Accountable Government

What are the other important connections or impacts related to this proposal?

A reduction of this magnitude would increase financial risk to the state as a whole.

If the State Auditor were to apply the 15 percent reduction across-the-board on all activities funded through the Auditing Services Revolving Account, this would jeopardize two major, mandatory audits of state government, the Comprehensive Annual Financial Report (CAFR) and the State of Washington Single Audit Report (SWSA) as well as the statutorily mandated Whistleblower program.

Reducing the effort on the SWSA could threaten $14.9 billion in federal funding to Washington agencies, because the federal government requires independent audits of state spending to ensure federal guidelines are being followed. Similarly, the CAFR is published by the Office of Financial Management and audited by the Auditor's Office to provide an independent review of the state's financial position.

Cutting the CAFR effort could ultimately impact the state's bond rating, which could raise borrowing costs to the state. Any further reduction to the Whistleblower funding would severely hinder our ability to investigate Whistleblower allegations as required in RCW.42.40.

As a result the 15 percent reduction will need to be taken out of our accountability work which would severely reduce accountability audits of statewide agencies, particularly smaller agencies which have been audited very infrequently since the budget cuts instituted because of the economic recession

Preserving mandatory statewide audits would severely limit accountability audits of state agencies.

Because we are not able to reduce the work performed on the CAFR and SWSA audits, as well as the Whistleblower program, the State Auditor's Office would have to make the entire projected reduction to accountability audits, severely limiting these reviews. The accountability work represents approximately 34% of the total work performed for the state's audit. If the 15% reduction is borne only by the accountability work this work will be reduced by almost 50%. Reducing the accountability work by this amount will increase the risk that fraud and misappropriation at smaller state agencies will occur without detection because our accountability audits will not be scrutinizing them. It would also eliminate the majority of the audit work performed in Higher Education.

The current proposed reduction would be in addition to the $5M reduction to our accountability work that occurred during the 2009-11 biennium.

Accountability audits of most state agencies were suspended due to budget reductions in 2009. Since resuming in 2013, these issues have found significant issues. For example we have found:

- Volunteers allowed to transport children without first passing a background check and in many instances volunteers were receiving questionable reimbursements. We are working with the agency and at this time we are questioning more than $150,000 related to this reimbursed volunteer travel, This includes trips taken where there is no supervisory approval and also travel reimbursed where there is no documentation

- No attempt to collect more than $400,000 in accounts receivable.

- No monitoring or inventory of attractive assets like computers and cell phones, or written policies regarding such items.

- No written policies or procedures regarding proper use of more than 500 fuel purchase cards.
- In another audit currently underway it appears that 34% of an agency's expenditures did not have supporting documentation.

What alternatives were explored by the agency, and why was this alternative chosen?

N/A

What are the consequences of adopting or not adopting this package?

N/A

What is the relationship, if any, to the state's capital budget?

N/A

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

N/A

Expenditure and revenue calculations and assumptions

Revenue Calculations and Assumptions:

The Auditing Services Revolving Account is funded through charges for audit services. Audit services revenue would be decreased during the 2015-17 by approximately $1.4M.

Expenditures Calculations and Assumptions:

84% of the Auditing Services Revolving Account is related to employee costs. The 15% reduction will mean a reduction of approximately 6.5 audit staff. The State Auditor's Office would handle this through attrition or reassignment of state audit staff to other areas.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

The State Auditor anticipates this funding reduction to be one-time only for the 2015-17 budget.

Without audits that confirm compliance with laws and regulations, agencies are at higher risk of misappropriation of public funds. They also may be subjected to more fraud or whistleblower investigations. At an agency that had not been audited since the budget cuts of the Great Recession, we found the same issues we had identified years before, such as the ability for all employees of the agency to add or delete members of a pension system, insufficient controls around cash handling, and insufficient controls around small and attractive assets.

Significant accountability issues like those outlined here may be occurring in the scores of other agencies that have gone unaudited. Although financial audits review the financial statements of state agencies, they have a higher materiality threshold regarding issues that may be questioned by the auditor. The issues we have identified since we resumed accountability audits were detected because of the specialized scrutiny and higher level of accountability required these audits.

Object Detail	**Total**
A – Salaries	**(964,240)**
B – Employee Benefits	**(256,320)**
E – Goods and Services	**(215,390)**
Total Objects	**(1,435,950)**

FINAL

Agency: 095 Office of State Auditor
Decision Package Code/Title: A1 General Fund 15% reduction

Budget Period: 2015-17
Budget Level: PL - Performance Level

Recommendation Summary Text:

OFM requested 15% reduction

Agency Total

Fiscal Detail

Operating Expenditures	FY 2016	FY 2017	Total
001-1 -General Fund - Basic Account-State	(113,250)	(113,100)	(226,350)
Staffing			
FTEs			

Program 020-Division of Audit Services

Operating Expenditures	FY 2016	FY 2017	Total
001-1 -General Fund - Basic Account-State	(113,250)	(113,100)	(226,350)

Package Description:

As required in the 2015-17 OFM budget instructions, agencies are required to submit performance level budget reductions equal to 15% of General Fund Maintenance budgets.

Narrative Justification and Impact Statement

Performance Measure Detail

Activity A002 Audit of K-12 Budget Drivers and State Funded Programs

	Incremental Changes	
	FY 2016	FY 2017
Outcome Measures		
001928 Percentage of school districts audited annually complying with K-12 funding requirements	0.00%	0.00%

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

No. This decision package will actually limit our ability to meet our agency strategic goals.

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

No - it actually hinders priority #5 - Efficient, Effective and Accountable Government.

Expenditure and revenue calculations and assumptions

The 15% reduction would create the need to reduce staffing and employee related expenses.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

We assume this reduction to be a one time reduction and funding will be restored in the 2017-19 biennium.

Object Detail		**Total**
A	Salaries And Wages	(161,590)
B	Employee Benefits	(35,470)
E	Goods\Other Services	(29,290)
Total Objects		**(226,350)**