

# State Auditor's Office



## Strategic Plan

July 1, 2009 through June 30, 2013

### **Introduction**

The Washington State Auditor's Office enters the 2009-2011 budget period with significantly expanded responsibilities given to us by citizens and the Legislature.

Initiative 900 has given the Office the most extensive authority in the country to conduct comprehensive, independent performance audits of state and local governments. The measure, approved in 2005 by an overwhelming 57 percent of state voters, expanded the scope of our overall audit work. About 38 percent of our budget proposal for fiscal 2009-2011 is for our performance audit program.

Although still in its infancy, the program is producing significant value for citizens and for governments. In audits of state government alone, we have identified millions of dollars in potential cost savings, unnecessary costs and uncollected debt. We also have made many recommendations for efficiencies and improvements to public safety. We are confident the state's 2009-2011 budget will reflect savings achieved through our audit recommendations. We remain deeply committed to carrying out this new responsibility constructively, objectively and effectively.

In addition to the new responsibilities under I-900, we were given a new Citizens Hotline by the Legislature in 2007. This provides a central point of contact for citizens who wish to report suspected government waste and abuse as well as things government is doing well. We established the hotline and developed effective methods to promote its use and report its results. It has complemented our existing Constituent Referral Program.

The hotline has proven to be a tool valued by citizens. Since July 2007, we have received more than 950 reports. This new responsibility was handed to us without funding. While we have established the program within existing resources, we have carefully tracked expenses related to the program and are submitting a decision package along with this strategic plan that lays out a case for General Fund money needed to keep the hotline operating to meet newly created citizen expectations.

The Legislature also enacted significant changes to the State Employee Whistleblower Act, most significantly expanding the definition of improper government action. This has increased the number cases reported to us since the law took effect in June 2008.

To be as efficient and effective as possible in coordinating these new responsibilities, we restructured our operations to establish the Division of Special Investigations. This Division is responsible for looking at issues brought to us through the hotline, whistleblower and constituent programs and for the fraud detection and prevention programs. Information gathered through this Division is centralized, and is also used as we plan our other audits.

### **About the Office of State Auditor**

The Washington State Auditor's Office was established in the Constitution as the independent "auditor of all public accounts." The fundamental issue for the Office is accountability. The state's founders created the Office as a check and balance on government operations. We make sure state and local governments act as good stewards of taxpayer dollars and protect public funds from misuse, abuse and misappropriation. The Office was created to be independent and conduct fair and objective audits. State Auditor Brian Sonntag is among eight statewide elected officials, reporting directly to Washington citizens. The Legislature and the Governor have no direct oversight of the Office, other than approval of our budget and through enactment of laws that affect our operation. In auditing on behalf of the public, we consider the Office as a window into government, enabling citizens to assess how well government is performing. To help them in that assessment, we report our work publicly and visibly.

### **Our Mission Statement**

*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 efficient and effective use of public resources.*

## **Our Statutory Authority**

These provisions of state law apply to our Office:

- State Constitution, Article 3, Section 20 (Auditor of all Public Accounts)
- RCW 43.09.290 – 43.09.420 (State Audit)
- RCW 43.88.160(6) (State Audit)
- RCW 43.09.245 – 43.09.282 (Local Audit)
- RCW 43.09.430 – 43.09.475 (Performance Audit)
- RCW 82.08.020 (Performance Audit Funding)
- Chapter 42.40 RCW (Whistleblower Program)
- RCW 43.09.200 (Local Government Uniform Systems of Accounting, Technical Assistance and Training)
- RCW 28A.300.060 (School District Accounting Manual)
- RCW 43.09.230 (Local Government Comparative Statistics)
- RCW 43.09.186 (Citizen Hotline)

## **What we do**

We have the authority to audit all the accounts and performance of nearly 2,400 local governments – encompassing 32 types of public entities – and another 168 state agencies, boards and commissions, and colleges and universities. These entities range in size from the state departments of Social and Health Services and Transportation to small local mosquito districts and flood control districts. In any one year, about \$100 billion is spent by those governments. It all falls under our purview. To ensure accountability, we conduct a variety of audit types, all following Generally Accepted Auditing Standards (GAAS). The following is an overview of our audits and responsibilities:

### **Financial statement audits**

We perform financial statement audits to determine if state and local governments' financial statements are accurate and complete. This includes an annual audit of Washington State's financial statements. Our audits provide users with an independent assessment of their financial positions and the results of their operations and cash flows.

### **Accountability audits**

We perform accountability audits of state agencies and local governments to determine whether they followed state laws and regulations, accounted for public funds and had systems and controls in place to protect public resources from loss, misappropriation and misuse. The audits are performed on a cyclical basis based on risk analyses that consider entity size, financial complexity and prior audit history and citizen concerns, among other factors. This risk-based approach allows us to identify areas of risk, to prioritize those risks and to

thoughtfully allocate audit resources. This ensures that significant risk areas are audited in the most efficient and effective manner.

### **Federal compliance audits**

State and local governments that spend at least \$500,000 in federal financial assistance annually are required to undergo an audit pursuant to the federal Single Audit Act of 1984. We provide that service on behalf of the federal grantor agencies. In the case of Washington State, however, we audit it as one entity, as opposed to local governments which are audited separately because they are individual entities. Single Audits, as they are known, include an assessment of internal controls over federal programs, tests of how those controls are working, and tests of compliance with federal requirements.

### **Performance Audits**

Through Initiative 900, we conduct independent performance audits of state and local government entities, agencies, programs and accounts. Each performance audit is required to include, but not be limited to: (1) Identification of cost savings (2) Identification of services that can be reduced or eliminated (3) Identification of programs or services that can be transferred to the private sector (4) Analysis of gaps or overlaps in programs or services and recommendations to correct them (5) Feasibility of pooling the entity's information technology systems (6) Analysis of the roles and functions of the entity and recommendations to change or eliminate roles or functions (7) Recommendations for statutory or regulatory changes that may be necessary for the entity to properly carry out its functions (8) Analysis of the entity's performance data, performance measures and self assessment systems and (9) Identification of best practices. The audits must be conducted in accordance with Government Auditing Standards.

### **Special Investigations**

The Office has established a Division of Special Investigations to promote accountability and fiscal integrity by providing resources to conduct comprehensive investigations of fraud, violations of state and local laws, and illegal acts and abuse. The division provides training to state and local governments and to our employees on the detection of fraud and the importance of internal controls on the prevention of misappropriation of assets. This division provides citizens and state and local government employees an avenue to report information to our Office that will assist ensuring accountability at our state and local governments.

### **State Employee Whistleblower Program**

Our Office administers provisions of the Whistleblower Act of 1982, which provides state employees a way to confidentially report suspected improper governmental action. The Act defines an improper governmental action as any action by an employee undertaken in the performance of the employee's official duties that: (1) is a gross waste of public funds or resources (2) is in violation of federal or state law or rule, if the violation is not merely technical or of a minimum nature or (3) is of substantial and specific danger to the public health or safety.

Under our authority, we investigate assertions of improper actions filed with our Office, determine whether they are substantiated, recommend corrective action and publicly report the results.

Significant changes to the Whistleblower Act by the Legislature in 2008 provided additional avenues to state employees to report improper governmental actions. The changes also expanded the definition of an improper governmental action to include gross mismanagement and preventing dissemination of scientific opinion or altering technical findings. It also expanded the protection from only the whistleblowers themselves to anyone who provides information and anyone who is perceived to have provided information to an investigation. These changes have increased the number of whistleblower assertions being reported to the State Auditor's Office.

### **Citizens Hotline**

The Citizens Hotline assigned our Office the responsibility of setting up and maintaining the Hotline, which gives citizens an avenue to:

- Recommend ways to improve efficiency
- Report waste, fraud and abuse
- Report outstanding achievement and efficiency in government.

The law took effect in July 2007. In the year following, we got the Hotline up and running and promoted it to citizens as required by the law. We have begun dozens of inquiries based on information we receive through the Hotline. We have had to absorb these expanded responsibilities within existing resources. A separate decision package is seeking additional funding to pay for the program in 2009-11. This decision package contains statistics and other information on the Hotline program.

### **Fraud**

Rooting out and preventing fraud is a major function of our Office. In 2007, we reported 24 cases with more than \$1.7 million in misappropriations. State law requires that all state agencies and local governments immediately notify the State Auditor's Office if they know of or suspect a loss of public resources. Among our audit teams located in Olympia and throughout the state, we have 17 fraud-detection specialists trained to investigate and find fraud. As part of our responsibilities, we have an ongoing training program to help government managers identify the signs of fraud and put controls in place to prevent it. They are in a position to prevent or at least provide early detection of misappropriation.

We believe that as the economy worsens and state agencies and local governments have to make staffing cuts to make ends meet, the risk of fraud will increase proportionately. In addition to creating the Division of Special Investigations, we are looking at ways for our fraud program to respond to those increased risks.

### **Local Government Accounting and Reporting Systems**

The Office prescribes the accounting and reporting of local governments in the state of Washington using the Budget, Accounting, and Reporting System (BARS) manuals and financial reporting packages. The BARS system uses a standardized chart of accounts to report financial activities of an entity.

Each year, we publish Local Government Comparative Statistics covering the financial activity of counties, cities, and special purpose districts such as fire districts.

Our Office also maintains the Local Government Finance Reporting System on-line. This system was authorized and funded by the Legislature in 1996. It was intended to give lawmakers and others a means to obtain more accurate and timely local government financial information. The on-line database contains financial information for counties and cities dating back to 1994, and for ports and transit systems since 1997. The site's flexible reporting options allow citizens and governments to extract aggregated or specific data and specialized reports.

### **School Programs**

At the direction of the Legislature, the Office staffs a team of school program specialists to carry out several specific assignments. This is in addition to the regular financial/accountability audit work and is paid for with a General Fund appropriation. The Schools Programs Team provides technical assistance and assesses school district compliance with legal criteria that must be met as a condition for receiving General Fund money. The team also assists a Special Education Safety Net Committee, which evaluates applications from school districts for additional special education funding. Team members also work with staff of the Office of Superintendent of Public Instruction (OSPI) on audit resolution, and provide training for school district staff. In addition, we participate on the School Districts Accounting Advisory Committee, which prescribes accounting rules for schools in conjunction with OSPI.

### **Quality Assurance**

The Office has an independent Quality Assurance Team responsible for providing objective assurance that audits are conducted in accordance with professional auditing standards. The Team achieves this by continually assessing the effectiveness of the Office's monitoring controls that are designed to ensure that audit guidance – in the form of policies, procedures and other centralized audit materials – reflect current professional standards and that those standards are properly applied on every audit. As a result, this program helps ensure citizens have access to accurate and reliable financial and performance information about their government.

### **Who Audits the Auditor?**

Several methods are used to assess our Office's own quality assurance, operating practices, legal compliance and adherence to auditing standards.

- Professional auditing standards require audit organizations such as this Office to be audited every three years by an external group. This is called an external peer review, made up of top-level staff from state auditor offices across the country. The peer review, which is required by Government Auditing Standards, is arranged through the National Association of State Auditors. The review determines whether our Office's quality control system is adequate and that we consistently comply with it. We are proud to have successfully passed every peer review in our history.
- Every other year, the Governor – through the Office of Financial Management (OFM) – contracts with a private firm to audit our Office and ensure we follow applicable state laws and regulations and prepare accurate and complete financial information.
- In 1999, the Legislature directed OFM to contract for a periodic performance audit of our State Employee Whistleblower Program to determine the effectiveness and efficiency of the program.
- To comply with a 2004 law, the Office is required to self-assess our operations, performance and commitment to excellence through the Washington State Quality Award Program. We have begun this year preparing a comprehensive application that will be submitted to the Washington Quality Award Council.

In addition to the attestations required by state law and professional auditing standards, we evaluate our own operations. We conduct an internal audit periodically to make sure we are following requirements and standards. Our Performance Audit Program will undergo an external peer review in 2009. We also have contracted with audit experts recognized by the national Association of Government Accountants to conduct an assessment of our relatively new Performance Audit Program.

### **Goals and Objectives**

#### **Goal 1 - Give citizens a greater ability and means to assess government accountability.**

##### **Objectives**

- Broaden citizens' understanding of the role of the State Auditor.
- Advocate policy changes that ensure citizens have access to government and have a forum to effect change.
- Give citizens a greater voice in helping determine where we direct our audits based on their expectations.

##### **Strategies**

- Respond in a timely manner to all public records requests.

- Actively report our work publicly, in a timely manner, and in an understandable form.
- Provide an avenue for citizens to report government waste and fraud as well as government efficiencies.
- Conduct ongoing outreach of citizens, public employees and others to elicit their thoughts and ideas to improve government operations.

**Goal 2 - Achieve greater accountability among state and local governments.**

**Objectives**

- Perform timely and relevant financial and accountability audits of state and local government in accordance with government auditing standards.
- Conduct independent and comprehensive performance audits that result in significant net cost impacts, improved public policies and operational practices, greater government efficiency and effectiveness, and better service to the public.
- Continue to be a nationally recognized leader in financial and legal compliance auditing and in the use of computer-assisted auditing techniques.
- Ensure accuracy and consistency of our audits.
- Increase awareness of the state employee Whistleblower Program and Hotline programs and educate individuals on how to use them.

**Strategies**

- Benchmark our audit practices with comparable professional organizations.
- Continue to advocate efficient and effective national accounting and audit standards.
- Follow the recommendations of the Quality Assurance Program.
- Continue to refine a risk-based approach to auditing, in keeping with audit standards.
- Use private contractors when appropriate and with proper oversight to assist the effectiveness and timeliness of audits.
- Serve as a clearinghouse for government best practices directly resulting from issues identified in our audits.
- Continue to focus on areas with the highest risk of misuse and abuse.
- Report conclusions of Whistleblower assertions within 60 days after completion of preliminary investigation.
- Leverage Citizens Hotline referrals to inform audit risk assessments and audits and investigations of state and local governments.

**Goal 3 – Ensure the most efficient and effective use of public resources allocated to the State Auditor’s Office.**

## **Objectives**

- Strengthen our highly skilled, diversified workforce.
- Receive an unqualified financial and legal compliance audit report biennially (independently arranged by the Office of Financial Management).
- Receive an unqualified external peer review every three years (conducted by the National State Auditors Association).
- Enhance our risk management program.
- Ensure the efficient and effective management of facilities statewide, promoting the safety and well being of our employees.
- Be the employer of choice for financial professionals.
- Provide effective resources for employees to do their jobs.
- Achieve a Washington State Quality Award in administering our constitutional responsibilities.

## **Strategies**

- Develop and fund a manager training and development program.
- Continue to identify opportunities for employees to improve personal and professional development skills.
- In addition to our existing training program, develop an audit academy to provide staff with specialized audit training.
- Set clear expectations and actively recognize work that meets or exceeds those expectations through our recognition programs.
- Continue to aggressively recruit at colleges and universities to hire the best graduates.
- Expand internship opportunities for students in accounting and other disciplines.
- Improve means of communicating policy decisions and needed information within the Office and promote effective two-way communications.
- Maintain internal Quality Assurance program.
- Enhance employee awareness of process for filing a report of improper governmental action under the state employee Whistleblower program.
- Develop updated standards for the provision of office facilities statewide and renegotiate leases accordingly as they come due.
- Use Citizens Hotline referrals as key sources of information to ensure we know what matters to citizens.

## **Goal 4 – Increase agency and government resolution of audit issues.**

### **Objectives**

- Strengthen positive, cooperative relationships with governments we audit to help them improve their financial management and accountability.

- Continue to plan and deliver relevant training and technical assistance to local government financial officers.
- Facilitate the timely resolution of audit issues.

### **Strategies**

- Measure client satisfaction, usefulness and relevance of our audits.
- Maintain the local government Budget, Accounting and Reporting System prescriptions.
- Provide financial management training to state and local government managers and financial officers.
- Increase audit manager communication with government finance personnel and elected and appointed officials.
- Continue to have assigned specialists by entity type to consult and provide oversight of audits for each type of entity.
- Measure and quantify audit resolution.

### **Performance Measures**

While the State Auditor’s Office operates as one, for budget purposes we are organizationally divided into seven activities. Although we have many performance measures that we track, we have limited this table to include only a few of our measures.

	<b>Activity</b>	<b>Measure</b>	<b>Target</b>	<b>Source</b>
A001	<b>Administrative Activity</b>	Timely response to public records requests	Percent of citizens satisfied with public records request process	Customer survey
A002	<b>Audit of School Programs</b>	Auditee satisfaction	Percent of auditees satisfied	Client survey
A003	<b>Audit of Local Governments</b>	Audit Timeliness	Number of days between end of audit and release of audit report	Internal data
		Audit Cost Containment	Percent of audit costs vs. total expenditures audited	Totals invoiced by entity vs. LGCS expenditure data
		Accepted Audit Recommendations	Percentage of Audit Recommendations Accepted	Recommendation Audit Database
A004	<b>Audit of State Governments</b>	Audit Timeliness	Percent of days between end of audit and release of audit	Internal data

			report	
		Audit Cost Containment	Percent of audit costs vs. total expenditures audited	Totals invoiced by entity vs. LGCS expenditure data
		Accepted Audit Recommendations	Percentage of Audit Recommendations Accepted	Recommendation Audit Database
A005	<b>Investigating Improper Governmental Actions</b>	Investigation Timeliness	All Whistleblower investigations meet statutory deadlines	SAO Whistleblower database
A006	<b>Local Government Budgeting, Accounting and Reporting System and Statistics</b>	Auditee satisfaction	Percentage of auditees satisfied	Client Survey
A007	<b>Performance Audits</b>	Cost savings recommendations	Ratio of cost savings recommended when compared to audit costs	Performance Audit database
		Accepted Performance Audit Recommendations	Percentage of Performance Audit recommendations accepted	Performance Audit database

### **Key strategic challenges**

- Performance Audit:** As stated above, I-900 gave the State Auditor's Office the most extensive performance audit authority in the country. At the time, the initiative was passed, we had no structure in place, or staff, to begin doing performance audits. We recognized the citizen expectation for quick results, yet had to balance that with our own expectations and professional standards for audit quality, results, and recommendations. Performance audits, by their very nature, require extensive research using thorough analysis and often, special skill sets. They take more time than our financial, single and accountability audits, whether they are done through contract or with our own staff. Common performance audit challenges include: staffing; staff training; audit selection; how to report on our conclusions in a way that is understandable; when to use in-house resources and when to use contractors; setting up policies, procedures, protocols; and setting up a good quality assurance program.
- Citizens Hotline Startup:** When we launched the Hotline, we set up a dedicated toll-free statewide telephone number, created posters and

brochures, and aired public service announcements on radio stations across the state in an effort to market the program as directed by the Legislature. As a result, the number of calls is steadily increasing each month. We did not receive any additional resources for the program, and had to determine the most effective way to provide these services with existing staff and resources. We have submitted a decision package as part of the 2009-2011 budget submission to obtain general fund money for this program.

- **Audit Staff Retention:** To accomplish our mission, the agency depends heavily upon the skills and abilities of our highly trained and professional auditors. Over the past few years, we have experienced increasing turnover in our most senior level staff. The turnover rate of our Local audit staff during 2007 was 21.1%. Many leave our Office for financial positions at school districts, cities and other local governments that offer high salaries.

We continue to work to reduce turnover in a number of ways including:

- Enhancing our orientation program and adding 40 hours more training per biennium for new employees.
- Creating mentor positions.
- Creating individual development plans.
- Providing more opportunities for career growth within the Office.
- Work with managers and supervisors to expand opportunities to recognize employees for their work.

### **Performance Improvement Systems**

- HR Management Report - Performance indicators for a number of human resources initiatives are captured on an on-going basis and reported twice yearly in accordance with the Government Management, Accountability, and Performance (GMAP) reports. Goals are set and reviewed on a regular basis.
- Customer service surveys – feedback from audit clients is regularly collected and compiled.

### **Internal Capacity and Financial Health Assessment**

Approximately 82 percent of operating expenses are associated with personnel. The State Auditor's Office leases its office space and does not have significant capital asset or long-term debt activity. The Office's financial management practices enable routine timely payment of operating expenses and debt service.

### **Controlling Audit Costs**

We read all the time that state agencies and local governments are struggling to make ends meet as revenues decline and the demand for services increases. In recognition of that, we are engaged in a number of efforts to keep audit costs as low as possible.

By law, we bill local governments directly for the cost of performing their financial/accountability audits. The expense of auditing local governments includes direct audit costs; expenses directly related to prescribing accounting systems; training; maintenance of working capital, including reserves for late and uncollectible accounts and necessary adjustments to billings; and field audit supervision.

Also by law, the actual expense of auditing state government and conducting whistleblower investigations is paid by each state agency subject to audit or investigation.

We continue to look to technology to make our business processes more efficient. For example, in 2008, we started an audit report subscription service that has significantly reduced our use of paper and staff time for copying. We are using technology to cut down on travel and communications costs and to enhance our hiring processes, vendor payment system and other areas.

The State Auditor's Office continues to be accountable to its customers for the quality of our audits and for the price that is charged for that service. The financial outlook for the 2009-2011 biennium demands continuing focus on managing audit costs.

The cost control efforts mentioned above have been complicated by a decision by the Legislature last year to take \$500,000 from the Municipal Revolving Account, the account related to our audits of local government. The money was taken to pay a portion of the proposed Heritage Center in the belief that the Auditor's Office would be a tenant of that building. We have no plans to become tenants of that building. We have two choices if it is not restored: less audit work or increased rates for audit clients.