



Washington State Auditor's Office

Independence • Respect • Integrity

Accountability Audit Report

Town of Darrington

Snohomish County

For the period January 1, 2013 through December 31, 2014

Published November 12, 2015

Report No. 1015506





Washington State Auditor's Office

November 12, 2015

Council
Town of Darrington
Darrington, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for Town operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the Town's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

Audit Summary	4
Schedule Of Audit Findings And Responses	6
Status Of Prior Federal Audit Findings	18
Status Of Prior Audit Findings	19
Information About The Town	20
About The State Auditor’s Office.....	21

AUDIT SUMMARY

Results in brief

In most areas we audited, Town operations complied with applicable requirements and provided adequate safeguarding of public resources. The Town also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we identified areas in which the Town could make improvements.

We recommended the Town establish policies and procedures over key financial operations to ensure that internal controls are adequately designed to safeguard public funds. At a minimum, the Town should:

- Ensure cash duties are segregated and an independent review is performed over cash receipting functions.
- Ensure donations are properly accepted and used for their intended purposes as required by state law.
- Retain adequate support for vendor profiles and paid invoices to ensure vendors are legitimate and that services and goods have been received.
- Establish procedures to ensure disbursement duties are adequately segregated.
- Establish a process for identifying, tagging and tracking assets determined to be small and attractive.
- Ensure utility billing duties are segregated and an independent review is performed to ensure the proper water rates are used and billed to customers.
- Retain documentation for approved employee compensation schedules and approved leave slips.
- Perform an independent review of payroll functions to ensure employee profiles and timesheet information is completely and accurately entered into the system.
- Retain adequate documentation for State grants received to provide evidence the Town is compliance with the grant agreements.
- Retain all records for the appropriate time period as required by the local government records retention schedules.

These recommendations were included in our report as a finding.

About the audit

This report contains the results of our independent accountability audit of the Town of Darrington from January 1, 2013 through December 31, 2014.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the Town's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Financial operations
- Financial condition

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2014-001 The Town does not have adequate internal controls or oversight of its financial operations to safeguard public resources.

Background

The Town of Darrington spends approximately \$2.5 million annually and has seven employees. The Mayor and Town Council appoint the Clerk Treasurer and Deputy Clerk to process and oversee daily accounting and financial operations. The Town's primary sources of revenue are property taxes, water/garbage service billings, and license issuance. All funds are receipted at Town Hall by the Clerk Treasurer or the Deputy Clerk. During 2014, the Town's operations were affected by the Oso mudslide as well as significant turnover, including the hiring of a new Clerk Treasurer and Deputy Clerk.

Description of Condition

The Mayor and Town Council have not developed policies and procedures, or dedicated sufficient resources and training on policies currently in place, to adequately monitor and manage the Town's financial operations in the following areas:

Cash Receipting

In the prior audit, we issued a management letter for weaknesses in internal controls. We found these weaknesses still exist as the Town's current cash receipting process does not have adequate segregation of duties since the Deputy Clerk and Clerk Treasurer both receipt cash payments, record cash payments, reconcile cash boxes, and post cash payments to the system. Further, the Town does not currently have a policy in place over cash receipting and does not have compensating controls in place to ensure adequate segregation of duties as both the Deputy Clerk and Clerk Treasurer work out of the same cash drawers.

Donations

The Town received donations from United Way and the Association of Washington Cities (AWC) totaling \$50,000 following the Oso mudslide. The Town was unable to provide documentation that the donations were accepted in accordance with state law (RCW 35.21.100) and used for their intended purposes. We were able to confirm directly with the donors that the donation checks were deposited into the Town's bank account by verifying the account information on the back of the checks.

General Disbursements

The Town does not have a policy or adequate procedures in place to ensure vendors are properly set up in the system using reliable documentation. The Town is relying on the invoice information to set up vendors. Further, there is no independent review to ensure vendor profiles and invoices are completely and accurately entered into the system. The Town does not retain adequate documentation of approval of invoices and does not consistently retain documentation providing evidence that goods have been received and that services have been completed. Lastly, there are no compensating controls for the lack of segregation of duties as both the Deputy Clerk and Clerk Treasurer are capable of creating vendors, processing invoices and printing checks.

Small and Attractive Assets

The Town does not have an established policy or procedure over small and attractive assets. We physically identified assets we expect to be considered small and attractive (laptops and printers) and noted they are not tagged or tracked by the Town.

Utility Billing

The Town does not have adequate controls in place to ensure water rates are updated in the system. During our review of Council meeting minutes, we noted that a resolution (GR232) was approved by Council in June 2013 increasing water rates. The Town is currently charging a base rate of \$25 when it should be charging \$28. Due to the incorrect rate being charged, the Town is losing approximately \$11,000 in revenues per year.

Further, the Town does not have adequate controls to ensure accounts are correctly added or updated in the system. There is no secondary review in place for when the Deputy Clerk or Clerk Treasurer create or update an account in the system. Lastly, the Town has one community that is billed one flat fee. However, we were unable to obtain any evidence of Council approval allowing the Town to bill a different rate to the community rather than using the established water rates. During 2014, the Town reported approximately \$895,000 in water utility revenues.

Payroll

The Town does not have adequate controls to ensure compliance with the Personnel Policies Manual. There is no independent review function in place to ensure employee profiles are properly set up in the payroll system and that

timesheet entries are complete and accurate. Both the Deputy Clerk and Clerk Treasurer have access to creating/updating employee profiles and entering timesheets into the system which creates a segregation of duties concern. We found the Town does not retain evidence of leave approval as required by Town policy. Further, we found one employee's vacation leave balance exceeds the authorized limit of 240 hours by 303 hours. Lastly, the Town does not retain employment documentation providing evidence of approved pay schedules. Therefore, we are unable to confirm whether employee compensation is correctly calculated.

State Grants

We selected the two largest state grants received in 2014 for review. Management was able to provide us with the grant agreement and supporting documentation for one of the two grants, which was awarded in the amount of \$673,977 for transportation improvements. The Town did not retain adequate support providing evidence that proper bid laws were followed. Further, they were not able to provide us with documentation for the other grant which was awarded in the amount of \$122,500 for street improvements. Therefore, we are unable to perform any audit work to ensure the Town is in compliance with this grant agreement.

Cause of Condition

The Town experienced significant turnover in its Clerk Treasurer and Deputy Clerk positions. The Town lost a combined total of 46 years of experience at these positions due to retirement in early 2014. Further, the individuals who filled these positions during the audit period resigned after approximately one year in early 2015; they were subsequently replaced by the current staff.

Additionally, current staff was not provided adequate training to understand existing Town policies, procedures and develop proper controls over these activities. The Town has not made it a priority to establish and create formal policies or procedures on its expectations of how these items should be handled. Lastly, the Town was also significantly affected by the Oso mudslide which occurred March 22, 2014 and resulted in loss of life and devastating destruction to the community.

Effect of Condition

The lack of segregation of duties, monitoring and reconciliations increase the risk that services billed and public monies collected could be misappropriated and not detected in a timely manner, if at all. Due to limited support and inconsistent

procedures over cash receipting and billing, our testing of the condition was limited and, with the exception of utility billings, we could not quantify any effect. However, we estimated lost utility billings revenues to be approximately \$11,000.

Recommendation

We recommend the Town establish policies and procedures over key financial operations to ensure that internal controls are adequately designed to safeguard public funds. At a minimum, the Town should:

- Ensure cash duties are segregated and an independent review is performed over cash receipting functions.
- Ensure donations are properly accepted and used for their intended purposes as required by state law.
- Retain adequate support for vendor profiles and paid invoices to ensure vendors are legitimate and that services and goods have been received.
- Establish procedures to ensure disbursement duties are adequately segregated.
- Establish a process for identifying, tagging and tracking assets determined to be small and attractive.
- Ensure utility billing duties are segregated and an independent review is performed to ensure the proper water rates are used and billed to customers.
- Retain documentation for approved employee compensation schedules and approved leave slips.
- Perform an independent review of payroll functions to ensure employee profiles and timesheet information is completely and accurately entered into the system.
- Retain adequate documentation for State grants received to provide evidence the Town is compliance with the grant agreements.
- Retain all records for the appropriate time period as required by the local government records retention schedules.

Town's Response

We understand and agree with the statement that the Town must establish policies and procedures over key financial operations to ensure that internal controls are adequately designed to safeguard public funds. The Town of Darrington has and will take the following steps to ensure that all applicable laws and regulations are followed as required by state law.

- 1. Ensure cash duties are segregated and an independent review is performed over cash receipting functions.*
 - a. The deputy clerk will receive payments and record into accounting system, daily. Clerk will review and verify cash receipts as to accuracy of entry to system, daily.*
- 2. Ensure donations are properly accepted and used for their intended purposes as required by state law.*
- 3. Donations will be received into separate individual BARS codes. Expenses will be recorded in corresponding expense Bar*
 - a. A vendor's intake and information record will be maintained for every vendor the Town of Darrington does business with.*
 - b. All signed packing slips are retained with all corresponding invoices, to ensure all goods have been received before payment is issued.*
- 4. Establish procedures to ensure disbursement duties are adequately segregated.*
 - a. Clerk prepares all expenditure reports, before issuing payment to vendors. These reports are presented to Town Council for approval. Town Council reviews each request for payment and signs approval form, before issuance of payment.*
- 5. Establish a process for identifying, tagging and tracking assets determined to be small and attractive.*
 - a. An inventory schedule will be prepared for all small and attractive inventory. Inventory will be physically performed not less than every other year.*
- 6. Ensure utility billing duties are segregated and an independent review is performed to ensure the proper water rates are used and billed to customers.*
 - a. Deputy clerk will review and verify utility customer billings and cross check with Waste Management itemized billing, no less than semi-annually. Waste Management sends account changes such as add ons and extras on a weekly basis. The deputy clerk verifies and records any billing changes weekly.*

7. *Retain documentation for approved employee compensation schedules and approved leave slips.*
 - a. *An approved leave request form and intake form will be developed and utilized by all employees.*
 - b. *Payroll files will be developed and maintained for individual employees, pertaining employee intake form, all time sheets, leave request, evaluations, and any other employee related paperwork.*
8. *Perform an independent review of payroll functions to ensure employee profiles and timesheet information is completely and accurately entered into the system.*
 - a. *Continued training for current employees, to ensure payroll system currently used is understood and correctly used.*
 - b. *Supervisor, City Clerk, and Mayor sign all timesheets as to s Codes. This will enable expenses to be reviewed and monitored as to intended purposes.*
9. *Retain adequate support for vendor profiles and paid invoices to ensure vendors are legitimate and that services and goods have been received.*
 - a. *accuracy of time entered.*
10. *Retain adequate documentation for state grants received to provide evidence the Town is in compliance with the grant agreements.*
 - a. *A filing system has been developed and will be maintained by City Clerk, separating each Grant into a separate file, with all documentation pertaining to grant in file.*
 - b. *A Grant intake and monitoring form will be prepared for each grant and maintained within the appropriate file.*
11. *Retain all records for the appropriate time period as required by the local government records retention schedules.*
 - a. *A retention schedule will be prepared and maintained*
 - b. *Additional personnel will be hired to maintain this retention schedule.*

Auditor's Remarks

We appreciate the Town's commitment to resolving the matters identified during the audit and thank Town personnel for their assistance and cooperation during the current audit.

We will follow-up on the status of the audit finding during the next audit.

Applicable Laws and Regulations

RCW 35.27.220 – Town Clerk – Duties, states:

The town clerk shall be custodian of the seal of the town. The town clerk may appoint a deputy for whose acts he or she and his or her bondsperson shall be responsible. The town clerk and his or her deputy may administer oaths or affirmations and certify to them, and may take affidavits and depositions to be used in any court or proceeding in the states.

The town clerk shall make a quarterly statement in writing showing the receipts and expenditures of the town for the preceding quarter and the amount remaining in the treasury.

At the end of every fiscal year the town clerk shall make a full and detailed statement of receipts and expenditures of the preceding year and a full statement of the financial condition of the town which shall be published.

The town clerk shall perform such other services as may be required by statute or by ordinances of the town council.

The town clerk shall keep a full and true account of all the proceedings of the council.

RCW 40.14.070 - Destruction, disposition, donation of local government records — Preservation for historical interest — Local records committee, duties — Record retention schedules — Sealed records, states in part:

(2)(a) Except as otherwise provided by law, no public records shall be destroyed until approved for destruction by the local records committee.

RCW 43.09.200 – Local government accounting – Uniform System of Accounting, states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

Budget Accounting and Reporting System (BARS) Manual – Accounting, Accounting Principles and General Procedures, Internal Control, states in part:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained and fairly disclosed in the financial statement and other reports; and resource use is consistent with laws, regulations and policies.

Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

Budget Accounting and Reporting System (BARS) Manual – Accounting, Revenues, Cash Receipting, states in part:

Cash receipting is a very important function of all governments. Listed below are requirements for deposits and receipt forms. Also provided are recommended internal control procedures for cash receipts. Internal controls are the responsibility of management.

Deposits

1. Every public officer and employee, whose duty it is to collect and receive payments due or for the use of the public, should deposit such monies collected or received by him/her with the treasurer of the local government once every 24 hours. The treasurer of the local government may at his/her discretion grant an exception where such daily transfers would not be administratively practical or feasible (RCW 43.09.240).
2. The daily deposits must be made intact and the composition of checks and cash must match the mode of payment listed on the deposit slip and related receipt forms.
3. Checks must be restrictively endorsed *For Deposit Only* immediately upon receipt.

Receipt Forms (manual or automated)

1. Receipt forms must be pre-numbered and imprinted with the name of the local government.
2. Receipt forms must include the following information:

- Name of payor (address if feasible).
 - Amount received.
 - Mode of payment (cash, check, credit card, other).
 - Purpose of payment.
 - Name of employee who prepares receipt.
3. Generic receipt forms should not be used (e.g., Rediform, etc.).
 4. In instances where cash is received at decentralized locations (e.g., police department, parks department, etc.), the local government treasurer may combine those receipts onto one treasurer's receipt. The treasurer's receipt should indicate the total amount received from each location as well as the appropriate account codes.
 5. If a receipt is voided, the original and any copies of that receipt must be retained.

Internal Control

The following internal controls enable local governments to properly account for and safeguard cash receipts. These controls are recommended for all local governments.

1. Two employees should open the daily mail and prepare a list of cash and checks received (remittance list). This may not be feasible at departments/governments having limited staff. In such a case, the entity should implement a system of supervisory review of the remittance list and bank deposits.
2. The daily deposit may be prepared by the person who received the payment. The entity should implement a system of supervisory review of the remittance list and bank deposits to ensure deposits are made intact.
3. Checks received in the mail should be briefly reviewed for accuracy (e.g., proper payee, date, signature of payor, etc.). Checks with obvious inaccuracies should

not be included in the deposit. In such a case, the entity should contact the payor and request that the payment

4. The daily remittance list should be compared (reconciled) to daily deposit slips and to the cash receipts journal (or check register) on a regular basis. This should be performed by someone other than the employee who prepared the remittance list. Any shortage should be resolved.
5. A duplicate copy of the bank-validated deposit slip showing the composition of receipts should be retained by someone other than the employee making up the deposit.
6. A monthly bank statement reconciliation should be performed by an independent person who does not have cash custody or bookkeeping responsibilities over cash. Any differences that are identified during the monthly bank reconciliation should be researched and resolved.
7. The daily deposit should be delivered to the bank in the bank bags and should have locks or other tamper-proof devices.
8. Cash receipts should be properly protected during the operating day and secured in a safe or vault overnight. Access to the cashing area should be appropriately restricted whenever possible.
9. Access to the safe or vault should be limited and combination should be changed periodically. In addition, the safe and vault combination should be changed after employees terminate employment.
10. If the entity utilizes cash registers, there should be only one change fund and one cash register (or drawer) per cashier. This enables the entity to affix responsibility for cash to a specific individual at all times.
11. Accounting manuals or policies should contain instructions for identifying cash receipts and for dating cash receipts journal entries for that day's receipts.

RCW 35.21.100 – Donations – Authority to accept and use, states:

Every city and town by ordinance may accept any money or property donated, devised, or bequeathed to it and carry out the terms of the donation, devise, or bequest, if within the powers granted by law. If no terms or conditions are attached to the donation, devise, or bequest, the city or town may expend or use it for any municipal purpose.

Town of Darrington – Personnel Manual – Chapter 4 “Hours and Attendance” states:

4.2 - Hours of Work and Overtime: All overtime must be authorized in advance by the Mayor. Overtime pay is calculated at one and one-half times the employee’s regular rate of pay for all time worked beyond the established work period. When computing overtime, time paid for but not worked (e.g., holidays, sick leave and vacation time), is not counted as hours worked.

4.3 - Compensatory Time: Non-exempt employees entitled to overtime pay may request compensatory time off instead of cash payment. This is approved on a case-by-case basis by the Mayor. The Town is not required to grant comp time instead of overtime pay. If the compensatory time option is exercised, the employee is credited with one and one-half times the hours worked as overtime. Maximum compensatory time accruals of forty (40) hours for regular employees may be carried over to the following calendar year. Employees may use compensatory time within a reasonable time period after making a request to the Mayor, unless doing so would unduly disrupt Town operations. Compensatory time should be used for short-term absences from work during times mutually agreed to by the employee and the Mayor and may not exceed 16 hours at any one time. Accumulation of compensatory time to be used as a substitute for extended vacation time off is not normally permitted.

Employee comp time balances will be reviewed at least annually as part of the Town’s budget process.

Town of Darrington – Personnel Manual – Chapter 5 “Compensation” states:

5.1 - Salary Classification and Grades: Each job title within the Town is classified into one of the Town’s classification for salary purposes. Each classification is designated a particular salary or

salary range shown on the Town's salary and wage schedule, which is approved by the Town Council.

Town of Darrington – Personnel Manual – Chapter 8 “Leaves” states:

8.1 - Vacation Leave: The Mayor or supervisor is responsible for scheduling employees' vacations without undue disruption of Town operations. Leave requests shall be submitted at least two weeks prior to taking vacation leave.

The maximum number of vacation hours which may be accumulated from succeeding years cannot exceed 240 hours. In cases where Town operations have made it impractical for an employee to use vacation time, the department director with the approval of the Mayor may authorize additional carryover. Employees may sell up to two weeks of vacation annually. Employees will be paid for unused vacation time upon request or upon termination.

STATUS OF PRIOR FEDERAL AUDIT FINDINGS

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of the Town of Darrington. The State Auditor's Office has reviewed the status as presented by the Town.

Audit Period: 1/1/2012 – 12/31/2012	Report Ref. No.: 1010608	Finding Ref. No.: 1	CFDA Number(s): 14.218 and 14.253
Federal Program Name and Granting Agency: Community Development Block Grant ARRA, U.S. Department of Housing and Urban Development			Pass-Through Agency Name: Snohomish County
Finding Caption: The Town did not have processes to ensure it complied with Community Development Block Grant equipment requirements.			
Background: <p>In 2012, the Town spent \$510,026 from the Community Development Block Grant Program funded by the Department of Housing and Urban Development to support infrastructure improvements. As part of these improvements, the Town spent \$78,864 on a generator for one of the Town's wells.</p> <p>During the audit, we found the Town did not maintain equipment records that identify equipment purchased with Federal funds. This resulted in material noncompliance with grant requirements.</p> <p>We recommended the Town improve internal controls over equipment acquired with Federal funds to ensure all items are properly identified and their equipment records comply with Federal asset management requirements.</p>			
Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between;"> <div><input type="checkbox"/> Fully Corrected</div> <div><input checked="" type="checkbox"/> Partially Corrected</div> <div><input type="checkbox"/> No Corrective Action Taken</div> <div><input type="checkbox"/> Finding is considered no longer valid</div> </div>			
Corrective Action Taken: <p><i>The 2012 Cummins propane generator has been added to our equipment inventory. An inventory schedule will be prepared for all inventories. Inventory will be physically performed and tagged not less than every other year.</i></p>			

STATUS OF PRIOR AUDIT FINDINGS

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the Town of Darrington. The State Auditor's Office has reviewed the status as presented by the Town.

Audit Period: January 1, 2011 – December 31, 2012	Report Ref. No.: 1010742	Finding Ref. No.: 1
Finding Caption: The Town did not properly make or account for inter-fund loans.		
Background: <p>Local governments are allowed to make loans between funds as long as they are authorized by the legislative body, the borrowing fund anticipates sufficient revenues to repay the loan, they are temporary in nature, have a planned repayment schedule and include a reasonable interest rate to be paid to the lending fund.</p> <p>During the previous audit, we recommend the Town prepare a repayment schedule for all inter-fund loans and ensure the borrowing fund anticipates sufficient revenues to be in a position over the period of the loan to make the specified principal and interest payments.</p>		
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>The 2010 and the 2006 interfund loans have been repaid in full. The 2012 loan has been revisited by the city council. An amortization schedule has been prepared to include interest and a payment schedule has been approved, with monthly payments. This loan will be totally repaid by the 11th month of 2016.</i>		

INFORMATION ABOUT THE TOWN

The Town of Darrington has a population of approximately 1,500 citizens and encompasses two square-miles in northeastern Snohomish County. The Town's four full-time employees provide an array of services including water distribution, street and parks maintenance, planning and zoning, Department of Licensing services and general government services. The Town also operates an airport and cemetery. Snohomish County Fire Protection District No. 24 annexed the Town in 2006. Additionally, the Town contracts for police, basic and advanced life support, emergency medical and library services.

An elected, five-member Council and a separately elected Mayor govern the Town.

Contact information related to this report

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Information current as of report publish date.

Audit history

You can find current and past audit reports for the Town of Darrington at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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