

3.

ACCOUNTING

3.10 Compliance

3.10.2 Reporting Losses of Public Funds or Assets or Other Illegal Activity

3.10.2.10 Revised Code of Washington (RCW [43.09.185](#)) requires that all state agencies and local governments **immediately** notify the State Auditor's Office (SAO) in the event of a known or suspected loss of public funds or assets or other illegal activity.

3.10.2.20 Entities are encouraged to develop policies and procedures to implement this statute. This guidance should establish an individual responsible for informing managers and employees about these reporting requirements and ensuring the SAO is promptly informed of losses as required. These actions will also help to ensure that:

- Losses are minimized.
- Investigations and audits are not hampered.
- Improper settlements are not made with employees.
- Incorrect personnel actions are not taken.
- Employees are protected from false accusations.
- Bond claims are not jeopardized.

3.10.2.30 Entities should take the following actions when a loss of public funds or assets or other illegal activity is suspected or detected:

1. Report the loss to the SAO at www.sao.wa.gov or to the Audit Manager in your area, or his/her designee.
2. Protect the accounting records from loss or destruction. All original records related to the loss should be secured in a safe place, such as a vault, safe or other locked file cabinet, until the SAO has completed an audit.
3. Notify appropriate entity managers who are not involved in the loss. This may include the governing body, agency head or deputies, chief financial officer or internal auditor, depending upon the circumstances. Providing notification to your legal counsel may also be appropriate.
4. Do not enter into a restitution agreement with an employee prior to an audit to establish the amount of loss in the case.
5. Ensure that any personnel action is taken based on the employee not following entity policies and procedures, rather than for misappropriating public funds (civil versus criminal).
6. File a police report with the appropriate local or state law enforcement agency when advised to do so by the SAO.

3.10.2.40 Entities should **immediately** notify the appropriate local or state law enforcement agency of the following:

- Suspected losses involving the health or safety of employees or property.
- Losses resulting from breaking and entering or other vandalism of property.

3.10.2.50 Entities **are not required** to report the following to the SAO:

- Normal and reasonable *over and short* situations from cash receipting operations. Record these transactions in the accounting system as miscellaneous income and expense, respectively, and monitor this activity by cashier for any unusual trends.
- Reasonable inventory shortages identified during a physical count. Record inventory adjustments in the accounting system.
- Breaking and entering or other vandalism of property.

3.10.2.60 Please do not attempt to correct the loss without reporting to the authorities identified above. In addition, RCW [43.09.260](#) requires written approval of the State Auditor and Attorney General before state agencies and local governments make any restitution agreement, compromise, or settlement of loss claims covered by RCW [43.09.185](#).