



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Office of Administrative Hearings

For the period July 1, 2018 through June 30, 2022

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**Office of the Washington State Auditor
Pat McCarthy**

July 1, 2024

RaShelle Davis
Chief Administrative Law Judge
Office of Administrative Hearings
Olympia, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor 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 Office operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

Attached is our independent audit report on the Office's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and value your cooperation during the audit.

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

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AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, Office operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above, we identified an area where the Office could make improvements. These recommendations are included with our report as a finding.

Additionally, as noted under the Related Reports – Special Investigations section of this report, during the audit certain matters came to our attention for further examination and was reported as part of a separate engagement.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

About the audit

This report contains the results of our independent accountability audit of the Office of Administrative Hearings from July 1, 2018 through June 30, 2022.

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.

This audit was conducted under the authority of RCW 43.09.310, which requires the Office of the Washington State Auditor to examine the financial affairs of all state agencies. Our audit involved obtaining evidence about the Office's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the years ended June 30, 2022, 2021, 2020 and 2019, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Payroll – gross wages and overtime payments
- Accounts payable – vendor payments
- Purchase cards

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Office of Administrative Hearings July 1, 2018 through June 30, 2022

2022-001 The Office of Administrative Hearings did not have adequate internal controls over and did not comply with requirements for credit cards.

Background

The Office of Administrative Hearings is an independent state agency consisting of about 120 administrative law judges who conduct impartial administrative hearings for Washington's people and governmental agencies. The Office has an additional 110 support staff. In state fiscal year 2022, the Office spent roughly \$31.9 million, including \$402,470 in credit card payments.

One member of the support staff is a Management Analyst. This person began working for the office in 2009 and was promoted to Management Analyst in January 2017. As part of the responsibilities, they were the credit card custodian, in charge of overseeing the use of credit cards and related purchases and processing payments for the credit cards.

State law requires Office management to design, implement and maintain internal controls that provide reasonable assurance that it safeguards public resources. This includes developing controls to assign responsibility, control, segregation of duties and distribution of credit cards within the Office to ensure all expenditures and disbursements are for lawful and appropriate purposes.

Description of Condition

The Office did not have adequate internal controls over and did not comply with state laws and requirements for credit cards, which allowed the Management Analyst to abuse their position for personal gain.

The Office has written policies and procedures that describe how employees may use credit cards and how the card custodian should review and reconcile monthly statements. However, we found the Office had inadequate oversight and review of these processes. Additionally, the Management Analyst had broad payment system capabilities that allowed preparing a payment and release a payment without proper management oversight of in the payment system. As a result, the Management Analyst was able to make purchases and process credit card payments without proper review and adequate expenditure documentation.

We found the Management Analyst made payments on multiple credit cards to external vendors that he created and paid for personal expenses.

Cause of Condition

The lack of oversight and the Management Analyst's ability to circumvent control processes allowed the misappropriation of funds to go undetected. The Management Analyst was the only one with access to the online monthly statements for the credit card accounts and processed credit card payments without sufficient independent review. In addition, they concealed the misappropriation by requesting another employee to review only legitimate purchases on the credit activity report rather than full monthly statements, and their supervisor did not request the original monthly statements to review.

Effect of Condition

In June of 2023, we identified a loss of public funds from credit card activity, as noted under the Related Reports – Special Investigations section of this report.

Lack of proper oversight and inadequate internal controls over the Office's credit card activity led to a loss of public funds that management did not detect. As a result, from June 14, 2019, through May 11, 2023, the Management Analyst misappropriated \$878,115 by violating Office policy, and state laws and regulations, for credit card use and public service ethics. We also found an additional \$4,933 in questionable charges from July 20, 2017, through March 13, 2018.

Recommendation

We recommend management perform more direct oversight and monitoring of the Office's credit card activity and accounts payable process. We further recommend management reevaluate and strengthen internal controls over credit card use and paying the monthly bills.

Office's Response

Thank you for providing the Office of Administrative Hearings (OAH) with the opportunity to review and respond to the State Auditor's Office (SAO) Accountability Audit Finding 2022-001.

OAH is committed to implementing all necessary controls, oversight, and monitoring to protect the assets of OAH and the public. OAH has reviewed this report and agrees with all the recommendations.

During this routine accountability audit in May 2023, suspicious activity by an OAH management analyst involving agency funds was discovered. OAH notified the State Auditor's Office under RCW 43.09.185, as well as the Olympia Police Department. OAH fully supported and cooperated with the ensuing SAO investigation.

Upon discovering the potential misappropriation of funds, OAH immediately took steps to protect OAH and the public from further loss. This included cancelling the credit cards and blocking the Management Analyst's (Analyst's) access to bank accounts, facilities, and systems. The Analyst took leave after finding out that SAO requested supporting records for certain credit card changes and then resigned as SAO began its investigation.

The audit revealed weaknesses in internal controls that allowed the Analyst to access and spend funds in violation of OAH's existing policies and procedures.

After learning of these weaknesses, OAH promptly took the following actions to correct the deficiencies:

- *Secured the Analyst's work phone and laptop*
- *Eliminated the Analyst's access to all OAH accounts, systems, and facilities*
- *Supplied the SAO with data, records, and analysis throughout the process*
- *Revised fiscal policies and procedures to strengthen internal controls*
- *Hired a Fiscal Analyst 4 to allow for better segregation of duties*

OAH also hired a consulting firm to review OAH's financial processes and make recommendations for improvement. In December 2023, OAH received the consultant's final report, adopted all the consultant's recommendations, and immediately began revising fiscal policies and procedures accordingly.

OAH is implementing all the recommendations of the SAO and the independent consultant, and integrating ongoing oversight and monitoring to assure those controls remain effective. This includes:

- *Rigorous oversight and monitoring of OAH's credit card activities, including independent review of the credit card charges and payments monthly reconciliation.*
- *The credit card online account and credit card statements can now be accessed by several employees, ensuring that all the information is shared and monitored.*
- *Sufficient documentation is now required to support each credit card charge. This documentation is required to be included prior to the approval and payment of the credit card bill.*
- *OAH's accounting system has been modified to prevent one employee from being able to both upload and release batches for payment. Proper segregation of duties now exists for all payments. This ensures the employee preparing a payment is different from the employee approving the payment, which allows for appropriate review.*

OAH's staff and management are dedicated to the mission to hear and independently resolve disputes between the public and state agencies with an impartial, quick, and easy to access process. To carry out that mission, we know we must be good stewards of the public funds we

manage. We will make every effort to rebuild the trust and confidence of our employees, external stakeholders, state government, and the public.

OAH appreciates the thorough accountability audit completed by the State Auditor's Office.

Auditor's Remarks

We thank Agency officials and personnel for their assistance and cooperation during the investigation. We will follow up on the Agency's internal controls during the next audit.

Applicable Laws and Regulations

RCW 43.88.160 – *Fiscal Management – Powers and duties of officers and agencies*, sets forth the major fiscal duties and responsibilities of officers and agencies of the executive branch.

State Administrative & Accounting Manual (SAAM) 40.30.40a Purchase Cards, states, in part:

Agencies must follow the DES policies and procedures on the use of purchase cards. Agencies must develop internal policies and procedures in line with the purchase card policies and procedures set by DES

DES Enterprise Commercial Card Policy, states in part:

Acceptable uses of credit cards include: (a) Payment for goods and services for official state business (b) Purchases complying with all applicable state statutes, rules, policies and procedures (c) purchases within spending and other limits established on the card, as established by each agency within pre-determined agency aggregate limit.

Agency responsibilities include but are not limited to:

- Establishing a card program for responsibility, control, segregation of duties, and distribution of purchase cards within the agency.
- Determining whether the agency will assign individually assigned cards or department cards. If an agency determines to use department cards, a credit card log must be used for tracking the chain of custody of department cards.
- Designating an approving official(s) who is responsible for monitoring, reviewing, and approving the purchases and taking appropriate disciplinary actions, consistent with applicable agency policies, for misuse of the credit card.
- Performing routine reconciliation of card transactions, through applicable supporting documentation, to the issuing bank's transaction data to monitor purchases made for proper use of the card.

RELATED REPORTS

Financial

We perform an annual audit of the statewide basic financial statements, as required by state law (RCW 43.09.310). Our opinion on these financial statements is included in the Annual Comprehensive Financial Report (ACFR). The ACFR reflects the financial activities of all funds, organizations, agencies, departments and offices that are part of the state's reporting entity. The results of that audit are published in a report issued by the Office of Financial Management in December of each year and can be found at www.ofm.wa.gov.

Special investigations

We issued a report on a misappropriation of public funds at the Office. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE AGENCY

The Office of Administrative Hearings (OAH) is an independent state agency made up of 120 administrative law judges (ALJs) who conduct impartial administrative hearings for Washington's citizens and governmental agencies.

In 1981, the Legislature created OAH to address two fundamental concerns in the state's administrative hearing process: 1) To improve the appearance of fairness issues caused by the adjudicator's employment by the agency responsible for the substantive decision in the dispute; and 2) To recognize the increasing complexity of agency procedural rules governing the hearing process.

The result was passage of RCW Chapter 34.12, creating the Office of Administrative Hearings as an independent agency under the direction of a chief administrative law judge. OAH has four field offices in Olympia, Tacoma, Seattle and Spokane Valley. The caseload is vast. In state fiscal year 2023, OAH handled more than 76,000 cases for other state agencies. The majority of OAH cases are related to unemployment insurance for the Employment Security Department or public assistance and child support cases for the Department of Social and Health Services. In addition, OAH also reviews cases related to the Superintendent of Public Instruction and the Health Care Authority. OAH provides due process to the citizens of Washington by providing a prompt and fair opportunity to be heard on disputed matters before state and local agencies. OAH strives to provide access to justice and to eliminate barriers to participation in administrative hearings.

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 Office of Administrative Hearings at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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