



Office of the Washington State Auditor  
Pat McCarthy

## **Accountability Audit Report**

# **Washington State Department of Commerce**

**For the period July 1, 2022 through June 30, 2023**

*Published November 25, 2024*

Report No. 1036021



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

November 25, 2024

Mike Fong  
Director  
Washington State Department of Commerce  
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 Department 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 Department'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, Department 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 areas where the Department could make improvements. These recommendations are included with our report as findings.

We also noted certain matters related to Vendor Payments and Small and Attractive Assets addressed in the management letter that we communicated to Department management and the Director in a letter dated November 14, 2024. We appreciate the Department's commitment to resolving those matters.

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 Washington State Department of Commerce from July 1, 2022 through June 30, 2023.

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 Department'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 year ended June 30, 2023, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Digital Navigator Program - Eligibility and allowability of expenditures
- Behavioral Health Facilities - Eligibility and allowability of expenditures

- Public Works Board - Loan Repayments
- Homeless Housing - Allowability of expenditures
- Small and Attractive Assets - Equipment/Inventory tracking
- Vendor payments that appear to be outliers or high risk transactions as identified through Computer Assisted Auditing Techniques
- Imprest Account-International Wire Transfers - Allowability of expenditures

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### Washington State Department of Commerce July 1, 2022 through June 30, 2023

**2023-001 The Department of Commerce did not comply with requirements over the Behavioral Health Community Capacity Grants to ensure it provided funding only to qualified applicants and that payments were allowable and supported.**

#### *Background*

The Behavioral Health Facilities (BHF) program aims to support community providers in expanding and establishing new capacity for behavioral health services in local communities. The program provides funding to eligible community hospitals or community-based behavioral health providers through competitive grants and direct appropriations from the Legislature. Applicants must be a nonprofit, for-profit, local government or tribe.

BHF grants are exclusively for reimbursing capital projects and all funded projects must increase capacity for community-based behavioral health care.

When the Legislature approved the budget totaling \$71,400,000, it included provisions outlining the rules for using the Behavioral Health Community Capacity Grants and required the Department of Commerce to establish criteria for issuing grants.

The Department paid \$10,550,462 to 11 recipients in fiscal year 2023.

#### *Description of Condition*

The Department did not comply with requirements over the Behavioral Health Community Capacity Grant to ensure it provided funding only to qualified applicants and that payments were allowable and supported.

We judgmentally selected seven out of 11 recipients to determine whether the recipient met all required criteria set by the Legislature. We found all seven recipients did not meet one or more required criteria. Specifically:

- Three recipients did not collaborate with one or more regional behavioral health entities that administer the service purchasing.

- Two recipients did not demonstrate that the recipient assessed and would meet gaps in geographical behavioral health services needs in their region.
- Six recipients did not commit to serving persons who are publicly funded and persons detained under the involuntary treatment act under chapter 71.05 RCW.
- Six recipients did not commit to working with local courts and prosecutors to ensure that prosecutors and courts in the area served by the hospital or facility would be available to conduct involuntary commitment hearings and proceedings under chapter 71.05 RCW.

Additionally, we judgmentally selected 27 out of 45 payments totaling \$10,142,995 to determine whether payments were allowable and supported. We found five payments totaling \$2,244,839 did not meet one or more requirements set by the Department. Specifically, we found:

- One payment totaling \$95,021 in which the Department approved the payment without adequate backup documentation.
- Four payments totaling \$1,274,839 (one transaction totaling \$95,021 had multiple issues) in which the Department approved payments without reviewing site photos as projects moved through the 50% threshold or were 100% completed.
- One payment totaling \$970,000 in which the Department released grant funds to pay invoices for work the recipient had incurred, but did not have the funds to pay. In this situation, the Department can approve the payment request at the contract manager's discretion. However, the Department is required to follow up with the recipient to ensure they paid the contractor within 30 days after the Department released the funds. The Department failed to follow up.

### *Cause of Condition*

The Department believed applicants of the Behavioral Health Community Capacity Grant did not have to follow all required criteria. If the facility type did not align with the required criteria, the Department chose to not evaluate those criteria for the facility.

The Department had a large amount of complex funding come into the program during the 2021–23 biennium. Due to staff turnover, staff did not ensure all required pieces of invoicing before approving payments.

## *Effect of Condition*

The Department provided funding to recipients who did not meet all the required criteria. The Department paid the seven recipients \$10,142,995 during the audit period. The funding may have been more effectively used for applicants who fully met the requirements.

Because this finding reports noncompliance with state law, RCW 43.09.312 (1) requires the Office of Financial Management to submit the agency's response and plan for remediation to the Governor, the Joint Legislative Audit and Review Committee, and the relevant fiscal and policy committees of the Senate and House of Representatives.

## *Recommendation*

We recommend the Department provide Behavioral Health Facility Grant funding only to applicants who meet the requirements set by the Legislature. We also recommend it adequately reviews all payments to ensure they are allowable and properly supported.

## *Department's Response*

*The Department thanks the Washington State Auditor's Office for their thorough audit of the behavioral health program as part of their fiscal year 2023 accountability audit.*

*The Commerce Behavioral Health program disagrees with part of the findings identified. The findings include two categories of exceptions for expenditure reimbursement and program requirements. We acknowledge the reimbursement finding, the program continuously works with grantees facing financial restrictions to support their organizations. Approximately 90% of the information was provided to the program which confirmed capital renovations were completed by a verified licensed contractor. The program made a continuous effort to reach out to grantees to request proof of payment documentation after releasing funding to reduce financial strain. The Behavioral Health program no longer provides advance payments for this program, projects are expected to use their grant match funds from other revenue sources in order to fund the program. This ensures that both the provider and the Department are invested in the project.*

*Over the last biennium the Department has improved behavioral health knowledge to assist with the implementation and continuation of the program. The Department continues to work with stakeholders to identify what facility types are required or*



*needed per region and to allocate funding strictly to and for those types of facilities. The Department disagrees with the finding as they do not align with all the requirements in the proviso language based on the type of facilities that were audited. Each facility's licensing is tailored strictly to the types of services that can be provided, leaving some facilities unable to meet all requirements tasked in the proviso. The Department will continue to work with stakeholders and legislative staff to adjust the language based on the facilities funded for each biennium and those that may join following the proviso.*

*The program applied process improvements to their workflows which included a compliance and internal contract audit section to ensure program staff are completing a review of all contract folders.*

### ***Auditor's Remarks***

The Legislature approved a budget to increase capacity for behavioral health facilities. The budget contained a proviso detailing criteria for facilities to receive funding. Based upon the criteria from the proviso, applicants must commit to serving people who are publicly funded and persons detained under the involuntary treatment act under chapter 71.05 RCW and to work with local courts and prosecutors to ensure that prosecutors and courts in the area served by the hospital or facility will be available to conduct involuntary commitment hearings and proceedings under chapter 71.05 RCW. Facilities that did not meet every criterion will not be eligible and should not receive funding.

We reaffirm our finding and will follow up on the status of this finding during the next audit.

### ***Applicable Laws and Regulations***

Substitute Senate Bill 5651, Chapter 296, Laws of 2022, Supplemental Capital Budget, For the Department of Commerce 2021-23 Behavioral Health Community Capacity Grants (40000219) states in part:

(2) The department must establish criteria for the issuance of the grants, which must include:

- a) Evidence that the application was developed in collaboration with one or more regional behavioral health entities that administer the purchasing of services;
- b) Evidence that the applicant has assessed and would meet gaps in geographical behavioral health services needs in their region;

- c) Evidence that the applicant is able to meet applicable licensing and certification requirements in the facility that will be used to provide services;
- d) A commitment by applicants to serve persons who are publicly funded and persons detained under the involuntary treatment act under chapter 71.05 RCW;
- e) A commitment by the applicant to maintain and operate the beds or facility for a time period commensurate to the state investment, but for at least a 15-year period;
- f) The date upon which structural modifications or construction would begin and the anticipated date of completion of the project;
- g) A detailed estimate of the costs associated with opening the beds;
- h) A financial plan demonstrating the ability to maintain and operate the facility; and
- i) The applicant's commitment to work with local courts and prosecutors to ensure that prosecutors and courts in the area served by the hospital or facility will be available to conduct involuntary commitment hearings and proceedings under chapter 71.05 RCW.

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### Washington State Department of Commerce July 1, 2022 through June 30, 2023

#### **2023-002    The Department of Commerce did not ensure Digital Navigators met all minimum and mandatory requirements to participate in the Digital Navigator Program.**

##### *Background*

In 2019, the Washington State Legislature established the Washington State Broadband Office (WSBO) and tasked it with promoting broadband access and achieving download/upload speed goals for residences, businesses and communities. The WSBO, established within the Department of Commerce, oversees activities such as the Broadband Action Teams, State Broadband Matching Grants and the Digital Navigator Program. The WSBO, using \$50 million the Legislature appropriated, implemented the Digital Navigator Program to provide direct assistance to people with the greatest need for access to and knowledge of how to use technology devices and services.

The Digital Navigator Program provides digital navigator services, devices and subscriptions, and one-on-one assistance to people with limited access to services. This also includes people seeking work, students seeking digital technical support, families supporting students, English language learners, Medicaid clients, people experiencing poverty and seniors.

To deliver digital services, the Department solicits proposals from firms, individual entities or consortiums, referred to as “Digital Navigators.” A Digital Navigator provides services to reduce barriers through education and device distribution, providing a path forward in digital inclusion. Service delivery includes real-time assistance with an option to use digital learning platforms to teach the digital curriculum through in-person, webinar-based and at-your-own-pace programs.

Digital Navigators must meet minimum and mandatory requirements to participate in the program. The Department provides them with an electronic form to complete when submitting a proposal. The applicant must fill out the form completely, including indicating if a criteria is not applicable.

The Department determines allowable activities, scope of work and budget for each Digital Navigator. The Department paid \$36,413,464 to 32 Digital Navigators in state fiscal year 2023.

### *Description of Condition*

The Department did not ensure Digital Navigators met all minimum and mandatory requirements to participate in the program.

We judgmentally selected and examined 27 of 32 Digital Navigators who participated in the Digital Navigator Program to determine whether they met all minimum and mandatory requirements set by the Department. We found 12 Digital Navigators did not meet one or more requirements. Specifically:

- Six instances in which the proposer did not sign the letter of submittal or the Certifications and Assurance form
- One instance in which the proposer did not include all information required in the letter of submittal
- Two instances in which the proposer did not disclose whether they and/or a subcontractor had completed contract work for the state of Washington in the last 24 months
- One instance in which the proposer did not disclose whether any of their employees had worked for the state of Washington in the last 24 months
- Four instances in which the proposer did not disclose whether any contracts were terminated in the last five years and, if so, did not provide the full details of the terms for default or their position on the matter
- Five instances in which the proposer did not provide names, addresses, telephone numbers and fax numbers/email addresses of three business references for them
- Four instances in which three business references for the lead staff person did not include the type of service they provided

Additionally, we judgmentally selected and examined 48 of 242 payments totaling \$9,841,688 to determine whether payments were allowable and supported. We found:

- Two instances totaling \$1,510 in which the Department paid for food/snacks that were not approved
- One instance totaling \$80 in which the Department paid for a phone case that was not approved

### ***Cause of Condition***

Reviewers of proposals for the Digital Navigator Program Grant were unaware of the mandatory requirements when evaluating applications. Additionally, reviewers of payments did not follow contract requirements when evaluating if a payment was allowable.

### ***Effect of Condition***

The Department provided funding to 12 Digital Navigators who did not meet all the required minimum and mandatory requirements. During the audit period, the Department paid \$6,093,512 to these Digital Navigators.

### ***Recommendation***

We recommend the Department:

- Provide Digital Navigator program funding only to proposers who meet all required minimum and mandatory requirements
- Adequately review all payments to ensure they are for allowable activities

### ***Department's Response***

*The Department thanks the State Auditor's Office (SAO) for their thorough accountability audit of the Washington State Broadband Office's (WSBO) Digital Navigator Program. We appreciate the SAO's responsiveness to our questions to ensure we are making proper use of funding awarded to Digital Navigator grantees who provide digital literacy services and access to information about low-cost broadband subscriptions and distribute internet-connected devices to individuals seeking work, students seeking digital technical support, families supporting students, English language learners, Medicaid clients, people experiencing poverty and seniors.*

*The Department is in the process of hiring additional staff to reduce the workload for managing these contracts and implementing proper training, procedures and internal controls to ensure the contracting process meets audit standards, policies and procedures. As recommended by the SAO, we will provide Digital Navigator Program funding only to proposers who meet all required minimum and mandatory requirements during the next Notice of funding cycle. We agree with this audit finding and have already implemented procedures to review all payments to ensure they are for allowable activities within the scope of contracts.*

*These are additional corrective actions that have been implemented by WSBO's Infrastructure Program Manager along with the Central Contracts Office and the Digital Navigator Program Team:*

- 1) The Digital Navigator Team is reviewing recommendations to add the Mandatory Letter requirements to be included in the current release NOFO as Attachment D.*
- 8) Trained the Digital Navigator Team to review the mandatory letter to their current NOFO request.*
- 9) Trained the Digital Navigator Team to review reimbursement requests to make sure the expenses are in alignment with the scope of work and budget to their executed contract. For example, the audit noted an expense for food which was charged to the wrong eligible budget category. If not an expense if found not eligible, the Digital Navigator Program Manager will take further steps to either amend the contract or exclude expenses. It is important that when staff negotiate the scope of work with the awardee that it meets all the full intent of their Notice of Funding Opportunity application submittal. The awardee needs to make sure that their subrecipients are aligned with this criteria/scope of work that has been approved by the Digital Navigator Program.*

*To facilitate the submission of expenses and reporting for Digital Navigator grantees, the Digital Navigator Program Team provided the following tools to grantees to streamline the process and ensure compliance with policies and procedures:*

- Sample Travel prior approval form*
- Project cost tracker*
- Grantee lodging exception to maximum lodging rate*
- Monthly Grantee Checklist*
- Digital Navigator Services Report*

### ***Auditor's Remarks***

We thank the Department for its cooperation and assistance throughout the audit. We will review the status of the Department's corrective action during our next audit.

### ***Applicable Laws and Regulations***

Substitute Senate Bill 5693, Chapter 297, Laws of 2022, Supplemental operating Budget states in part:

(197) \$50,000,000 of the general fund—state appropriation for fiscal year 2023 is provided solely for digital equity and broadband access programs. Programs funded under this subsection may include programs to fulfill the recommendations of the Washington digital equity forum; programs to conduct activities identified by the statewide broadband office when developing the digital equity plan required as part of the state digital equity capacity grant program created in P.L. 117-58; and programs to increase broadband access for low-income and rural communities, including through low-orbit satellite broadband networks.

Request of Proposal states, in part:

### 1.3 MINIMUM QUALIFICATIONS

- Licensed to do business in the State of Washington or submit a statement of commitment that it will become licensed in Washington within thirty (30) calendar days of being selected as the Apparently Successful Contractor;
- One (1) year of experience providing Digital Navigator services or similar services provided to community members in a one-on-one setting;
- Detailed project management plan and budget.

### 3.1 CERTIFICATIONS AND ASSURANCES AND LETTER OF SUBMITTAL (MANDATORY)

- The Certifications and Assurances form (Exhibit A to this RFP) and the Proposer's Letter of Submittal each must be signed and dated by a person authorized to legally bind the Proposer to a contractual relationship, e.g., the President or Executive Director if a corporation, the managing partner if a partnership, or the proprietor if a sole proprietorship. Along with introductory remarks, the Letter of Submittal must include the following information about the Proposer and any proposed subcontractors:
- Name, address, principal place of business, telephone number, and fax number/e-mail address of legal entity or individual with whom contract would be written.
- Name, address, and telephone number of each principal officer (President, Vice President, Treasurer, Chairperson of the Board of Directors, etc.)
- Legal status of the Proposer (sole proprietorship, partnership, corporation, etc.) and the year the entity was organized to do business as the entity now substantially exists.
- Federal Employer Tax Identification number or Social Security number and the Washington Uniform Business Identification (UBI) number issued by the state of Washington Department of Revenue. If the Proposer does not

have a UBI number, the Proposer must state that it will become licensed in Washington within thirty (30) calendar days of being selected as the Apparently Successful Contractor.

- Location from which the Proposer would operate.
- Identify any state employees or former state employees employed or on the firm's governing board as of the date of the proposal. Include their position and responsibilities within the Proposer's organization.

#### Related Information (MANDATORY)

- If the Proposer or any subcontractor contracted with the state of Washington during the past 24 months, indicate the name of the agency, the contract number and project description and/or other information available to identify the contract.
- If the Proposer's staff or subcontractor's staff was an employee of the state of Washington during the past 24 months, or is currently a Washington State employee, identify the individual by name, the agency previously or currently employed by, job title or position held and separation date.
- If the Proposer has had a contract terminated for default in the last five years, describe such incident. Termination for default is defined as notice to stop performance due to the Proposer's non-performance or poor performance and the issue of performance was either (a) not litigated due to inaction on the part of the Proposer, or (b) litigated and such litigation determined that the Proposer was in default.
- Submit full details of the terms for default including the other party's name, address, and phone number. Present the Proposer's position on the matter. COMMERCE will evaluate the facts and may, at its sole discretion, reject the proposal on the grounds of the past experience. If no such termination for default has been experienced by the Proposer in the past five years, so indicate.

#### D. References (MANDATORY)

- List names, addresses, telephone numbers, and fax numbers/e-mail addresses of three (3) business references for the Proposer and
- three (3) business references for the lead staff person for whom work has been accomplished and briefly describe the type of service provided. Do not include current COMMERCE staff as references.



## 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](http://www.ofm.wa.gov).

### **Federal programs**

In accordance with the Single Audit Act, we annually audit major federal programs administered by the state of Washington. Rather than perform a single audit of each agency, we audit the state as a whole. The results of that audit are published in a report issued by the Office of Financial Management in March of each year.

## INFORMATION ABOUT THE DEPARTMENT

The Washington State Department of Commerce's mission is to strengthen communities in Washington. The Department is the lead state agency charged with enhancing and promoting sustainable community and economic vitality in Washington. It administers a diverse portfolio of more than 150 programs and several state boards and commissions, all focused on helping communities achieve positive growth. The programs are administered with state general funds, capital funds, dedicated funds, federal resources, and interagency agreements.

The Department's key customers include businesses, local governments, tribes and community-based organizations. It also plays the crucial role of convening numerous local, state, regional and federal partners and stakeholders, both public and private. Together it works to support the Governor's priorities and achieve shared goals and objectives for the people of Washington.

The Department is the one agency in state government that touches every aspect of community and economic development: planning, infrastructure, energy, public facilities, housing, public safety and crime victims, international trade, business services and more. It works with local governments, tribes, businesses and civic leaders throughout the state to strengthen communities so all residents may thrive and prosper. These programs funded by the Department support state and local efforts to:

- Attract, retain, and expand business activities
- Provide sound policies for managing growth and better managing energy resources
- Increase international trade and tourism
- Develop affordable housing, community facilities and infrastructure
- Provide support services for vulnerable populations to assist them in times of crisis and help them achieve self-sufficiency

The Department is based in Olympia with regional offices in Seattle, and Spokane. The Governor appoints the Department's Director who oversees its approximately 735 employees. For the 2024-2025 biennium, the Department's operating and capital budget is approximately \$8.8 billion.

### Contact information related to this report

Address:	Washington State Department of Commerce P.O. Box 42525 Olympia, WA 98504-2525
Contact:	Gena Allen, Internal Controls Officer
Telephone:	(360) 725-2926
Website:	<a href="http://www.commerce.wa.gov">www.commerce.wa.gov</a>

*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for the Washington State Department of Commerce 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](http://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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