



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Department of Licensing

For the period July 1, 2023 through June 30, 2024

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

June 23, 2025

Marcus Glasper
Director
Department of Licensing
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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TABLE OF CONTENTS

Audit Results.....	4
Schedule of Audit Findings and Responses.....	6
Summary Schedule of Prior Audit Findings	9
Related Reports	13
Information about the Department.....	14
About the State Auditor's Office.....	15

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 a finding.

We also noted certain matters related to cash receipting, fuel cards, and contracts that we communicated to Department management and the Director in a letter dated June 17, 2025. 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 Department of Licensing from July 1, 2023 through June 30, 2024.

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, 2024, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Accounts payable – general disbursements, credit and fuel cards, and travel expenditures
- Cost allocation plan – equitable distribution of indirect costs
- Cash receipting – timeliness and completeness of deposits at driver licensing offices and Business and Professions Division
- Contracts – procurement and disbursements

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Department of Licensing July 1, 2023 through June 30, 2024

2024-001 The Department did not have adequate internal controls over its disbursement of public funds.

Background

The Department of Licensing spent about \$220 million in fiscal year 2024. It paid these disbursements to vendors and employees in several ways, including electronic funds transfers, checks, and state-issued purchase and travel cards.

In the prior audit, we reported in a finding (2023-001) that the Department did not have adequate internal controls over its disbursement of public funds. We made recommendations about how the Department should improve its review processes, ensure disbursements were adequately supported and that policies and procedures should be updated.

Description of Condition

The Department did not have adequate internal controls over its disbursement of public funds. We identified the following internal control weaknesses. The Department did not:

- Have consistent procedures in place to ensure payments were properly approved, recorded and supported
- Establish an effective process to detect or prevent duplicate payments or to monitor late payments
- Update its policies and procedures related to disbursements, as stated in the prior finding remediation plan

Cause of Condition

The Department experienced significant staff turnover and had several vacant accounting positions during the audit period. Due to this staff shortage and turnover, the Department lacked knowledge transfer from positions and did not have adequate resources to process payments on time and ensure compliance with its policies and procedures for approving and retaining payment records.

Effect of Condition

We judgmentally selected and examined 73 payments totaling \$3,626,774. For 28 of the payments (38%), we found \$77,163 in costs that lacked adequate documentation to support that they were appropriate and found payments the Department made late and did not properly approve.

Using computer-assisted audit techniques, we judgmentally selected 20 potential duplicate payments, 10 of which we confirmed were duplicate payments totaling \$88,931. We found that three (30%) of the 10 duplicate payments totaling \$6,237 were not recovered. We also found the Department paid some of these payments late.

Recommendation

We recommend the Department:

- Ensure it properly reviews, approves and adequately documents disbursements
- Update its payment-related policies and procedures to ensure they reflect current practices and reference required state policies
- Implement a process to detect and prevent duplicate vendor payments and to ensure it pays invoices on time

Department's Response

Thank you for the opportunity to review and respond to the State Auditor's Office (Auditor) accountability audit report for the Department of Licensing (Department). We appreciate the professionalism and results of the audit team's work.

Like most areas of government, the unprecedented business disruption caused by the pandemic has caused prolonged impact to the Department's fiscal operations, including efforts to update policies, fill vacancies in key roles, train existing personnel on system changes, and fully address previous findings. The Department experienced a 53 percent and 93 percent turnover rate with its accounting staff (including movements within) in the 19-21 and 21-23 biennium, respectively, and we are thankful the Auditor recognized this unprecedented challenge. Additionally, during the audit period, 8 of our 10 finance leaders began in their current positions.

The Department agrees with the Auditor's finding. The Department is committed to ensuring that all types of disbursements, payments, and purchases are properly supported, and have updated policies to support their processing.

The Department has already taken the following action in response to the Auditor's recommendations after the audit period:

- Updated relevant policies for purchase and travel cards and procedures for relevant processes and currently completing an updated signature authority policy.*
- Further trained staff on the requirements for disbursements, payments, and purchases.*
- Ensured that transaction records are adequately maintained to demonstrate proper approval.*
- Created a new procedure to ensure that duplicate payments are detected and prevented and trained staff to ensure its use with multiple internal controls.*
- Ongoing meetings were created with the agency's Internal Control Officer, to further evaluate internal control adequacy and implementation*
- Created additional positions for reviewing and approving documentation to ensure timely and accurate processing of payments, including the addition of an additional assistant controller to ensure proper internal controls around payments.*

Again, we appreciate the work of the Auditor and look forward to demonstrating our continued progress in future audits.

Auditor's Remarks

We thank the Department for its cooperation throughout the audit and the steps it is taking to address these concerns. We will review the status of the Department's corrective action during our next audit.

Applicable Laws and Regulations

The state of Washington Office of Financial Management *State Administrative and Accounting Manual*, Chapter 85.32, Goods and Services Expenditures

The state of Washington Office of Financial Management *State Administrative and Accounting Manual*, Chapter 85.36.30.g, Disbursement Processing, "A payment file by vendor (payee) is to be maintained. Agencies should have procedures in place to detect and avoid duplicate payments to vendors."

DOL Policy ADM.83C – Purchasing, Receiving and Payments of Vendor Goods and Service



STATE OF WASHINGTON
DEPARTMENT OF LICENSING
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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Department of Licensing July 1, 2023 through June 30, 2024

This schedule presents the status of findings reported in prior audit periods.

Audit Period:	Report Ref. No.:	Finding Ref. No.:
July 1, 2022 through June 30, 2023	1034902	2023-001
Finding Caption: The Department did not have adequate internal controls over its disbursement of public funds.		
Background: The Department of Licensing spent about \$214 million in fiscal year 2023. It paid these disbursements to vendors and employees in several ways, including electronic funds transfers, checks, and state-issued purchase and travel cards. The Department spent about \$2 million using purchase and travel cards in fiscal year 2023. The Department also made disbursements for Public Service Recognition Week (PSRW) in May of 2023. PSRW is an annual celebration that the Office of Financial Management's State Human Resources coordinates to honor state employees for their public service. The Department spent about \$63,000 using credit cards for PSRW activities and spent \$141,900 for cash payments to employees. The Department did not have adequate internal controls over its disbursement of public funds. We also found that the Department did not have adequate internal controls over its use of monitoring of credit cards. Lastly, we identified the following internal control weaknesses over PSRW disbursements: <ul style="list-style-type: none">• Management did not effectively monitor to ensure division purchases aligned with their approved recognition plans• Licensing Services Offices (LSOs) did not secure the credit cards the Department had issued when not in use• The accounting unit did not ensure all credit cards were collected from the LSOs after PSRW ended• The Department did not always maintain documentation to support the validity of PSRW credit card purchases• The Department did not effectively reconcile purchases to supporting documentation. Also, it did not properly record accounting entries into the Agency Financial Reporting System (AFRS).		

We made the following recommendations to the Department:

Accounts Payable and Credit Card Programs

- Ensure it properly reviews, approves and adequately documents disbursements
- Update its payment-related policies and procedures to ensure they reflect current practices and reference required state policies
- Implement a process to detect and prevent duplicate vendor payments
- Provide additional training to accounts payable staff on proper invoice processing
- Follow recommendations from the Office of Financial Management when establishing employee access to AFRS to ensure duties are properly segregated
- Ensure it tracks, monitors and safeguards the use of credit cards to prevent fraud and loss. This includes ensuring it makes proper preapprovals and retains documentation to support the purchases.
- Improve building access security at the Black Lake Building complex and retain building access logs in accordance with state retention policies

PSRW

- Follow approved recognition plans and monitor to ensure divisions carry out the plans appropriately
- Consult with its Assistant Attorney General about future considerations to make cash recognition payments to all employees

Status of Corrective Action: (check one)

☐ Fully Corrected ☒ Partially Corrected ☐ Not Corrected ☐ Finding is considered no longer valid

Corrective Action Taken:

The following corrective actions have been taken.

Internal Control Weaknesses:

- *Management did not effectively monitor to ensure division purchases aligned with their approved recognition plans.*
 - *Action: Approved recognition plans in the subsequent year were more prescriptive in nature and management communicated the limitations of the events via memorandum. Accounts payable reviewed all purchases against the memorandum's limitations.*
 - *Status: Fully corrected.*
- *Licensing Services Offices (LSOs) did not secure the credit cards the Department had issued when not in use*
 - *Credit card policy has been revised and is in final phase of adoption after unions' review. DOL also established PSRW purchase card procedure which directed standards on chain of custody of cards, and security of cards. Temporary cards issued for PSRW were only active for the week prior to and the week of PSRW.*
 - *Status: Fully corrected.*

- *The accounting unit did not ensure all credit cards were collected from the LSOs after PSRW ended*
 - *Action: Memorandum and detailed procedures around PSRW ensured the proper chain of custody of cards was established and adhered to. Accounts Payable verified that all temporarily issued cards were received and secured within the Accounting Office's safe. All cards were deactivated prior to transit.*
 - *Status: Fully corrected.*
- *The Department did not always maintain documentation to support the validity of PSRW credit card purchases*
 - *Action: Training was completed with accounts payable staff, reviewing purchases against the memorandum of valid purchases for PSRW and properly filing the related purchases. Logs were issued to staff responsible for procurement and provided to accounts payable along with all receipts for purchases. Accounts Payable staff retained and filed those documents.*
 - *Status: Fully corrected.*
- *The Department did not effectively reconcile purchases to supporting documentation. Also, it did not properly record accounting entries into the Agency Financial Reporting System (AFRS).*
 - *Action: Training was conducted and is ongoing with staff on the proper procedures. Policies and procedures are under review. Staff were directed to read payment processing requirements in SAAM.*
 - *Status: Partially corrected.*

Status of recommendations implementation:

Accounts Payable and Credit Card Program

- *Ensure it properly reviews, approves and adequately documents disbursements*
 - *Added staff at the reviewing level to create capacity for more thorough reviews. Hold monthly meetings to train staff on payment processes and proper documentation.*
 - *Status: Partially implemented.*
- *Update its payment-related policies and procedures to ensure they reflect current practices and reference required state policies*
 - *Action: Initiated review of Signature Authority Policy and initiated payment procedures standardizing items like naming conventions. Conducted LEAN event for receiving invoices. Added staff at the reviewing level to create capacity for more thorough reviews.*
 - *Status: Partially implemented.*
- *Implement a process to detect and prevent duplicate vendor payments*
 - *Action: Established naming convention rules, procedures, and reporting to catch duplicate payments. Access database is also in use to catch duplicate payments.*
 - *Status: Implemented.*

- *Provide additional training to accounts payable staff on proper invoice processing*
 - *Action: Held monthly meetings to train staff on payment processes and proper documentation. Required staff to review payment processing requirements in SAAM. Accounts Payable staff have been required to complete DES State Purchasing training available in The Learning Center.*
- *Follow recommendations from the Office of Financial Management when establishing employee access to AFRS to ensure duties are properly segregated*
 - *Action: Reviewed all established positions with AFRS to ensure segregation of duties. Roles who are authorized to add duties within AFRS have been trained to ensure separation of duties. Access is reviewed for all staff twice a year.*
 - *Status: Implemented.*
- *Ensure it tracks, monitors and safeguards the use of credit cards to prevent fraud and loss. This includes ensuring it makes proper preapprovals and retains documentation to support the purchases.*
 - *Action: Credit card policy has been revised and is in final phase of adoption with unions' review. Upon approval, all cardholders will be required to review the policy. Policy addresses proper chain of custody, security and safeguarding of cards, and required documentation for all purchases.*
 - *Status: Partially Implemented.*
- *Improve building access security at the Black Lake Building complex and retain building access logs in accordance with state retention policies.*
 - *Action: The Security team conducted a security assessment, which included a badge review and clean up, adding a badge check out and check in process, and are now retaining building access logs for 6 years, in accordance with the retention schedule.*
 - *Status: Implemented.*

PSRW

- *Followed approved recognition plans and monitor to ensure divisions carry out the plan appropriately.*
 - *Action: Training was completed with accounts payable staff, reviewing purchases against the memorandum of valid purchases for PSRW and properly filing the related purchases. Logs were issued to staff responsible for procurement and provided to accounts payable along with all receipts for purchases. Accounts Payable staff retained and filed those documents.*
 - *Status: Implemented*
- *Consult with its Assistant Attorney General about future considerations to make cash recognition payments to all employees.*
 - *Action: Cash recognition payments not made to employees as part of PSRW in FY 2024.*
 - *Status: No longer applicable.*

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.

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 Department of Licensing (DOL) touches the lives of nearly every Washington resident. DOL issues more than six million driver licenses and identification cards and license more than eight million vehicles and vessels.

DOL is not your typical “DMV” in that we also license and regulate more than 300,000 businesses and individuals across 40 professions and collect more than \$3.3 billion per fiscal year in fees and fuel tax that funds the state’s transportation network.

DOL operates with 1,487 employees and 52 Licensing Services Offices throughout the state. In addition, the Department oversees 177 county auditor offices and sub-agents.

The DOL has a 2023-25 biennial budget of \$541 million. The agency is 81% funded by the Transportation budget and 19% by Omnibus funds that mostly come from dedicated professional licensing accounts.

The DOL’s Purpose Statement is to “Help every Washington resident live, work, drive, and thrive.”

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 Department of Licensing at <https://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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