



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Department of Enterprise Services

For the period July 1, 2022 through June 30, 2024

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

June 30, 2025

Matt Jones
Interim Director
Department of Enterprise Services
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 a finding.

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 Enterprise Services from July 1, 2022 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 years ended June 30, 2024 and 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:

- Fleet operations
- Accounts payable – credit cards, fuel cards and general disbursements
- Payroll – leave buyouts and dual employment
- Small agency financial services
- Real estate services
- Surplus administration

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Department of Enterprise Services July 1, 2022 through June 30, 2024

2024-001 The Department of Enterprise Services did not have adequate internal controls over Fleet Operation Fuel Cards.

Background

The Department of Enterprise Services Fleet Operations division manages a fleet of more than 5,000 vehicles and provides the following services to other state agencies:

- Vehicle management
- Offer repair and maintenance services for all Department-owned vehicles
- Provide daily rental vehicles for state travel
- Fuel card management

State agencies that lease vehicles with the Department share the responsibility of monitoring fuel card usage. Fuel cards are provided by two separate entities: The Washington State Department of Transportation (DOT) and WEX Bank. The Department relies on three information systems to support its fuel card business process: one primary system and two source subsystems. Both subsystems feed fuel card transaction data into the primary system. During the audit period, state agencies charged about \$18.3 million for fuel card transactions on WEX and DOT fuel cards.

Description of Condition

We identified the following internal control weaknesses in the Department's fuel card management business process. The Department:

- Has not performed a risk assessment of the fleet operations fuel card business process
- Does not have established policies over fuel card monitoring control processes, including the handling of suspected or confirmed unauthorized fuel card usage
- Allows the use of blank fuel personal identification numbers (PINs) at two state agencies without additional contractual agreements outlining allowable usage, or additional internal controls to monitor activity for these PINs

- Does not require its contracting agencies to obtain receipts for fuel card purchases
- Does not retain sufficient documentation to show its evaluation of how the controls are designed and to determine if the controls are working as intended
- Does not maintain an accurate listing of all issued fuel cards nor reconciles active fuel cards to fleet vehicles
- Does not review the service organization's audit report (also called an SOC 2 report) for the subsystem. This report is essential because it determines whether the vendor has properly designed its controls and that they are operating as intended.
- Does not have a process in place to ensure data from the source subsystems are completely and accurately combined into the primary system

Cause of Condition

One of the subsystems is fairly new to the Department and during the audit period, the Department experienced significant staff turnover. Due to this turnover, the Department did not have adequate resources to ensure proper controls over fleet operations were in place. Also, the Department was not fully aware of state requirements and best practices regarding internal controls and electronic payment documentation.

Effect of Condition

The Department's lack of policies, insufficient documentation, and internal control weaknesses increase the risk that fuel card misuse or misappropriation would not be identified in a timely manner. Specifically, we found:

- Cardholders made 1,182 transactions totaling \$74,570 using PIN codes that cannot be assigned to a specific individual. As a result, the Department has no assurance that the purchases were authorized and approved.
- The Department had 1,700 more active fuel cards than needed for its vehicle fleet.
- The Department's primary system had a combined total transactional value of \$8,719 more compared to its subsystems.
- The Department did not identify one of the secondary fuel tracking systems as a mission critical system until this audit and did not report this critical secondary fuel tracking system to WaTech.

Additionally, we judgmentally selected and examined 121 fuel transactions and found 62 nonfuel-related transactions totaling \$13,714 from the source subsystem were misclassified in the primary system.

Recommendation

We recommend the Department:

- Develop, document, and perform a risk assessment regarding fuel cards and their related business and control processes
- Develop, document and implement policies and update current procedures regarding fuel cards to include, but are not limited to:
 - Fuel card issuance and elimination
 - Handling of suspected or confirmed fuel card misappropriation
 - Analysis of fuel card activity
 - Handling of system-generated security alerts
 - Reconciliation of fuel card transaction receipts to determine whether purchases are authorized and allowable
 - Retain documentation to demonstrate controls are working as intended
 - Maintain a complete and accurate list of active fuel cards and their associated fleet vehicle
 - A process to verify the complete and accurate data transfer from sub-fuel systems to the primary system
- Review all supporting applications to ensure they are accurately captured on the annual submission to WaTech
- Regularly review SOC 2 reports for applicable fuel card systems

Department's Response

Thank you for your detailed observations and constructive feedback.

We appreciate the opportunity to strengthen controls around the use and management of fuel cards. Outlined below is our approach for addressing each condition and corresponding recommendation provided in this audit report.

- ***Risk Assessment***

An agency-wide risk assessment is currently underway and will explicitly include fuel card controls.

While a formal risk assessment has not been completed for fuel cards, DES has consistently communicated fuel card responsibilities and the associated risks to Agency Transportation Officers through structured training, newsletters, and routine meetings.

- ***Policies and Monitoring Controls***

Formal policies and procedures regarding fuel card issuance, misuse handling, activity analysis, and alert response are being developed, which will include the following safeguards we have in place:

- ***Purchase Restrictions:*** *Cards are restricted to fuel, electric vehicle charging, diesel exhaust fluid, car washes, and roadside assistance. All other purchase types are blocked.*
- ***Monthly Limits:*** *Each card has a maximum monthly limit of \$1,200, \$1,500 or \$1,800, depending on vehicle type, helping prevent significant misuse.*
- ***Daily Limits:*** *A maximum of three transactions per day is allowed.*
- ***Fuel Tank Capacity:*** *Transactions exceeding the vehicle's assigned tank capacity triggers an alert that is sent to Fleet for review.*
- ***Fuel Type:*** *If a fuel type that is different than what is assigned to the vehicle is purchased, an alert is issued to Fleet for action.*
- ***Location Limits:*** *Transactions are limited to Washington, Oregon, and Idaho.*

As part of this work, DES will partner with the Agency Transportation Officers (ATO's) across the enterprise to ensure there are proper protocols in place for escalating concerns related to fuel card usage in their respective agencies.

- ***Blank PIN Usage***

The use of blank PINs is limited to two agencies (Attorney General and Ecology).

During the audit period, the Department of Ecology purchased approximately \$75K in fuel using the blank PIN. DES is collaborating with Ecology to develop standard operating procedures to minimize and govern the use of blank PINs. As an immediate control measure, the PIN will be changed quarterly.

As of June 1, 2025, the Attorney General's blank PIN has been permanently deactivated.

- ***Receipt Collection***

DES does not require receipts for fuel card purchases because the WEX and DOT transaction reports automatically capture the same data elements that would be captured on a physical receipt (date, gallons purchased, price per gallon, location, etc.) for each purchase. Having the physical receipt for each transaction would not add value or improve internal controls.

When the Enterprise Wide Transportation Policy is updated (targeted for 1/2026), a recommendation will be added to encourage agencies to retain fuel receipts that can be used for their internal reconciliation processes related to Fleet purchases.

- ***Fuel Card Inventory and Audit Evidence***

We recognize the need for a more robust reconciliation process and have implemented the following improvements:

- *As of May 2025, all WEX and DOT fuel cards have been reconciled to active vehicles.*
- *A monthly reconciliation process has been formalized to verify active cards.*
- *Standard procedures have been updated to reflect the new reconciliation process.*

- ***Data Interface Controls***

The Fleet Operations team is actively working with DES IT to identify the coding discrepancies between WEX and Assetworks that resulted in the error rate of 0.05%. Once identified, a formal standard procedure will be documented and implemented.

- ***SOC2 Review and Data Interface Controls***

WEX has been added to our annual SOC2 report review and to the annual submission of applications to WaTech. The 2024 SOC 2 report was received and reviewed in March 2025.

DES remains committed to continuous improvement and transparency. The actions outlined above reflect our immediate response and long-term commitment to strengthening internal controls. We appreciate your guidance and ongoing partnership.

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 Office of Financial Management's *State Administrative & Accounting Manual* (SAAM), Section 20.15 establishes the responsibilities for identifying risks and establishing, maintaining, and reviewing agency internal control systems.

The Office of Financial Management's *State Administrative & Accounting Manual* (SAAM), Section 40.30.40.a - *Requirements*

Agencies may only use credit and/or debit cards issued through the state charge card system and the fuel card program authorized by the Department of Enterprise Services (DES), unless there is specific authority which authorized an agency to independently contract for purchase card services. Agencies must follow the DES policies and procedures for the use of purchase cards.

Purchase cards are to be used within the same statutes, rules, policies, and procedures as purchases by any other means of payment.

Agencies must develop internal policies and procedures in line with the purchase card policies and procedures set by DES. Internal policy should include, but not limited to:

- Internal control requirements in line with SAAM Chapter 20 and DES's policies and procedures.

The Office of Financial Management's *State Administrative & Accounting Manual* (SAAM), Section 85.32.10 - *Agency responsibilities*

It is the responsibility of the agency head, or authorized designee, to certify that all expenditures/expenses and disbursements are proper and correct.

Agencies are responsible for processing payments to authorized vendors, as defined in Subsection 85.32.15, providing goods and services to the agency. Goods and services include but are not limited to products, services, materials, equipment, and travel reimbursements.

Agencies are to establish and implement procedures following generally accepted accounting principles.

At a minimum, agencies are also to establish and implement the following:

1. Controls to ensure that all expenditures/expenses and disbursements are for lawful and proper purposes and recorded in a timely manner (refer to Chapter 20 of this manual for guidance related to internal control procedures)

The Office of Financial Management's *State Administrative & Accounting Manual* (SAAM), Section 85.32.30 a. - *Payment processing documents*

At a minimum, payment processing documentation should include evidence of authorization for purchase, receipt of goods or services, and approval for payment.

United States Government Accountability Office “*Federal Information System Controls Audit Manual (FISCAM)*; BP. 05” states in part:

Management designs and implements general controls to reasonably assure that system interfaces are properly managed to achieve information processing objectives.

- BP .05.03 - System interfaces are designed to exchange information between systems and reasonably assure the completeness, accuracy, and validity of the exchange.
- BP .05.04 - System interface errors are identified on a timely basis.
- BP .05.05 - System interface errors are researched and resolved on a timely basis.

WaTech “*MGMT -01-01-G Version 7.1 Application Guidelines*” states in part:

1. List applications as required by Technology Portfolio Foundation 112

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 and our Office each year.

INFORMATION ABOUT THE DEPARTMENT

The Department provides centralized business services to state government agencies; to other public entities such as cities, counties and tribes; and to Washington residents. The Department's mission is to strengthen the business of government and is tasked with a diverse set of responsibilities – everything from negotiating building leases and maintaining the Capitol grounds, to establishing and maintaining state contracts and procurement practices, to managing state vehicle fleet operations, to recruiting and training the state's workforce, designing, printing complex publications and much more.

During state fiscal years 2023 and 2024, budgeted full-time employees ranged between 837-930 and provided services to the public in around numerous locations across the state. For the audit period, DES had total appropriation authority that ranged between approximately \$371,910,530 – \$537,990,829.

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 Enterprise Services 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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