



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Washington State Department of Commerce

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

Published August 11, 2025

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

August 11, 2025

Joe Nguyen
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 a finding.

We also noted certain matters related to purchase cards that we communicated to Department management and the Director in a letter dated July 11, 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 Washington State Department of Commerce 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:

- Purchase cards
- Digital Navigator Program grantee expenditures
- Crisis Stabilization Facilities Program expenditures
- Local fund withdrawals and deposits
 - State Small Business Collateral Initiative (SSBCI) Collateral Support Program Account
 - Washington Families Program Account

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Washington State Department of Commerce July 1, 2023 through June 30, 2024

2024-001 The Department of Commerce did not have adequate internal controls over and did not ensure reimbursements for the Digital Navigator Program were allowable and properly supported.

Background

In 2019, the Legislature created the Washington State Broadband Office (WSBO) within the Department of Commerce to promote greater public access to broadband internet and achieve faster download/upload speeds for residences, businesses and communities. To achieve the access goal, the WSBO oversees various activities including the Digital Navigator Program.

The Program's purpose was to provide digital services to people with limited access to such services. The Program did this by soliciting bids from third parties, also called "grantees," to be "Digital Navigators." Digital Navigators would provide education, support and assistance to people who would otherwise not be able to access services online. This includes people looking for jobs, education and health support that is more easily accessible through the internet.

To access the public funds, also called grants, from the Program, grantees were to provide these services and supplies, then request reimbursement for those costs from the Department. At the time of this report, the Program is not active because it was not funded in the 2025-27 state biennium.

During fiscal year 2024, the Department spent \$14,798,999 for the Digital Navigator Program. Of this amount, the Department paid 72% – or \$10,723,042 – to one grantee. Because this grantee received the most public funds for the Program during the audit period, our audit focused on those reimbursements. The period of performance for the grant with this grantee was from September 1, 2023, to June 30, 2025. Our audit examined fiscal year 2024, which included 10 months of this period, through June 30, 2024.

The agreement between the grantee and the Department states the Department will reimburse the grantee "upon acceptance of services provided and receipt of properly completed invoices."

The grant agreement also states that grantee and sub-grantee invoices must include documents to verify supported payments that clearly describe the work done, project progress and fees; the grantee and sub-grantees also must break down the expenses in detail, by type.

Beyond this information, the grant agreement contains no further specifics about this documentation, stating only that it must be “to Commerce’s satisfaction.”

Description of Condition

The Department did not have adequate internal controls over and did not ensure reimbursements for the Digital Navigator Program were allowable and properly supported.

We examined the reimbursement request review process for the Program and found:

- One employee was responsible for the entire review and payment process for reimbursement requests. These duties should be handled by different people to ensure independent verification of each step of the process.
- The employee assigned to review reimbursement requests and approve payments was not trained to fulfill their job duties effectively.
- There was no documented evidence of management oversight or review of Program activities, including oversight of the single employee responsible for reimbursement request review and approval.

We then examined all documentation the Department had to support the \$10,723,042 it paid to the grantee during the audit period. Because that documentation was lacking, we contacted the grantee directly and requested any documentation it might have to support the reimbursements. The following explains how we examined documentation at both the Department and the grantee to determine whether public funds were spent for their intended purpose.

Department-Level Review

First, we examined the Department’s process and documentation.

The Department’s contract required the grantee to submit reimbursement requests using “invoice reimbursement vouchers,” also known as A-19 forms. These forms provide a very brief description summarizing each reimbursement type. The forms alone can be used to justify payment only if more detailed support is forthcoming. Such support typically includes receipts, invoices, or payroll information detailing each cost, and is usually attached to the A-19 when a grantee submits its reimbursement.

When we examined the supporting documentation the Department received from the grantee for each reimbursement request, we found the Department approved \$8,608,981 in reimbursements that lacked detailed supporting documentation. These requests had an A-19 form, but lacked any detailed breakdown of services or supplies the grantee provided. For example, the A-19 listed a number of internal grantee personnel costs for work on the Program; however, no payroll documentation or breakdown of hours, projects, or people involved were provided.

Other reimbursement requests did not have an A-19 form at all, or the form lacked information such as a description of work completed, date(s) of service or a signature.

The Department also did not have evidence that it sought this supporting documentation through most of the audit period.

Finally, of the \$2,114,061 remaining, we found most of it appeared to be allowable because it had some support on the A-19 form. We did determine the Department reimbursed the grantee for \$244,890 in expenses that were not permissible according to the grant conditions or that were for items that were, in our judgement, not allowable. This included:

- Duplicate payments totaling \$160,455
- A total of \$44,314 for costs incurred before the grant start date of September 1, 2023
- A total of \$40,122 for expenses such as first-class flights, meals, alcohol, catering, hotel reservations, subscriptions, floral arrangements, office and home décor, all-day beverage service at a resort and a sponsorship for an out-of-state organization.

Grantee-Level Review

Because the Department lacked sufficient detail to support its reimbursements, we then requested documents directly from the grantee for the entirety of the public funds it received during the audit period: \$10,723,042. The goal of this review was to determine whether the grantee had adequate documentation for the Department's payments, even if the Department did not have it.

Documentation

We examined the grantee's material and found that the entirety of the funds the Department paid the grantee were either fully not allowed, or we were unable to determine allowability because of lack of detailed documentation. Here are key items from our review:

- For \$2,474,570, the grantee had no supporting documentation beyond an A-19 therefore we could not determine if the costs were allowable.
- For \$8,248,472, the grantee did have documentation, though most of it was not detailed enough to determine allowability. A total of \$18,408 did have adequately detailed documentation, but the grantee spent it on expenses that were not permissible according to the grant conditions or that were for items that were, in our judgement, not allowable. The categories of these expenses were the same as we listed in the Department-level review: first-class flights, meals, alcohol, catering, hotel reservations, subscriptions, floral arrangements, office and home décor, all-day beverage service at a resort and a sponsorship for an out-of-state organization. Other examples of questionable expenditures included:
 - Payroll expenses: The grantee submitted payroll expenses for reimbursement. It provided paystubs as supporting documentation, but the paystubs did not correlate with the information on the reimbursement request form.
 - Sub-grantee payments: The grantee submitted invoices and sub-grantee payment summaries from its subgrantees for reimbursement, but the material did not include adequate details about the services provided.

Payment in Advance

Finally, our review of the grantee documentation showed that the Department approved and paid \$8,380,736 of the total \$10,723,042 to the grantee prior to the grantee spending those funds. The grant agreement made clear that grant money must be paid on a reimbursement basis. However, the grantee documents showed a deviation from that process. All payments to sub-grantees by the grantee came from funds the Department paid in advance.

Cause of Condition

The Department did not have expected written policies for grant management that outlined oversight expectations, documentation standards, approval responsibilities and payment processing requirements.

We found several interrelated gaps in the Department's approach to managing this grant. First, the Department did not have a clear process for what an employee should assess while reviewing reimbursement requests. Next, no one at the Department adequately oversaw the single employee who both received and approved the grantee's reimbursement requests. Third, the grant contract's language did not clearly describe the minimum level of documentation – only that it must be “to Commerce's satisfaction,” for example.

Toward the end of the audit period, the Department changed its approach to management of this grant. Additional employees began providing separate levels of review, resulting in more thorough vetting of reimbursement requests.

Effect of Condition

The Department cannot be sure any of the funds paid to the grantee were used for their intended purpose. The vast majority of the \$10,723,042 the Department paid to the grantee could not be verified as allowable because of a lack of sufficient documentation, and the expenses that had sufficient documentation were unallowable.

Recommendation

While the Digital Navigator Program is no longer funded, we recommend that the Department:

- Develop and implement written policies outlining documentation standards, approval responsibilities and payment processing requirements
- Establish segregation of duties to ensure the review and approval processes are performed by different staff
- Train staff adequately to fulfill job duties effectively
- Implement proper management oversight
- Consider reviewing the payments made without adequate support or evidence of services performed to ensure they were allowable
- Consult with its legal counsel to assess whether to request reimbursement for unallowable payments made to the grantee

Department's Response

The Department of Commerce would like to extend our appreciation to the Washington State Auditor's Office for their thorough review and reconciliation of the fiscal year 2024 Digital Navigator program and its expenses. The Department would also like to thank program management and staff for their diligence in increased oversight and monitoring, and other division staff for their support through this process.

In fiscal year 2025 agency management became aware of compliance issues related to the pre-payment, lack of segregation of duties and proper supporting documentation used for recipient payments and the Department took measures to apply contract requirements to support compliance with all state laws and policies. These issues were identified when program management and staff changed resulting in more program oversight being provided.

This oversight included the following measures: new leadership was notified of the issues identified from practices of prior leadership that were the subject of this review, a standardized list of required supporting documentation was created and communicated, deadlines for the submission of the documentation were implemented, question and answer meetings to review documentation and streamline the engagement with the grantee were scheduled, engagement with the grantee to promote positive changes to increase compliance was requested. Current program management and staff were instrumental in identifying the Department's deficiencies and making changes to correct them. Additional Department staff worked closely with program staff and management to identify process efficiencies to bring the Department into compliance with all applicable requirements.

The Department is moving forward under our new leadership with a renewed attention to internal controls and compliance, including establishing a Contracts and Compliance Division. While going through this process, program management and staff worked with Commerce divisions to identify general and unique deficiencies which resulted in an opportunity to move forward with clear guidance and expectations of what is required for the Department to be in full compliance with all applicable laws and policies.

As a responsible steward of public funds, we are prepared to follow all the recommendations set forth above by the Washington State Auditor's Office, with many already underway.

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

The Office of Financial Management's *State Administrative and Accounting Manual* (SAAM) 85.32.10, Agency Responsibilities, states:

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),
2. Procedures to ensure prompt and accurate payment of authorized obligations, and
3. Procedures to control cash disbursements.

SAAM 85.32.20.b, Expenditure Authorization, states:

Prior to payment authorization, agencies are to verify that the goods and services received comply with the specifications or scope of work indicated on the purchase or contract documents. Authorized personnel receiving the goods and services are to indicate the actual quantities received, services provided, deliverable submitted, etc. Refer to Chapter 20 for guidance related to internal control procedures.

SAAM 85.32.30.a, Payment Processing Documents, also states, in part:

At a minimum, payment processing documentation should include evidence of authorization for purchase, receipt of goods or services, and approval for payment. Agencies may utilize paper or electronic forms.

The grant terms between EEC and COM state, in part:

“Grantee shall receive reimbursement for the cost of expenses as identified in the attached budget and or authorized in advance by COMMERCE as reimbursable.”

“COMMERCE will pay Grantee upon acceptance of services provided and receipt of properly completed invoices, which shall be, submitted to the Representative for COMMERCE via the Commerce Contracts Management System. The attachments to the invoice request in the Commerce Contracts Management System shall describe and document, to COMMERCE's satisfaction, a description of the work performed the progress of the project, and fees. The invoice shall include the Grant Number **24-67210-002** . Expenses must be invoiced by providing a detailed breakdown of each type.”

“No payments in advance or in anticipation of services or supplies to be provided under this Agreement shall be made by COMMERCE.”



STATE OF WASHINGTON

DEPARTMENT OF COMMERCE

1011 Plum Street SE • PO Box 42525 • Olympia, Washington 98504-2525 • 360-725-4000
www.commerce.wa.gov

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Washington State Department of Commerce July 1, 2023 through June 30, 2024

Audit Period: 7/1/2022 – 6/30/2023	Report Ref. No.: 1036021	Finding Ref. No.: 2023-001
Finding Caption: 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 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.		
Status of Corrective Action: (check one) <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken (Finding 2023-001): <i>The Behavioral Health Facilities team has completed the following corrective actions by the end of the 2023-2025 Biennium:</i> <ul style="list-style-type: none"> • Updated the grant application to require: <ul style="list-style-type: none"> ◦ Proof of collaboration and support of grant applications by regional behavioral health entities that administer health care service purchasing and managed care organizations. ◦ Proof of geographic need for the behavioral health services proposed in a grant application. ◦ Applicants to commit to serving persons receiving public funding. • Requested the draft budget language in chapter 71.05 RCW be changed to “as applicable to the facility type” for applicants and recipients who serve persons detained under the Involuntary Treatment Act and those working with local prosecutors and courts to conduct involuntary commitment hearings and proceedings. <i>The Behavioral Health Facilities Team will implement the following corrective actions once a new Request for Proposals is run in the 2025 -2027 Biennium:</i> <ul style="list-style-type: none"> • Implement a processes for maintaining required backup documentation to track 		

reimbursements and doing timely follow-up with grantees who have not yet provided documentation – No new written guidance available as guidelines will be released when our new funding rounds begin.

- Update photo submission requirements of project status reports to verify the final completed state of the facility compared to the original state. The project status report will remain part of the contract reimbursement process and contract managers have been retrained on this requirement – No new written guidance available as guidelines will be released when our new funding rounds begin.*

Audit Period: 7/1/2022 – 6/30/2023	Report Ref. No.: 1036021	Finding Ref. No.: 2023-002
Finding Caption: The Department of Commerce did not ensure Digital Navigators met all minimum and mandatory requirements to participate in the Digital Navigator Program.		
Background: 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.		
Status of Corrective Action: (check one) <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective actions in progress (Finding 2023-002): <i>The Digital Navigator Program is currently implementing processes and procedures to ensure funding is provided only to proposers who meet all required minimum and mandatory requirements.</i> <i>Additionally, training is being provided to program staff on adequately reviewing all payments to ensure they are for allowable activities based on the scope of grantee contracts. It is important to note that the program ended on June 30, 2025. However, in an effort to apply uniform compliance, the unit is still working to address the concerns with the other programs they are managing.</i> <i>As of August 2025, the program:</i> <ul style="list-style-type: none"> • <i>Hired a Tribal Outreach and Engagement Manager to share the contracting workload, which will also include monitoring contracts, reviewing and approving allowable expenses, and tracking deliverables.</i> • <i>Developed a payment matrix with detailed instructions for grantees to achieve consistency in the submittal and approval of allowable expenses per the contract scope.</i> • <i>Provided various tools and resources to grantees to streamline and facilitate the expense submission and reporting processes to ensure compliance with state policies and procedures.</i> <i>The program is in the process of implementing the following:</i> <ul style="list-style-type: none"> • <i>Developing program-specific processes and procedures concerning allowable expenses and invoice reviews.</i> • <i>Developing checklists outlining notice of funding opportunity requirements, which include scoring matrix criteria, and alignment of project scope and expenses in grantee contracts.</i> • <i>Ensuring all staff managing contracts receive training on compliance with state contracting laws and disbursement processes.</i> • <i>Standardizing data collection requirements from grantees to include eligibility requirements for program participants.</i> 		

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 reports issued by the Office of Financial Management and our Office 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 many 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 2025-2026 biennium, the Department's operating and capital budget is approximately \$10.5 billion.

Contact information related to this report	
Contact:	Gena Allen, Internal Controls Officer
Telephone:	(360) 725-2926
Website:	www.commerce.wa.gov

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 <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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- Toll-free Citizen Hotline:
(866) 902-3900
- Email:
webmaster@sao.wa.gov