



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Washington State Department of Commerce

For the period July 1, 2024 through June 30, 2025

Published May 28, 2026

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

May 28, 2026

Sarah Clifthorne
Interim 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

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

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AUDIT RESULTS

Results in brief

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

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, 2024 through June 30, 2025.

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, 2025, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Office of Homeless Youth Program Expenditures
- Behavioral Health Facilities Program
- Community Reinvestment Program
- Energy Retrofits Grant Program – Local Emission Reduction Projects
- Electric Vehicle Rebates Program
- High Risk Vendor Payments



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Washington State Department of Commerce July 1, 2024 through June 30, 2025

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

Audit Period: July 1, 2023, through June 30, 2024	Report Ref. No.: 1037901	Finding Ref. No.: 2024-001
Finding Caption: 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: 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.		
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: <i>The expenditure activity for the Digital Navigator Program is currently being reviewed by an independent third party. In the meantime, the Department has taken steps to implement tighter internal controls to ensure compliance with all state requirements.</i> <i>Funding for the Digital Navigator program was discontinued in the 2025-27 biennium. The Department is applying tighter internal controls as it continues final close-out of the program contracts.</i> <i>The process changes implemented by the Department to ensure compliance with state requirements for allowable expenses and proper documentation will be applied to other programs going forward.</i>		

Audit Period: July 1, 2022, through June 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 checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>The Behavioral Health Facilities team completed the following corrective actions:</i> <ul style="list-style-type: none"> • <i>Updated the grant application to require:</i> <ul style="list-style-type: none"> • <i>Proof of collaboration and support of grant applications by regional behavioral health entities that administer health care service purchasing and managed care organizations.</i> • <i>Proof of geographic need for the behavioral health services proposed in a grant application.</i> • <i>Applicants to commit to serving persons receiving public funding.</i> • <i>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> • <i>Implemented processes for maintaining required backup documentation to track reimbursements and doing timely follow-up with grantees who have not yet provided documentation.</i> <p><i>The Behavioral Health Facilities team updated 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 remains the contract reimbursement process and contract managers have been retrained on this requirement. Updates to the required project status form were made September 25, 2025, and for further clarity on December 3, 2025.</i></p>		

Audit Period: July 1, 2022, through June 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 Action Taken: <i>The expenditure activity for the Digital Navigator Program is currently being reviewed by an independent third party. In the meantime, the Department has taken steps to implement tighter internal controls to ensure compliance with all state requirements.</i> <i>Funding for the Digital Navigator program was discontinued in the 2025-27 biennium. The Department is applying tighter internal controls as it continues final close-out of the program contracts.</i> <i>The process changes implemented by the Department to ensure compliance with state requirements for allowable expenses and proper documentation will be applied to other programs going forward.</i>		

RELATED REPORTS

Financial

We also 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.

Performance audits

Initiative 900, approved by voters in 2005, gives the State Auditor's Office the authority to conduct independent performance audits of state and local government entities. Performance audits may include objective analysis on ways to improve program performance and operations, reduce costs and identify best practices.

We issued the separate performance audit report, Assessing the Department of Commerce's Management of the Digital Navigator Program which is available on our website, <https://portal.sao.wa.gov//ReportSearch>.

INFORMATION ABOUT THE DEPARTMENT

The Washington State Department of Commerce’s mission is to strengthen communities in Washington. Commerce is the lead state agency charged with enhancing and promoting sustainable community and economic vitality in Washington. They administer a diverse portfolio of approximately 450 programs and several state boards and commissions, all focused on helping communities achieve positive growth. The programs are administered with federal funds, state general funds, capital funds, dedicated funds, and interagency agreements.

The Department’s key customers include local governments, tribes, businesses and community-based organizations including non- and for-profit entities. They also play the crucial role of supporting numerous local, state, regional and federal partners and stakeholders, both public and private. Together they work to support the Governor’s priorities and achieve shared goals and objectives for the citizens 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, crime victims, international trade, business services and more. They work with local governments, tribes, businesses and civic leaders throughout the state to strengthen communities so all residents may thrive and prosper. The 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 800 employees. For 2023-2025 biennium, the Department's operating and capital budget was approximately \$9.8 billion.

Contact information related to this report	
Contact:	Gena Allen, Internal Controls Officer
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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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(866) 902-3900
- Email:
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