

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Financial Statement Finding Reported Under Government Auditing Standards

2019-001 **The State’s internal controls over financial reporting were insufficient to ensure accurate recording and monitoring of financial activity in its financial statements.**

Background

State management is responsible for designing, implementing and maintaining internal controls to ensure the financial statements are fairly presented, and to provide reasonable assurance regarding the reliability of financial reporting. We identified deficiencies in internal controls that could adversely affect the State’s ability to prevent, or quickly detect and correct, misstatements in the financial statements.

Government Auditing Standards, prescribed by the Comptroller General of the United States, requires the auditor to communicate significant deficiencies in internal controls, as defined below in the Applicable Laws and Regulations section, as a finding.

State Board for Community and Technical Colleges

The State Board for Community and Technical Colleges (SBCTC) advocates for, coordinates, and directs Washington’s system of 34 public community and technical colleges. One of SBCTC’s responsibilities is to collect and consolidate community and technical college financial data for reporting in the State’s general ledger accounting system. During the previous two audits, we identified and communicated deficiencies in controls over the reporting of community and technical college financial data.

Health Care Authority

The Health Care Authority (HCA) contracts with a vendor, which uses a system known as ProviderOne, to process payments for Medicaid. During the previous six audits, we identified and communicated deficiencies in controls over the ProviderOne system. For fiscal year 2019, ProviderOne processed about 124 million transactions totaling \$10.5 billion.

Description of Condition

Our audit identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a significant deficiency:

SBCTC

In 2015, SBCTC began to implement a modernized computer system to replace the existing legacy software. Two colleges converted to this new system that same year. SBCTC has used a manual process to convert and enter financial data from this system into the State’s general ledger accounting system while working on a new automated process. Because of the number of errors resulting from this process, SBCTC could not completely reconcile the individual college financial data with the State’s accounting system after fiscal year end.

HCA

HCA relies on controls performed by the vendor, but has not obtained a service organization control audit report (also called a SOC 1 report) for the ProviderOne system for fiscal year 2019. This report is essential because it determines whether controls are properly designed and operating as intended in the processing and recording of Medicaid payments.

Cause of Condition

SBCTC

SBCTC has been developing an automated process to transmit college financial data into the State's accounting system. However at fiscal year end, this process was not yet complete. SBCTC did not dedicate sufficient time or resources to reconciling the balances and making appropriate adjustments to the State's accounting system.

HCA

HCA and its vendor did not adequately outline in their original contract the responsibilities, controls and requirements for monitoring the ProviderOne system. Specifically, the contract did not require the vendor to provide a SOC 1 report to demonstrate that controls were effective. At the time of the contract, HCA did not completely understand the extent of its monitoring responsibilities for ProviderOne.

Effect of Condition

SBCTC

We found numerous unexplained variances between consolidated college financial data and amounts recorded in the State's accounting system. Some of these variances include:

- In non-major funds, the State's accounting system reported revenue was \$86 million less, expenditures were \$29 million more, and assets were \$16 million less than in the consolidated college financial data.
- In the higher education special revenue funds, the State's accounting system reported expenditures were \$15 million more than in the consolidated college financial data.

The State did not correct these errors in its financial statements.

HCA

The State has less assurance that vendor controls are properly designed and operating effectively. The failure of these controls over the ProviderOne system could lead to:

- Inaccurate financial reporting in the state's General Fund
- Misuse, loss or misappropriation, inaccurate payments, and unauthorized software changes to the ProviderOne system

Recommendations

We recommend the following:

SBCTC

- Complete the automated the process to transmit college financial data into the State's accounting system.
- Perform complete and timely reconciliations of college financial data to the State's accounting system throughout the fiscal year

HCA

Work with its vendor to obtain, each year, a service organization control audit report that covers an entire fiscal year.

State's Response

The State recognizes the significance and priority of internal controls over recording and reporting financial transactions.

OFM will work with the two agencies included in the finding to improve their internal controls over the processing and reporting of financial activities. OFM will continue to provide assistance to the State Board of Community and Technical Colleges in its effort to complete the automated process of transmitting college financial data into the State's accounting system.

Auditor's Remarks

We appreciate the state's commitment to resolving this finding and thank the state for their cooperation and assistance. We will review the status during the next audit.

Applicable Laws and Regulations

RCW 43.88.160 Fiscal management – Powers and duties of officers and agencies, states in part:

- (4) In addition, the director of financial management, as agent of the governor, shall:
 - (a) Develop and maintain a system of internal controls and internal audits comprising methods and procedures to be adopted by each agency that will safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies for accounting and financial controls. The system developed by the director shall include criteria for determining the scope and comprehensiveness of internal controls required by classes of agencies, depending on the level of resources at risk.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control,

instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

The Office of Financial Management's State Administrative and Accounting Manual (SAAM), states in part:

Section 20.15.30 Annual requirements for agencies related to statewide reporting

The Office of Financial Management (OFM) prepares the state's Comprehensive Annual Financial Report (CAFR) annually. While OFM has final responsibility for the contents of the CAFR, the data in the financial statements and many of the notes to the financial statements are generated from Agency Financial Reporting System (AFRS) transactions input by agencies. Because agencies are in control of transactions entered into AFRS, OFM relies on agency internal control systems and the monitoring of those systems to assert in writing that the CAFR is correct and complete.