

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

State of Washington July 1, 2020 through June 30, 2021

2021-001 The State lacked adequate internal controls over financial reporting for ensuring accurate recording and monitoring of financial activity in its financial statements.

Background

State management is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance financial statements are fairly presented and financial reporting is reliable. 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 material weakness 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 three audits, we identified and communicated deficiencies in internal controls over the reporting of community and technical college financial data.

Health Care Authority

The Health Care Authority (HCA) contracted with a vendor, which uses a system called ProviderOne, to process Medicaid payments. During the previous eight audits, we identified and communicated deficiencies in controls over the ProviderOne system. For fiscal year 2021, ProviderOne processed about 144 million transactions totaling \$14.3 billion.

Description of Condition

We identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a material weakness in internal controls over financial reporting:

SBCTC

The SBCTC did not complete a timely and accurate reconciliation of college financial data with the amounts recorded in the State's accounting system before the State closed its books. This issue was reported as a finding in the prior four audits.

HCA

HCA relies on internal controls that the vendor performs, but it has not obtained a service organization control audit report (also called a SOC 1 report) for the ProviderOne system for fiscal year 2021. This report is essential because it determines whether the vendor has properly designed its controls and that they are operating as intended in the processing and recording of Medicaid payments. This issue was reported as a finding every other fiscal year since fiscal year 2013.

Cause of Condition

SBCTC

The SBCTC did not dedicate sufficient time or resources to reconciling college financial data to the State's accounting system and making appropriate adjustments. The difficulty of performing this reconciliation has increased because half of the colleges converted to a new computer system by fiscal year-end, while the rest of the schools remained on legacy software.

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 its controls were effective. At the time of the contract, HCA management did not completely understand the extent of its monitoring responsibilities for the ProviderOne system.

Effect of Condition

SBCTC

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

- In governmental activities funds, the State's accounting system had smaller balances than the consolidated college financial data. These variances included depreciable assets (\$4 million), education expenses (\$90 million) and charges for services (\$340 million). Operating grants and contributions in the governmental activities funds were larger than consolidated college financial data by \$39 million.
- In the higher education special revenue funds, the State's accounting system had larger balances than the consolidated college financial data. These variances included cash (\$147 million), charges for services (\$40 million), federal grants-in-aid (\$21 million) and education expenditures (\$96 million). Additionally, federal grants-in-aid in the State's accounting system was \$14 million higher than the individual federal grants awards the colleges disclosed.
- In the higher education student services funds, the State's accounting system had a larger balance than the consolidated college financial data for cash (\$27 million).

The SBTC did not correct these errors in the financial statements.

HCA

HCA's failure to ensure that the vendor conducted an internal control audit of the ProviderOne system and provide a report of the audit 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

Recommendation

SBCTC

We recommend the SBTC perform a complete and timely reconciliation of college financial data to the State's accounting system throughout the fiscal year.

HCA

We recommend HCA work with its vendor each year to obtain a SOC 1 report that covers an entire fiscal year.

Agency'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 resolve this finding and thank OFM for its cooperation and assistance during the audit. We will review the corrective action taken during the next audit of the State's annual comprehensive financial report.

Applicable Laws and Regulations

Government Auditing Standards, July 2018 Revision, paragraphs 6.40 and 6.41 establish reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud, and noncompliance with provisions of laws, 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.

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.

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 Annual Comprehensive Financial Report (ACFR) annually. While OFM has final responsibility for the contents of the ACFR, 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 ACFR is correct and complete.