



State Audit Update, Spring 2013

CAFR, Single Audit & Accountability

Financial Management Advisory Council

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WASHINGTON
TROY KELLEY
STATE AUDITOR

Topics for Discussion

- Troy Kelly, State Auditor
- Comprehensive Annual Financial Report (CAFR)
- Statewide Single Audit (SWSA)
- Accountability Audits



Troy Kelley, State Auditor



- Three term legislator
- Chaired Joint Legislative Audit and Review Committee
- Led audit teams at SEC
- Worked on white collar crime in federal prosecutor's office



Immediate priorities

- Structural changes
- Legislative session
- Evaluation of processes & priorities
- Vision for the future



Vision for the future

- Creating a culture of continuous improvement
- Enhancing the value of audit
- Clear, fair and effective communication of audit results
- Extending the reach of the Local Government Performance Center



- The Office of Financial Management prepares the CAFR in accordance with Generally Accepted Accounting Principles.
- We perform an independent audit of the CAFR in accordance with Generally Accepted Governmental Auditing Standards.



- Significant Risks for FY12:
 - Fund balance reporting under GASB 54.
 - Health Care Authority caseload forecast. This forecast is a key component of human services accrued expenditures.
- 15 agencies had account balances material to state's basic financial statements



- Our 2012 audit resulted in a clean audit opinion.
- We identified one significant deficiency in internal control over financial reporting that we reported as a finding. We found internal controls over Medicaid payments processed by ProviderOne are inadequate to ensure those payments are properly processed and recorded.
- Issued CAFR Summary
http://www.sao.wa.gov/EN/Reports/Documents/2012_CAFR_Summary_Report.pdf



SWSA 2012

- The Single Audit is an independent audit of systems and internal controls over federally funded programs the state has designed to ensure compliance with federal regulations.
- The audit is conducted in accordance with the provisions of the federal Office of Management and Budget's Circular A-133 and U.S. Government Auditing Standards.
- The state received more than \$15.8 billion in cash and other federal assistance in fiscal year 2012.



- Audited 30 major programs covering \$10.2 billion
- Work done at 17 agencies, which includes 1 university and 3 community colleges
- 63 federal findings
 - 39 compliance/questioned cost findings
 - 50 internal control findings with 22 material weaknesses



Audit findings increased over the last several years due to:

- Increased federal assistance
- New programs and compliance requirements
- New federal reporting requirements
- Staff reductions and restructuring

\$ 4 million in questioned costs



- Qualified Opinions on:
 - Public Health Emergency Preparedness Program
 - National Bioterrorism Hospital Preparedness Program
 - School Improvement Grant
- Majority of ARRA funding has been phased out, only \$411 million was spent in fiscal year 2012.
- Issued SWSA summary
http://www.sao.wa.gov/EN/Reports/Documents/2012_SWSA_Summary.pdf



Accountability Audits

- Continue to perform statewide accountability audits based on statewide risk assessment.
- 2012-13 Statewide audit topics:
 - Tuition waivers
 - Payments to child care providers
 - Personal service contracts
 - Higher education use of purchase cards



Tuition Waivers

Colleges and universities awarded tuition waivers totaling \$249 million in FY2011.

We designed this audit to answer the following questions:

- Do students receiving tuition waivers meet eligibility criteria?
- Are colleges and universities awarding waivers to students that exceed the maximum levels established by state law or policy?



Tuition Waivers

We examined all six of the state's four-year institutions and 10 of the 34 community and technical colleges.

We found:

- Overall the colleges and universities we examined during this audit awarded tuition waivers to eligible students for amounts that were within the maximum levels established by state law or policy.
- We found adequate supporting documentation for 83 percent of the waivers examined. Nearly 100 percent of those waivers were awarded to eligible students.



Tuition Waivers

- We could not determine if 17 percent of the waivers were awarded to students who met or maintained eligibility requirements.
 - 11 percent lacked documentation to support the student's eligibility at the time of the initial award.
 - 6 percent of graduate service appointment waivers lacked documentation to support the student met on-going eligibility requirements.
- We found that nearly all waivers awarded by the colleges and universities were within the maximum award limits established by state law or policy.



Tuition Waivers

- Using a statistical sample, we projected the colleges and universities examined in this audit awarded \$71.7 million in tuition waivers with inadequate documentation to support either initial or on-going student eligibility.



Payments to Child Care Providers

In 2011 we performed an audit that examined state payments to 146 licensed child care providers. We found overpayments and questionable payments. The overpayments were caused by significant internal control weaknesses at DSHS and DEL.

The Objectives of our 2012 follow-up audit was to:

- Estimate how much in state child care subsidies were overpaid and/or questionable in state fiscal year 2011.



Payments to Child Care Providers

- Determine if licensed family home providers have more children in their home than allowed by state regulations.
- Determine if there are instances of overlap in attendance records, which indicate providers may have been paid for child care that never occurred.
- Report on the state's effort to collect overpayments that were identified by our 2011 child care audit.

What we found:

- Overpaid licensed and exempt providers \$73,983,523 for child care subsidies in the fiscal year ending June 30, 2011.



Payments to Child Care Providers

- Paid providers an additional \$34,946,796 based on questionable documentation.
- 34 cases in which attendance records showed more children were in a provider's home than their licenses allowed.
- 42 cases of overlap, in which attendance records showed a parent signed his or her own children into a provider's home at the same time the parent was being paid by the state to provide child care at his or her own home.
- As of June 1, 2012, \$6,103 of the \$2.6 million in overpayments identified in our 2011 audit has been collected.



Personal Service Contracts

During calendar year 2012, state agencies procured approximately \$429 million in personal service contracts and spent \$326 million. Our audit includes 11 state agencies. Our audit objectives are:

- Did agencies have adequate internal controls in place to ensure personal service contracts were procured in accordance with state laws, policies and procedures?
- Did state agencies competitively procure personal service contracts in accordance with state laws, policies and procedures?
- Did agencies clearly define the contract deliverables and ensure they were received prior to payment?



Higher education use of state purchase cards

- This audit covers fiscal year 2012 and includes UW, WSU and WWU. Those three institutions had \$158 million in state purchase card expenditures.
- DES has established policies and standards that describe acceptable uses of purchase cards. Examples of unacceptable uses include:
 - Cash advances
 - Gifts/donations
 - Inter-department purchases
 - Personal purchases
 - Alcoholic beverages or liquor licenses



Higher education use of state purchase cards

Our audit objectives were to determine if these universities had effective internal controls in place to prevent unallowable purchases.



Potential 2013-15 statewide audit topics:

- Department of Transportation highway construction
- Improper payments to incarcerated individuals
- Health insurance eligibility
- Medical provider overpayments



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