

STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

2007 Audit Resolution Report

ACCOUNTING DIVISION

DECEMBER 2007

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STATE OF WASHINGTON

AUDIT RESOLUTION REPORT

December 2007

THIS REPORT SUMMARIZES the status of corrective actions taken by state agencies, in conjunction with the Office of Financial Management (OFM), to resolve exceptions to audits.

Washington State laws require audits of every state agency. As part of the audit process, exceptions to specific expenditures or financial practices become a matter of public record. OFM is required to ensure that corrective actions to address exceptions are taken and to annually report on the status of these audit resolutions.

This annual report is required by RCW 43.88.160 which states, "The director of financial management shall annually report by December 31st the status of audit resolution to the appropriate committees of the legislature, the state auditor, and the attorney general. The director of financial management shall include in the audit resolution report actions taken as a result of an audit including, but not limited to, types of personnel actions, costs and types of litigation, and value of recouped goods or services."

This report summarizes the status of resolution of audit exceptions related to regularly scheduled agency audits, which were reported in individual audit reports, the Medicaid audit report, and the Statewide Single Audit report. These audit reports were issued between November 1, 2006 and October 31, 2007. The audit reports issued during that period include 60 exceptions, three of which relate to fraud.

Agencies are required to submit corrective action plans to OFM within 30 days of issuance of audit reports in which exceptions are taken. OFM participates in the corrective action process, which is subject to a follow-up review during the subsequent audit.

Schedule 1 – Audit Findings by Agency

December 2007

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Schedule 1 – Audit Findings by Agency

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6585 M = Medicaid Report

2006 F = Statewide Single Audit Report (The non-Medicaid federal findings of the Department of Social and Health Services were reported in detail only in the Statewide Single Audit Report.)

Health Care Authority (HCA)

Agency: 107

Audit Report: 6660

Finding Number: 001

Finding: The Washington State Health Care Authority did not comply with Basic Health program requirements for recertification of certain enrollees.

Resolution: The Health Care Authority (HCA) agrees that processes dealing with accounts that cannot be matched to Employment Security Department (ESD) records could and should be improved. HCA assigned a team to evaluate solutions to ensure these accounts are recertified every six months.

The team's proposed solution to identify accounts requiring recertification is currently being tested, and testing results should be available in January 2008. The identified accounts will require six month recertification and will go through the normal Basic Health (BH) recertification process. Specifically, BH will send them a recertification packet that must be completed and returned to BH. BH then redetermines eligibility. This process will be repeated every six months for accounts identified as requiring recertification.

HCA will continue to identify these accounts on a quarterly basis (since ESD updates their data on a quarterly basis) and make adjustments as needed.

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Health Care Authority (HCA)

Agency: 107

Audit Report: 6660

Finding Number: 002

Finding: The Washington State Health Care Authority did not comply with state rules and regulations regarding contracts.

Resolution: The Health Care Authority (HCA) concurs with the finding by the auditors and appreciates the insight and input provided into HCA's contracting procedures. Prior to the arrival of the auditors, HCA had identified internal contracting procedures as a key improvement area. HCA has taken several steps to strengthen internal controls for initiating and managing contracts and to improve understanding of and adherence to state contracting rules and regulations. However, HCA acknowledges that continued improvement is needed and is committed to improving internal processes and controls to ensure compliance with state contracting rules and regulations.

Specifically, HCA reorganized in early 2006 combining the Contracts and Financial units to create the Financial and Contract Services section. The contracts staff now report directly to a member of the executive team. HCA is participating in the pilot of the statewide interim Enterprise Contracts Management System. To address the immediate need to maintain contracting expenditures within contract limits, HCA implemented an improved management process which includes regular and proactive notification to contract managers of the total contract amount, expended to date amount, and balance remaining.

HCA determined that additional leadership and management emphasis was needed in order to systemically improve the agency's contracting methodologies, contract execution, and adherence to state contracting rules and regulations. HCA internally reallocated positions and established a contracts manager position to provide better oversight and emphasis on the agency's contracting processes. That position was filled September 2007. The contracts manager is leading an internal team in reworking agency policies and procedures.

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Office of Administrative Hearings (OAH)

Agency: 110

Audit Report: 6657

Finding Number: 001

Finding: The Office of Administrative Hearings does not have adequate internal controls over payroll which resulted in a misappropriation of \$55,360.

Resolution: Finding of fraud. Refer to page 75.

Human Rights Commission (HRC)

Agency: 120

Audit Report: 6659

Finding Number: 001

Finding: The Washington State Human Rights Commission does not have adequate internal controls over disbursements and cash-receipting.

Resolution: The Commission wrote and, effective July 2007, implemented new procedures for handling cash receipts and vendor payments. Both procedures are in compliance with the *State Administrative and Accounting Manual*. The Commission also provided the necessary training to staff involved with these new procedures.

In the new procedures, the Commission utilizes available staff as well as accounting services by Office of Financial Management's Small Agency Client Services (SACS) to segregate duties and establish controls over receipts and vendor payments.

The significant aspects of the cash receipt procedure are:

- Two staff are required to open the mail and log receipts.
- Checks are restrictively endorsed immediately.
- All receipts are sent to SACS within 24 hours.
- SACS handles the deposits and accounting entries.
- A third staff person reconciles the monthly accounting reports to the receipt logs.

The significant aspects of the vendor payment procedure are:

- Commission staff reviews all invoices and travel vouchers; verifies receipt of goods and compliance with travel and other regulations; and attaches supporting documentation.
- Director reviews and initials all invoices.
- SACS verifies approvals, enters data into accounting system, and mails warrants.
- Commission staff reconciles payment register with original listing of invoices.

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Department of General Administration (GA)

Agency: 150

Audit Report: 6600

Finding Number: 001

Finding: The Department of General Administration did not enforce the fee structure prescribed in its intergovernmental agreement with political subdivisions, which resulted in a loss of \$110,950.

Resolution: The Department agrees with the auditor's research and statement of facts. The Department characterizes the exceptions as issues with documenting the process rather than as a "loss" because the fees charged were authorized by management based on justification from requesting jurisdictions.

This program has been very successful in pooling purchasing power and, thus, reducing the cost of government at the state and local level. The Department has a process that allows flexibility in making membership decisions based on the budget limitations of government entities. The Department's goal is to address the facts found by the auditors while continuing the excellent service and maintaining the flexibility that keeps this program viable.

The finding is based on several conditions related to the fee charged, the method used for calculating the fee, and the documentation supporting exceptions to the published fee schedule.

To address these issues, the Department completed the following activities:

- Re-evaluated and documented an improved fee schedule and membership policy that is more practical and enforceable for the local government and qualified nonprofit members of the state purchasing cooperative.
- Implemented the new state purchasing cooperative policy addressing how fees are set, monitored and reduced, ensuring appropriate documentation and good internal controls.
- Revised the standard intergovernmental agreement forms to align with the policy and fee calculation changes.

The Department's internal auditor completed a review of all actions taken, concluding with an opinion that the issues of the audit finding had been reasonably addressed and resolved in the new policy, fee structure, and intergovernmental agreement forms.

The new policy, fee schedule, and intergovernmental agreements are in the process of being implemented for the calendar year 2008 memberships.

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Washington State Patrol (WSP)

Agency: 225

Audit Report: 6582

Finding Number: 001

Finding: The Washington State Patrol did not comply with fee increase limitations.

Resolution: In coordination with the Office of Financial Management, language was placed in both Washington State Patrol's (WSP) 2007 Supplemental Operating Budget and the 2007-2009 Operating Budget to address this finding. The language provides that WSP may increase fees in excess of the fiscal growth factor if the increases are necessary to fully fund the direct and indirect cost of criminal history and background check activities.

The 2007 Supplemental and 2007-2009 Operating Budgets were signed May 15, 2007.

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Audit Report: 6611

Finding Number: 001

Finding: The Department of Labor and Industries' Pension Payment System lacks adequate internal controls to ensure public resources are safeguarded.

Resolution: With pension caseloads in excess of 4,700 per adjudicator, along with pensioner death cases and the constraints of the program's limited resources, it is not feasible to manually review all new cases. So, the Department, in collaboration with the auditors, established a process to validate every 20th new pension.

In response to this finding, as of January 2006, any payment of \$25,000 or more is reviewed and validated by the unit supervisor or manager before being released for mailing. This is a change from the previous process requiring review of payments over \$50,000. Since the implementation of this change, 185 payments over \$25,000 were issued and 100% of those were determined to be accurately calculated.

The unit supervisor also randomly reviews 20% of the daily payments issued for less than \$25,000. In reviews of 3,284 payments under \$25,000 issued since January 2006, the supervisor found calculations to be accurate 95% of the time.

The system security inadequacies identified by the auditors have been addressed by the Department as follows:

- Implemented a change in access to production program libraries to allow individuals access only to the software that moves those programs from the test to the production environment.
- Added an attribute to system logon identifiers (ID) used for batch processing to prevent the use of an ID for inappropriate file access.
- Began removing unnecessary security access to prevent access that would allow an individual to inappropriately alter database files. This is an ongoing effort that also involves evaluating alternatives for employees who need higher levels of security access to perform their job duties.

In addition, in January 2007, the Department began defining business rules, staffing needs and programming effects for the development of an automated calculation benefits system for the Pension Section. The automated calculation system endeavor is underway. Due to the magnitude and complexity of the system changes required, they will be implemented in phases. The first phase will be implemented by December 31, 2007.

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Department of Labor and Industries (L&I)

Agency: 235

Audit Report: 6611

Finding Number: 002

Finding: The Department of Labor and Industries' Crime Victims' Compensation Program lacks adequate internal controls to ensure public resources are safeguarded.

Resolution: By January 2007, the Department initiated a series of immediate process and system changes including the following:

- Increased the number and frequency of Crime Victim Compensation payment reviews.
- Implemented improved reporting and supervisory review of all forced exception payments.
- Appropriately segregated duties to ensure employees are prohibited from having both the ability to issue the payment in the system and physical access to the payment. This is reviewed every 6 months.
- Implemented access controls on payment systems that prevent a single employee from both initiating a change and approving a change to provider information.
- Changed procedures to require processing remittance mail under dual control.

The Department also went through multiple third party audits. As a result of audit recommendations, the Department implemented further segregation of duties to add a second level of review before bills are paid.

The Department has reorganized and doubled the size of its office of internal audit. The Department is exploring investment in technologies to provide increased internal audit coverage and early detection of financial irregularities.

The Department is also pursuing financial recovery activities related to this audit finding. Refer to audit report 6612, finding number 001, on page 77.

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Department of Labor and Industries (L&I)

Agency: 235

Audit Report: 6612

Finding Number: 001

Finding: An adjudicator in the Department of Labor and Industries Crime Victims' Compensation Program misappropriated at least \$431,376.

Resolution: Finding of fraud. Refer to page 77.

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 6585 M

Finding Number: 001

Finding: The Department of Social and Health Services, Aging and Disability Services Administration, does not ensure providers of home health care services are Medicare-certified as required by the Medicaid State Plan.

Resolution: The Department does not agree with the auditor that home health agencies performing in-home care must be Medicare certified. The Department followed up on the previous audit by submitting State Plan Amendment (SPA) 06-008, which was approved on April 1, 2006. This amendment exempts home health agencies providing private duty nursing from the Medicare certification requirement. To further clarify language that home health agencies providing personal care do not require Medicare certification, SPA 06-012 was submitted to the Centers for Medicare and Medicaid Services (CMS). The Department is in ongoing communications with CMS. As CMS requests additional information, the Department provides it. CMS is considering Department responses and has not yet made a determination.

The Department will work with Health and Human Services if any unallowable costs are identified.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 6585 M

Finding Number: 002

Finding: The Department of Social and Health Services is not complying with federal regulations that require people receiving Medicaid benefits to have valid Social Security numbers.

Resolution: The Department implemented the following processes to ensure Medicaid clients have valid social security numbers (SSN):

- The Department uses the Social Security Administration's State On-line Query (SOLQ) to check the validity of SSNs. Required SOLQ training was conducted in December 2006.
- A programming change has been requested, but not yet approved, for the Automated Client Eligibility System to have hard edits that will require workers to take action at the time of medical recertification for individuals who have an SSN application pending more than 60 days. The programming change request will continue to be evaluated and assigned priority in relation to other changes also under consideration.
- Since December 2006, Community Service Office supervisors have added medical cases to their monthly case audits that focus on SSN mismatched alerts and checking for consistent use of SOLQ for SSN.
- As of April 30, 2007, Community Service Division Headquarters staff began quarterly random audits on medical cases and checking for consistent use of SOLQ at application and reviews. From April through June, 302 cases were reviewed showing 98% of SSNs were correct and verified. Department quality assurance staff continue to gather data through random audits.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 6585 M

Finding Number: 003

Finding: The Department of Social and Health Services, Health and Recovery Services Administration, has not established sufficient internal controls to prevent Medicaid payments for services provided after a client's death or to prevent payments for services provided to individuals using the Social Security number of a deceased person.

Resolution: The Department implemented the following processes to ensure Medicaid clients have valid social security numbers (SSN):

- The Department uses the Social Security Administration's State On-line Query (SOLO) to check the validity of SSNs. Required SOLO training was conducted in December 2006. The training emphasized the importance of checking SOLO for each medical applicant and of going back to check that the results were federally verified.
- The Automated Client Eligibility System alerts were moved into the Department's Document Management System (DMS). This change integrates alerts into DMS to assist workers in monitoring and tracking system-generated alerts in the same way they do all other assignments.
- In March 2007, a reminder was sent to Community Service Division (CSD) staff to follow appropriate policies and procedures in assisting the clients to apply for an SSN.
- In April 2007, CSD reviewed the death notification process with the Department's Health and Recovery Services Administration to ensure there is no delay in providing this information to the field.
- On May 17, 2007, CSD staff received a memo reminding them to make appropriate referrals to the Department's Division of Fraud Investigations of any instances of apparent identity theft or provider fraud.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 6585 M

Finding Number: 004

Finding: The Department of Social and Health Services, Health and Recovery Services Administration, does not have adequate controls to ensure compliance with Medicaid requirements to identify third parties responsible for payments for pharmaceutical services.

Resolution: The Department has internal controls, including pre- and post-payment compensating controls, sufficient to provide reasonable assurance that third party resources will be identified and overpayments recovered. In accordance with federal regulations, the Department has taken "reasonable measures to determine the legal liability of third parties...." Specifically, the Department:

- Requires clients to report third party coverage when applying for medical assistance.
- Conducts health insurance data cross-matches against data from the Employment Security Department, Department of Labor and Industries, and Department of Personnel, to determine if any other coverage benefits exist.
- Denies pharmacy claims if third party coverage exists.

Additionally, Department staff assist pharmacists by making billing information available through toll-free lines, Health and Recovery Services Administration's (HRSA) provider website, clients' medical identification cards, and explanations of benefits on weekly remittance advices sent to providers.

When claims are submitted, the Department's Medical Management Information System client eligibility file reports any client having insurance coverage and denies the claim. The onus is then placed on the pharmacy provider to verify the availability of third party benefits and bill the third party and Medicaid appropriately. When the pharmacy providers bill Medicaid, they may need to use override codes to ensure they receive timely reimbursement for services provided. If the pharmacy provider uses an override code and later determines that third party insurance was available, the pharmacy provider is required to verify and pursue clients' third party benefits and refund to HRSA any Medicaid payments also paid by a liable third party.

The Department actively conducts post-payment audits of pharmacy override code usage. Thirty pharmacy third party liability audits were performed in 2005; twenty-one in 2006. The pharmacies audited were identified and prioritized by risk exposure based on dollars by override code. Overpayments identified for these 51 audits total \$3,314,056 of which \$3,053,769 has been recovered.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 6585 M

Finding Number: 005

Finding: The Department of Social and Health Services, Health and Recovery Services Administration, has not established sufficient internal controls to support decisions on the eligibility of clients enrolled in Medicaid's Basic Health Plus program.

Resolution: To ensure adequate internal controls are followed, the Department's Medical Eligibility Determination Services (MEDS) unit began auditing 15 cases per unit (four units) weekly. The audits focus on income budgeting and documentation. This was implemented in February 2007. The results of these audits assist the department in identifying areas where internal controls could be strengthened. The audits strengthen controls in the following ways:

- The audits include a review of new policies implemented by headquarters that affect MEDS operations, to ensure consistent compliance.
- Target trends are identified in the audits. Training is focused on those trends.
- It is mandated in the audit plan that staff check available interfaces for unreported income for those clients 16 years of age or older.
- Audits, including documentation and remarks, are available in the Department's Automated Client Eligibility System to clearly identify calculations and actions taken.

Training on eligibility determinations for self-employed clients was conducted by Eligibility Policy and Community Education staff during February 2007. Training on income budgeting was provided in March 2007. This training included reviewing Department policies and procedures. All training was mandatory for staff.

Phase one of the Self-Employment training for supervisors and leads was completed on March 12, 2007.

The Centers for Medicare and Medicaid Services has ruled that no costs may be recouped for eligibility errors unless the recoupment is the result of a Medicaid Eligibility Quality Control audit. Therefore, no costs will be repaid.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 6585 M

Finding Number: 006

Finding: The Department of Social and Health Services, Health and Recovery Services Administration, does not have adequate controls to ensure claims for wheelchairs and wheelchair accessories are properly authorized as required by law.

Resolution: The Department recognizes that expedited prior authorization for wheelchair claims exceeding two months in a twelve-month period is a control weakness. The expedited prior authorization process was corrected through a programming change, implemented on July 6, 2006, that added edits to prevent payment beyond authorized time periods without authorization.

The Department discovered incorrect coding had been entered in the Medicaid Management Information System for managed care clients in the disease management program. This error was corrected as of July 1, 2006.

The Department accepts Medicare authorization for payment of these wheelchair related claims. A second authorization on these claims is not necessary. The Department implemented WAC 388-543-110 governing authorization of wheelchair payments that clearly states that, for Medicare clients, no further authorization beyond Medicare is necessary. The implementation date of this new WAC was July 2007.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 6585 M

Finding Number: 007

Finding: The Department of Social and Health Services, Health and Recovery Services Administration, is not complying with federal requirements to defer Medicaid expenditures related to undocumented aliens as instructed by the Centers for Medicare and Medicaid Services.

Resolution: For the non-pregnant group: The Department's Health and Recovery Services Administration (HRSA) coordinated with the Office of Accounting Services (OAS) to set up unique account coding for alien emergency medical (AEM) charges and change the frequency of the adjustment that moves these charges to state funds. OAS draws Title XIX revenue once a week and will use the unique cost allocation coding that has been established to avoid drawing any federal revenue for AEM expenditures during the time period between when the expenditures are incurred and the adjustment takes place. This ensures that Medicaid funds are used for allowable expenditures only.

For the pregnant group: HRSA currently complies with the federal directive regarding drawing federal funds for pregnant alien women. Beginning with state Fiscal Year 2007, only labor and delivery claims are being charged to Title XIX. These claims are being identified by their diagnostic related group for inpatient hospital claims or by diagnosis code for physician and other ancillary claims. All non-labor and delivery claims for pregnant alien women, except pregnancy-related claims, are charged to state funds. Identified prenatal claims are paid with Title XXI (State Children's Health Insurance Program) funds only if they are related to labor and delivery claims for the births. This procedure was specifically approved by the Centers for Medicare and Medicaid Services in writing. A copy of the approval was provided to the auditor.

HRSA intends to comply with the federal Office of Inspector General's (OIG) audit report once it is completed and provides guidance to differentiate emergent vs. non-emergent services. Based on the entrance interview with the OIG, HRSA doesn't expect a draft finding until July 2008.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 6585 M

Finding Number: 008

Finding: The Department of Social and Health Services paid providers with Medicaid funds through the Social Services Payment System for services to clients using Social Security numbers belonging to deceased persons.

Resolution: The Department's current verification procedures require staff to verify social security numbers (SSN) for all Medicaid clients through a cross-match with the Social Security Administration's (SSA) Numident file and, when there is a discrepancy, through the use of the State On-line Query (SOLO).

The Department's Eligibility A-Z manual states, "A client-provided social security number must be verified by the worker through an interface with SSA at the time the number is entered into the Automated Client Eligibility System (ACES)." If additional verification is required, the manual further instructs the worker to "enter the client provided SSN on the ACES Dem1 Screen. Verify the SSN accessing State On-line Query (SOLO) before exiting the screen."

As demonstrated in this year's audit, the SSNs were verified and accurate in ACES for the vast majority of exceptions noted in the Social Services Payment System (SSPS) testing. Often the SSN in SSPS is that of a deceased spouse or parent. However, the Department does verify the client's SSN in ACES prior to authorizing benefits.

The SSPS system limitations should be corrected with the new ProviderOne system. The Aging and Disability Services Administration has also issued two management bulletins (MB) regarding verification of SSNs in ACES. Another MB was issued April 9, 2007, with this reminder as well as direction to ensure the SSN entered into SSPS is that of the client and is not a claim number.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 6585 M

Finding Number: 009

Finding: The Department of Health and the Department of Social and Health Services, Health and Recovery Services Administration, are not ensuring compliance with federal law regarding hospital surveys.

Resolution: *The following is a joint response from the Departments of Health and Social and Health Services.*

The Department of Health revised the method of recording deficient findings during Medicare surveys. All reports now indicate that all federal Medicare hospital certification regulations (Conditions of Participation) are reviewed for compliance during the onsite survey. All deficient findings are documented according to Centers for Medicare and Medicaid Services (CMS) Principles of Documentation.

CMS concurs with the actions taken by the Departments to ensure that hospital surveys are documented in accordance with federal regulations.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 6585 M

Finding Number: 010

Finding: The Department of Social and Health Services, Aging and Disability Services Administration, does not perform certification surveys of Intermediate Care Facilities for the developmentally disabled according to federal law.

Resolution: As a result of the Fiscal Year 2005 Medicaid audit, the Department asked the Centers for Medicare and Medicaid Services (CMS) for clarification. On December 8, 2006, the CMS regional office (RO) made a determination regarding that audit finding. The CMS RO does not concur with this finding.

Federal regulations state, "The State survey agency must use the survey methods, procedures, and forms prescribed by CMS." The CMS State Operations Manual gives the Department the guidelines that are followed in doing the certification or recertification.

CMS concurs with the actions taken by the Department to ensure that certification surveys are performed and documented in accordance with federal regulations.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 6585 M

Finding Number: 011

Finding: The Department of Social and Health Services does not have adequate internal controls to ensure clients seeking to obtain medical benefits through the Medicaid program have applied according to federal regulations.

Resolution: The Department complies with federal Medicaid application requirements, specifically, the opportunity to apply without delay on a form prescribed by the agency and signed under penalty of perjury. There is no requirement for a (specific) request for Medicaid. However, for clarity the Department is implementing the following steps:

- The Department's Community Service Office added a name and case number field to the signature page of the application in January 2007, to ensure all pieces of the application can be identified if separated.
- In May 2007, the Department sent a memo to the field as a reminder to get signatures and to document eligibility changes to the application for benefits. The staff was also reminded to document eligibility determination.
- Applicants for long-term care programs may check either the box for medical or for long-term care services. Both are considered requests for medical assistance.
- Since 2003, when the Department's Document Management System (DMS) became functional for the Community Services Division (CSD), all documents – including applications received since that time – are scanned into an electronic case record and retained by the Department. Prior to that time, obsolete paper copies of applications were destroyed. An application is considered obsolete three years after the last claim was paid. As of the implementation of DMS, all received documents are available.
- The Department's Health and Community Services has implemented DMS in two regions and is on track for complete implementation in all regions by December 2007.
- The Department follows federal regulations regarding record retention. The statement from the State Records Committee approving a three year record retention was given to the auditor.

The CSD Headquarters began conducting random audits of medical cases in April 2007. The audits include reviewing the application process.

The Department developed a statewide training group and curriculum for consistency within offices on eligibility determination procedures, among other issues. The training is ongoing.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 6585 M

Finding Number: 012

Finding: The Department of Social and Health Services, Office of Financial Recovery and Health and Recovery Services Administration, does not have adequate internal controls to ensure that final settlement amounts are refunded to the federal government and in a timely manner.

Resolution: The Department's Financial Services Administration (FSA) established policies and procedures for refunding federal funds in October 2006. FSA is ensuring that the federal share of overpayments is refunded at the end of the 60-day period following discovery, based on policies established for regular and fraud/abuse overpayments.

FSA meets with the Department's Health and Recovery Services Administration monthly and with the Economic Services Administration, Aging and Disabilities Services Administration, Juvenile Rehabilitation Administration, and Children's Administration periodically to discuss future overpayments and ongoing collections.

The Fraud and Abuse Coordination Team meets monthly to coordinate fraud cases. Representatives from various Department administrations that receive Medicaid funding participate in the meetings with the State's Medicaid Fraud Control Unit and FSA. This is another forum for FSA to obtain information to help overpayment collection efforts.

In September 2007, FSA created a work list of staff who are responsible for overpayment referrals to the Office of Financial Recovery (OFR) from the administrations within the Department. This list of staff was provided to the auditors for their use during overpayment audits. This list of staff will be used by FSA to communicate about overpayments by Department administrations and, if necessary, to improve the referral process of overpayments to OFR.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 6585 M

Finding Number: 013

Finding: The Department of Social and Health Services, Health and Recovery Services Administration, has not established internal controls sufficient to ensure payment rates to its Healthy Options managed care providers are based on accurate data.

Resolution: The Centers for Medicare and Medicaid Services (CMS) has been working with the Department to improve the data used for rate setting and has approved Washington State's methodology for setting managed care rates. In addition, the 2006 managed care contract has been approved.

The new ProviderOne payment system will enhance the rate-setting process by allowing encounter and other data to be tracked in one comprehensive system. Until that system is implemented, the state will continue to compare the encounter data with the plan experience data submitted to the actuary. That process has been reviewed by CMS and determined to be acceptable.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 6585 M

Finding Number: 014

Finding: The Department of Social and Health Services does not have adequate controls to ensure home health agencies are licensed, Medicare-certified and have signed Core Provider Agreements as required by law.

Resolution: The Department's Provider Enrollment Unit has developed a new procedure to ensure that home health providers continue to meet Medicaid participation criteria. Beginning April 2007, Provider Enrollment has conducted reviews from a random sample of home health providers every three months. The reviews check for the Core Provider Agreement, the debarment statement, Form W-9, and a current business license. Reviews of existing providers are complete. New procedures are in place for all providers who apply for Medicaid participation.

A database has been maintained showing the results of the reviews and action taken.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 6585 M

Finding Number: 016

Finding: The Department of Social and Health Services does not have adequate controls in place to ensure providers of durable medical equipment exist, are properly licensed and have submitted accurate information.

Resolution: The Department's Provider Enrollment Unit has developed a new procedure to ensure durable medical equipment (DME) providers continue to meet requirements of the Department. Beginning April 2007, Provider Enrollment began conducting reviews from a random sample of DME providers every three months. These reviews check for the Core Provider Agreement, the debarment statement, Form W-9, and a current business license for ten providers (2% of DME providers) per quarter. Records are kept of reviews and actions taken.

All new Medicaid applications are checked for required documentation.

As of January 2007, in-state providers must have a Washington State business license. Out-of-state providers may submit a state, county, or city license. The Department will accept any of the three. If the provider's state does not require a business license, the provider must submit a letter declaring their state has no licensing requirements.

DME vendors that appear questionable based on the initial drive-by review are referred for additional follow-up. Follow-up reviews are scheduled into the existing workload based on risk and materiality to the Department.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 6585 M

Finding Number: 017

Finding: The Department of Social and Health Services is not adequately reviewing pharmaceutical claims to identify patterns of fraud and abuse.

Resolution: The Department's Pharmacy Point-of-Sale (POS) vendor loaded the Drug Enforcement Administration (DEA) numbers from the national DEA database and, in June 2006, the Department implemented a system enhancement that utilizes this data to validate against the full DEA national database at the time of pharmacy claims adjudication. All pharmacies submitting claims to Medical Assistance, whether in state or out of state, are validated.

As of October 2006 and thereafter, DEA numbers identified as belonging to veterinarians are manually blocked in POS and their claims appropriately recouped. The Department will continue to manually block veterinary DEA numbers as they are identified.

The Department will continue post-payment review to identify claims with an invalid prescriber number as appropriate. This review is to ensure that any problems with the database are identified and corrected.

The first post-payment review file of transactions was sent to 219 providers having \$770,000 in potential overpayments. The remainder of the potential overpayments totals \$19,000 for 180 providers. This amount was not considered significant enough to pursue for collection since the average collection would be \$105.

All overpayments identified by the Department are automatically reimbursed to the federal government via the established reporting process.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 6585 M

Finding Number: 018

Finding: The Department of Social and Health Services has not established effective procedures in all administrations to ensure compliance with the federal Medicaid requirements for reporting adult victims of residential abuse to the Medicaid Fraud Control Unit.

Resolution: The Department's Mental Health Division (MHD) completed the following by December 2006:

- All incidents that are elevated to MHD Headquarters are reviewed and tracked for appropriate processing, referrals, corrective action, and close out.
- The Department's mental facilities, Eastern State Hospital and Western State Hospital, reviewed and updated all policies surrounding the reporting of incidents to include mandatory reporting of substantiated incidents to the Medicaid Fraud Control Unit (MFCU) and appropriate follow up in the event of referrals. This included a feedback loop for cases referred to and from external entities.
- The MHD is represented at the MFCU's monthly committee meetings.
- A single point of contact has been designated for all referrals originating from the MFCU.
- The Memorandum of Understanding between the MFCU and the Department has been established.

The incident manager, whose primary role is to track, monitor and report on incidents, began employment on May 16, 2007.

The MHD is developing an electronic incident reporting system that will track and trend incidents. This system will be available to the state hospitals and regional support networks. This will provide an avenue to adequately monitor the incident process. Implementation is on track for January 2008.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 6585 M

Finding Number: 019

Finding: The agreement between the Department of Health and the Department of Social and Health Services, Health and Recovery Services Administration, covering hospitals' survey activities does not comply with federal requirements.

Resolution: *The following is a joint response from the Departments of Health (DOH) and Social and Health Services (DSHS).*

Clarification has been received from the Centers for Medicare and Medicaid Services (CMS) that the authority over DOH in conducting hospital surveys rests with CMS and not with DSHS, the State Medicaid agency. Due to this, the agreement between DOH and DSHS is not required to contain or enforce all federal requirements. It is the understanding of the Departments that the auditor is aware of the clarification from CMS and does not contemplate a repeat finding.

The agreement between DOH and DSHS ensures adequate and timely communication on survey results and allows DSHS to complete federal reports accurately and on time. The agreement does not extend beyond this purpose.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 6663

Finding Number: 001

Finding: The Department of Social and Health Services does not have adequate internal controls over the processing of expenditures through the Agency Financial Reporting System.

Resolution: While the Department does not implement segregation of duties based solely on system access, the Department has implemented compensating controls that it believes provide sufficient internal control over the processing of payments in the Agency Financial Reporting System (AFRS).

In February 2006, a new policy regarding AFRS security was adopted and communicated to staff. In addition to selecting the security option they would implement per the new policy, each office was required to perform a 100% review and update of staff access to AFRS. All individuals that required access to the system had to submit an updated AFRS Security Access form. If a form was not received for an individual by June 2006, access for that individual was deleted.

At the July 24, 2007 Accounting Policy Management Board (APMB) meeting, fiscal program managers (FPMs) were instructed to discuss with their staff the requirements of the AFRS security policy and ensure users of AFRS understand the two security options the policy permits and the need to review the AFRS warrant and transaction registers. APMB members were also instructed to verify that the Division of Finance email distribution list contained the correct fiscal staff. This was done to ensure all accounting messages, including those regarding AFRS security, are received by the appropriate personnel. The Department also added a statement to the state Fiscal Year 2007 Management Certification Checklist requiring each assistant secretary to certify that fiscal staff within their administration regularly review AFRS security to ensure only necessary employees have access.

The analysis of the audited one-time vendor payments (payments to vendors that do not require tax information to be obtained) was conducted and completed by December 5, 2006. The use of one-time vendors is monitored closely. On a quarterly basis, the Office of Accounting Services (OAS) reviews all one-time payments made that quarter. A database was created that checks the payment description and compares whether each transaction was processed using a one-time vendor correctly. A report detailing the transactions that used a one-time vendor incorrectly is distributed to the FPMs quarterly.

OAS submitted a request to the Information Technology office to generate a report from the Human Resource Management System for current department employees by name and address. OAS staff are currently reviewing the results that were obtained for the January 2007 through October 2007 time period. OAS is conducting an assessment of these results to determine the most efficient way to notify FPMs of the invalid one-time vendor transactions to employees. Preliminary review has shown that most of the employees that were paid as one-time vendors were authorized. OAS plans to have this assessment completed by December 31, 2007.

State of Washington

Status of Audit Resolution

December 2007

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 6663

Finding Number: 002

Finding: The Department of Social and Health Services, Division of Developmental Disabilities, does not include required insurance language in contracts with individuals and agencies who provide transportation for clients of supported living services.

Resolution: WAC 388-101-3445 regarding client transportation was amended effective February 1, 2008, to clearly define liability insurance requirements.

Department Administrative Policy 13.13, "Insurance Requirements for Contracts," requires that general liability insurance be maintained for all Department contracts. Per this policy, auto liability insurance is required when a contractor transports clients. Language was added to all Division of Developmental Disabilities supported living and group home contracts issued starting July 1, 2007. The language requires contractors to maintain a business automobile policy on contractor-owned vehicles used to transport clients, per policy 13.13. In addition, the new language requires contractors to maintain non-owned vehicle coverage for vehicles not owned by the contractor but used to transport clients.

The Aging and Disability Services Administration assistant secretary approved the language now included in these contracts.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 6663

Finding Number: 003

Finding: The Department of Social and Health Services does not have adequate controls to ensure all payments through its Social Services Payment System are supported and approved.

Resolution: The auditor reviewed selected payments from Children's Administration (CA), Aging and Disability Services Administration (ADSA), Division of Developmental Disabilities (DDD) and Economic Services Administration (ESA) for duplicate payments. All exceptions identified by the auditor were reviewed by the respective divisions and any overpayments were sent to the Office of Financial Recovery for collection.

For ADSA, no duplicate payments were found but one unauthorized payment occurred because the 'Exception to Rule' process was not properly implemented.

On June 8, 2007, DDD reviewed and discussed the 'Exception to Rule' process and requirements. In March 2008, the DDD Case Management Information System will implement electronic processing and tracking of all 'Exception to Rule.' Additionally, the DDD Quality Control and Compliance Team verifies, through audits of randomly selected case files, that proper prior approval was obtained for exceptions.

CA strengthened their payment processes. In May 2007, CA began ongoing staff training on the rules for processing payments, stressing the importance of compiling and retaining support documentation for payments made. A special focus was placed on supervisors for fiscal staff in the field. A team was also established to work on algorithms to identify anomalies warranting review.

ESA emphasizes payment accuracy through ongoing monthly audits by Community Services Office supervisors and quarterly payment reviews by headquarters staff.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 6663

Finding Number: 004

Finding: The Department of Social and Health Services, Division of Child Care and Early Learning, did not perform adequate monitoring for background checks.

Resolution: *The Department of Early Learning responded to this finding. Refer to page 55.*

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2006 F

Finding Number: 022

Finding: The Department of Social and Health Services, Economic Services Administration, is not in compliance with eligibility requirements for the Temporary Assistance for Needy Families Program.

Resolution: The Department implemented the following processes to ensure clients have valid social security numbers (SSN):

- The Department uses the Social Security Administration's State On-line Query (SOLO) to check the validity of SSNs. In November 2006, a reminder memo was sent to field staff to use SOLO. Required SOLO training was conducted in December 2006.
- Beginning December 2006, supervisors added medical cases, including Temporary Assistance for Needy Families Program, to their monthly case audits. These audits focus on mismatched alerts and check for consistent use of SOLO for SSN verification.

Cases identified by the auditor as questioned costs were reviewed and clients were requested to provide documentation to enable the Department to determine eligibility. In June 2007, cases relating to those questioned costs were reviewed for correct SSNs. All cases identified by the auditors have been addressed and resolved. Ongoing supervisory audits and headquarter audits were implemented to ensure correct SSNs are used in the future.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2006 F

Finding Number: 023

Finding: The Department of Social and Health Services, Division of Child Support, is not complying with federal requirements for time and effort reporting for the Child Support Enforcement grant.

Resolution: In June 2007, the Department implemented the following steps to ensure compliance with federal requirements for time and effort reporting for the Child Support Enforcement grant:

- Developed a written process to ensure that the quarterly reconciliation is completed by the fiscal unit staff for child support staff.
- Developed and distributed written procedures for employees who work on multiple grants.
- Provided training to ensure staff understand how to report actual time worked.
- Continued to make quarterly adjustments based on time reporting.

The Department requires semiannual time certifications in April and October for employees who work 100% on a single federal program. The certification must be signed by a section chief or district manager who has direct knowledge of the work completed. The Department implemented the following steps to meet this requirement:

- Created a list of employees for each field office that is verified and certified by district managers.
- Created a list of employees for each child support headquarters unit which is verified and certified by the section chief or district manager.
- The lower-level reviews of names and verifications are attached to a semiannual certification for the Department's Child Support Division (CSD) director to sign before it is sent to the Office of Accounting Services.
- CSD added the following statement to the lists being verified by the headquarters managers and the district managers in the field: "I have personnel knowledge of the staff reflected in the FTE report for my office/area. All individuals reported worked 100% on IV-D grant activities (or have provided the necessary and appropriate timesheets)."

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2006 F

Finding Number: 024

Finding: The Department of Social and Health Services, Division of Child Support, does not have adequate internal controls to ensure compliance with federal reporting requirements for the federal Child Support Enforcement grant.

Resolution: The Department took the following steps to provide adequate internal controls to ensure compliance with federal reporting requirements for the Quarterly Report of Expenditures and Estimates (OCSE 396A):

- In January 2007, the supervisor of the fiscal unit verified that the report was accurate before and after it was input within On-Line Data Collection. This is an ongoing process.
- In April 2007, the Department's director of Child Support certified the report within the On-Line Data Collection and submitted the report to the federal Office of Child Support Enforcement (OCSE). This is an ongoing process.
- In June 2007, the Department developed a new workbook that is easy to understand and less error prone.
- In June 2007, the Department trained staff responsible for completing the federal report to ensure they understand the workbook.
- In July 2007, the Department trained backup staff within the fiscal unit who can also complete the report.

The OCSE 396A report for the quarter ending December 31, 2006, corrected the errors made on the March 31, 2006 report. All subsequent quarterly reports through September 30, 2007, have been certified and submitted.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2006 F

Finding Number: 025

Finding: The Department of Social and Health Services and the Department of Early Learning do not have adequate internal controls over direct payments made to child care providers.

Resolution: *The Department of Early Learning responded to this finding. Refer to page 56.*

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2006 F

Finding Number: 026

Finding: The Department of Social and Health Services and the Department of Early Learning do not have adequate internal controls in place to ensure only eligible clients receive federal child care subsidies.

Resolution: *The following is a joint response from the Departments of Early Learning (DEL) and Social and Health Services (DSHS).*

DEL is the administrator of the grant funds and primarily responsible for ensuring adequate internal controls over eligibility of clients receiving federal child care subsidies.

DEL relies on DSHS, Community Services Division (CSD), to perform supervisory reviews of one percent of all cases in each region to confirm eligibility for federal child care subsidies. Prior to this audit, DEL and CSD were collaborating to resolve the issue of the supervisory reviews not being completed. In mid-2006, the agencies developed a Memorandum of Understanding that clearly establishes requirements and a process CSD will follow to provide quarterly results of audits to DEL.

DSHS Economic Services Administration determined the number of child care cases per region and reestablished and defined the expectations for the field to complete a one percent child care review. This was communicated to the field offices via a memo that explained the process and requirement, and it was also discussed at the childcare coordinators meeting. DEL is monitoring the quarterly reports for compliance.

In response to the auditor's recommendations regarding controls over payments for school holiday contingency hours, DEL sent school holiday care billing instructions to current in-home/relative providers in March 2007.

DEL also worked with DSHS's Payment Review Program to develop an algorithm that identifies School Holiday Care billing for children who were under the age of five on September 1, 2006. The results were referred to DSHS's Office of Financial Recovery in June 2007 for follow up.

In March 2007, DEL explored the possibility of an edit in DSHS's Social Services Payment System that would not allow billing for School Holiday Care unless the child was at least five years old by September 1st of that school year. It was determined, however, that such an edit would not be cost effective.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2006 F

Finding Number: 027

Finding: The Department of Social and Health Services did not comply with federal requirements for suspension and debarment for the Social Services Block Grant.

Resolution: On February 8, 2007, the Department completed a review of the 139 psychological and psychiatric contracts executed by Children's Administration before the contract language on debarment was revised. The contractors' status was reviewed using the Excluded Parties List System (EPLS) internet website. None of the 139 contractors were found on the list. The relevant EPLS screen for each search was printed, dated, and filed in the associated contract records.

Appropriate debarment certification language was added to the Department's database of general terms and conditions in December 2006. All contracts entered into since then have the corrected language.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2006 F

Finding Number: 028

Finding: The Department of Social and Health Services, Division of Alcohol and Substance Abuse, used federal funds to pay contractors a guaranteed amount above the actual level of service being provided.

Resolution: To ensure payments are issued with deliverables, the Department's Division of Alcohol and Substance Abuse (DASA) formed a cross-divisional workgroup to formulate necessary changes to the contract language. Additionally, DASA amended contracts as of February 28, 2007. The language in the new contracts specifies that payments will not be made until the contractor delivers services to DASA clients or achieves the requirements of the contract. These provisions allow federal funds to be used in payment on the contract.

For the costs questioned by the auditors, state funds were used to replace federal funds which were returned to the funding entity.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2006 F

Finding Number: 029

Finding: The Department of Social and Health Services, Economic Services Administration, reimbursed contractors for services that were not adequately supported.

Resolution: The Department requires contractors to maintain backup documentation of client intake and application assistance contacts and group presentations that contain at a minimum:

- Client name
- Date of birth
- Signature
- Phone number or contact information
- Date of service

The data elements of 'Signature' and 'Date of service' were specifically added to the contractual requirements in response to this finding. Since implementation, the Department has regularly monitored each contractor's documentation to ensure compliance. On a monthly basis, 125 intake and 30 application contacts are randomly selected and the backup documentation is requested from the contractors and reviewed before payment is made. Since implementation, 100% of the requested documents have met the requirements of the contracts.

Contractors are required to develop a corrective action plan if discrepancies exceed 5% of verified contacts.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2006 F

Finding Number: 031

Finding: The Department of Social and Health Services is not complying with federal requirements for time and effort reporting for the federal Vocational Rehabilitation Program.

Resolution: Time certification training was provided by the Office of Accounting Services (OAS) to the Department's fiscal program managers on March 16, 2007. The training provided an overview of agency policies on time certification requirements for positions that are coded to a single federal program and those that are coded to multiple federal programs and how to implement the policies to ensure consistency and compliance.

The owning of a position has been clarified for positions that are split between programs. The program identified in the Human Resource Management System organization unit will be responsible for completing the certification. It will be the responsibility of the identified program to update the Personnel Action Request form with the data obtained from the personnel activity records on a quarterly basis. This will allow the costs associated with these positions to be charged correctly to the various federal funding sources. The responsibility of these positions was clarified during the certification process that occurred in May 2007.

In June 2007, the Department's Division of Vocational Rehabilitation (DVR) consulted with the federal partner at Rehabilitation Services Administration, and it was determined to move questioned salary and benefits costs in the amount of \$20,815 from the Basic Support grant federal/state split to a 100% state code that will not be included in state match funds for the grant.

The Department received verbal approval from the federal Divisions of Cost Allocation (DCA) that the Department's methods used for positions that are coded to multiple federal programs do qualify as a substitute system. Once the original submittal of the 2007-2009 biennium Public Assistance Cost Allocation Plan (PACAP) is formally approved by DCA, OAS will continue to work with each program within the Department to identify each methodology used for allocating activities. These allocation methodologies will be incorporated into the PACAP and submitted to DCA for approval.

Positions owned by other divisions and partially charged to DVR may have various methodologies or substitute systems for allocating activities. These various methodologies will be incorporated into the cost allocation plan for future submissions.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2006 F

Finding Number: 032

Finding: The Department of Social and Health Services, Division of Disability Determination Services, received reimbursement for unallowable costs for the Social Security Disability Insurance Programs.

Resolution: The Department's Division of Disability Determination's fiscal unit has controls in place to ensure that billings from the Washington State Patrol (WSP) are carefully scrutinized by two individuals before payment is made. If the documentation sent with the billing does not support the invoice, the Division withholds payment until adequate documentation is received. This process is not new, but has been reinforced to ensure that payments conform to the Memorandum of Understanding (MOU) in place with WSP.

In March 2007, the Division obtained required signatures from the Social Security Administration (SSA) on a new MOU between the WSP, SSA, Office of Inspector General and the Division. The new MOU contains language that provides for payment of up to 35 percent in indirect costs to the WSP. Signatures required at the state level were obtained in October 2006; SSA did not approve the agreement until March 2007.

The Division consulted with the regional office of the SSA regarding repayment of indirect costs paid to WSP. The SSA does not consider these costs unallowable and will not be requesting reimbursement from the Division.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2006 F

Finding Number: 033

Finding: The Department of Social and Health Services, Division of Disability Determination Services, charged unallowable costs to Social Security Disability Insurance Programs.

Resolution: The Department's Division of Disability Determination Services contacted the regional office of the Social Security Administration (SSA) to report the unallowable costs associated with the non-grant Medical Assistance Program (NGMA) calculation error that affected the percentages used from January 2006 through August 2006. In April 2007, the Division reimbursed SSA for the unallowable costs per Department policy.

In August 2007, costs were reconciled and appropriate adjustments to the CMS 64 (Medicaid Quarterly Claims) reports were completed.

Internal controls have been implemented to ensure that NGMA rates are calculated correctly. The NGMA spreadsheet is now protected so that formula errors do not occur. The spreadsheet calculations are reviewed by the fiscal unit supervisor before being transmitted to the Office of Accounting Services for input into the state accounting system.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2006 F

Finding Number: 034

Finding: The Department of Social and Health Services, Division of Disability Determination Services, did not comply with state and federal regulations when contracting for services paid with Social Security Disability Insurance Program funds.

Resolution: The Department's Division of Disability Determination Services consulted with the Department's Central Contracts Services to develop a personal service contract for consultative providers. The Division identified prospective contractors through a "Request for Qualification" process, in accordance with RCW 39.29.040 and the Office of Financial Management guidelines. The Division offered personal service contracts to all qualifying providers who were willing to accept standard fees.

The Division created contracts and maintains records for each contractor in accordance with Department policies. New contracts were signed as of October 1, 2007.

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Department of Health (DOH)

Agency: 303

Audit Report: 6585 M

Finding Number: 009

Finding: The Department of Health and the Department of Social and Health Services, Health and Recovery Services Administration, are not ensuring compliance with federal law regarding hospital surveys.

Resolution: *Refer to page 22 for the joint response from the Departments of Health and Social and Health Services on this finding.*

Department of Health (DOH)

Agency: 303

Audit Report: 6585 M

Finding Number: 015

Finding: The Department of Health does not retain documentation that would provide evidence to ensure all home health agency providers performed criminal background checks and obtained disclosures on employees having unsupervised access to vulnerable adults and children, as the law requires.

Resolution: The Office of the Inspector General concurred with the auditor in an Audit Clearance Document: CIN A-10-06-85755. Both the Department and the auditor have reviewed this document and agree on the meaning and intent of the federal requirement.

To address this finding, the Department has begun to retain the pre-decisional documentation in accordance with federal requirements and will issue formal directives to its surveyors in order to maintain consistency in this process.

The Centers for Medicare and Medicaid Services concurs with the Department's plan to comply with federal regulations.

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Department of Health (DOH)

Agency: 303

Audit Report: 6585 M

Finding Number: 019

Finding: The agreement between the Department of Health and the Department of Social and Health Services, Health and Recovery Services Administration, covering hospitals' survey activities does not comply with federal requirements.

Resolution: *Refer to page 31 for the joint response from the Departments of Health and Social and Health Services on this finding.*

Department of Health (DOH)

Agency: 303

Audit Report: 6625

Finding Number: 001

Finding: The Department of Health has not established sufficient internal controls to safeguard gift cards used as incentives for participants in research studies done for the Centers for Disease Control and Prevention Investigations and Technical Assistance Program.

Resolution: The Department implemented improved storage, inventory, and reconciliation procedures for gift cards. Gift card inventory is now stored in the revenue office safe and issued to program managers on an as needed basis. Periodic surprise cash counts and reconciliations with inventory are now performed by the Department's accounting staff. These controls provide the necessary impetus for program managers to maintain accurate records for gift cards used as incentives in health related studies.

Individual program tracking logs and records have reconciled with accounting office records during the surprise cash counts and inventories of gift cards conducted during the past year.

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Department of Health (DOH)

Agency: 303

Audit Report: 6625

Finding Number: 002

Finding: The Department of Health is not complying with federal requirements for time and effort reporting for the Centers for Disease Control and Prevention Investigations and Technical Assistance grant.

Resolution: In response to this audit finding, the Department reformatted the time and effort reporting documentation process so that it is more clearly understood by employees and supervisors who charge their time to Centers for Disease Control related grants. Lowest level supervisors are now required by Department policy to provide completed time and effort certifications for their staff to the program finance and budget manager each quarter. The finance and budget manager reviews the certifications for completeness and accuracy. These controls will make certain that the program meets the federal time and effort requirements for employees charging 100% of their time to a single federal funding source.

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Department of Early Learning (DEL)

Agency: 357

Audit Report: 6663

Finding Number: 004

Finding: The Department of Social and Health Services, Division of Child Care and Early Learning, did not perform adequate monitoring for background checks.

Resolution: The Department of Early Learning (DEL) was established as a separate agency effective July 1, 2006. DEL is responding to this finding.

An administrative policy was sent to all licensing staff that directed them to record staff names on checklists when conducting licensing or monitoring visits. This policy also provided instructions to licensors on the requirement that they conduct personnel file reviews on employees whose files have not been reviewed in a previous licensing or monitoring visit.

Licensors were further instructed to print a list of names of persons associated with the license from the DEL Background Check application prior to conducting a licensing or monitoring visit. Licensors were trained to compare that list to the licensee's payroll list. If an employee is not listed, the licensor confirms whether or not that employee is required to have a background check. If a background check is required and has not been obtained or submitted for an employee, licensors complete a Facility License Compliance Agreement and follow up within fourteen days to ensure that the background check application is submitted and processed. Employees that are required to have a background check cannot work with children in an unsupervised environment until the background check is completed.

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Department of Early Learning (DEL)

Agency: 357

Audit Report: 2006 F

Finding Number: 025

Finding: The Department of Social and Health Services and the Department of Early Learning do not have adequate internal controls over direct payments made to child care providers.

Resolution: The Department of Early Learning (DEL) was established as a separate agency effective July 1, 2006. Effective October 1, 2007, DEL took over from the Department of Social and Health Services (DSHS) as the administrator of the grant funds and is primarily responsible for ensuring adequate internal controls over direct payments made to child care providers. Thus, DEL is responding to this finding.

On May 10, 2007, DEL sent a memo to licensed and certified child care providers along with the Department's newly updated booklet, "Child Care Subsidies: A Booklet for Licensed and Certified Child Care Providers." The memo stressed the importance of keeping accurate attendance records and providing records when requested by DEL. The related WAC rules were attached to the memo. The local licensing offices followed up with providers that did not send requested information to the auditor.

The auditor also recommended that provider attendance records are reconciled to payments. DEL and DSHS do review attendance when there is concern or issues arise on a particular provider. There are an average of 12,000 providers and 60,000 children each month, making manual attendance record comparison unrealistic. Prior to the creation of DEL, DSHS was evaluating attendance records using an electronic attendance keeping system that tied into an electronic payment system. Until an automated system can be developed by DEL, only problem providers and random attendance checking can occur. DEL and DSHS have recently started discussions on random checking.

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Department of Early Learning (DEL)

Agency: 357

Audit Report: 2006 F

Finding Number: 026

Finding: The Department of Social and Health Services and the Department of Early Learning do not have adequate internal controls in place to ensure only eligible clients receive federal child care subsidies.

Resolution: *Refer to page 41 for the joint response from the Departments of Early Learning and Social and Health Services on this finding.*

University of Washington (UW)

Agency: 360

Audit Report: 6581

Finding Number: 001

Finding: University of Washington Press cannot demonstrate its internal controls are adequate.

Resolution: Cash receipts, including money collected at off-campus locations, are now reconciled on a daily basis, and the reconciliations are properly documented. Receipts are reconciled to receipt books and to bank deposits. Review of adjustments, monthly reconciliations, and agings are now performed, and accounts receivable policies have been updated. Training of business office personnel and exhibitors has been completed.

Credit card sales receipts are now deposited daily and improved controls over checks received by exhibitors were implemented in October 2007, including use of locked bags to be used at exhibits and secure storage during non-exhibit hours. Cash and checks received at exhibits do not exceed \$500 and are deposited at least weekly, pursuant to *State Administrative and Accounting Manual* section 85.50.20.

Approval of extended terms was granted to the University of Washington Press (U Press) by the University in August 2007. It is industry practice that major booksellers have up to six months to pay for books shipped to them. The University has adopted this industry practice and has authorized extending these terms to major booksellers when deemed appropriate by U Press. In these cases, the due date of the invoice is thirty days after the six month (or shorter) period from shipping and invoicing. The invoices are considered past due thirty days later.

A secured warehouse contract was implemented in October 2007. This arrangement establishes the security of the inventory by securing the books in a controlled environment and provides financial protection as the vendor is responsible for inventory losses.

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Washington State Historical Society (WHS)

Agency: 390

Audit Report: 6656

Finding Number: 001

Finding: The Washington State Historical Society's internal controls over the State Capitol Museum's cash-receipting are inadequate.

Resolution: For the short term, the Historical Society developed a new cash handling procedure to address some of the key internal control weaknesses found by the audit. The significant changes made in the new procedures are:

- Two staff members open the daily mail and log any cash or checks received.
- Use of pre-numbered rental receipts is now required.
- Two people open the donation box and count the receipts together. The fiscal staff record the receipts.

The Historical Society will be extending its Tacoma headquarters Galaxy Point-of-Sale system and its internal control system to the Olympia operation during Fiscal Year 2008. The Galaxy Point-of-Sale system is an industry-leading ticketing system that features reliable, flexible, and high speed ticketing. It produces numbered tickets that meet audit requirements. The Historical Society purchased the system for the Olympia operation in May 2007, and implementation is planned for March 2008. Prior to implementation, the lead cashier in Olympia will be trained to use the new system and will then train other staff for backup. The fiscal officer from the Tacoma main office will audit daily transaction reports using the network connection.

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Washington State Historical Society (WHS)

Agency: 390

Audit Report: 6656

Finding Number: 002

Finding: The Washington State Historical Society's internal controls over its local bank account and investments are inadequate.

Resolution: The Historical Society implemented a temporary corrective action plan until new staff are trained. For the short term, all withdrawals from investment accounts require approval from the executive director, and the administrative director verifies the transactions by reconciling to the investment statement.

In October 2007, the Historical Society added a new fiscal analyst position. This will provide the framework for segregation of duties in the fiscal office once training of the fiscal analyst is complete, which is expected to be June 2008.

The Historical Society is developing the fiscal office-wide task list with clear segregation of duties. This is on target to be completed by December 2007.

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Washington State Historical Society (WHS)

Agency: 390

Audit Report: 6656

Finding Number: 003

Finding: The Washington State Historical Society has not completed an inventory of historical artifacts.

Resolution: The Historical Society is planning to complete the inventory by June 30, 2011. The plan calls for:

- Re-prioritizing the collection staff's work to place inventorying over cataloging beginning July 1, 2007.
- Hiring two full time staff by May 2008 to work on the inventory. This is dependent upon the approval of additional funding in the 2008 Legislative session.
- Using the lot inventory method for some of the smaller items.

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Department of Transportation (DOT)

Agency: 405

Audit Report: 6627

Finding Number: 001

Finding: The Department of Transportation's Washington State Ferries Division does not have adequate controls over ticket sales and revenue collection.

Resolution: The Department has replaced the Ferries Division's point-of-sale system with a state-of-the-art electronic fare system, which provides improved controls over ticket sales and revenue collection. The improved controls include turnstiles and magnetic vehicle detectors, which are linked to the point-of-sale system, and digital video recorders to enable after-the-fact transaction review.

The Ferries Division Loss Prevention Department is currently authorized only one position, which was filled in December 2006. Until additional staffing is obtained, the Ferries Division will continue transaction monitoring and revenue and trend analysis, focusing on the highest risk areas. Ferries Division will continue to work with the Internal Audit Department to further develop the monitoring and control capabilities of the new system.

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Department of Transportation (DOT)

Agency: 405

Audit Report: 6627

Finding Number: 002

Finding: The Department of Transportation does not have adequate internal controls to ensure compliance with federal and state laws for leased properties on a timely basis.

Resolution: The Department has revalued and adjusted the rental rates on eight of the properties purchased with federal funds identified in the finding. The Olympic Region is still working on the remaining lease.

Additionally, headquarters Property Management staff continue to work with region Property Management staff to ensure revenue generating leases are reviewed and rents updated, as necessary. All of the regions are working on adjustments to properties in their respective region with assistance from headquarters when requested. Headquarters Property Management staff will continue to monitor the progress.

The Department is in the process of finalizing a new system to replace the current Real Estate Information System. The replacement system contains complete and accurate information, including lease effective dates and re-evaluation due dates, and provides the reports necessary to track and appropriately update rents when necessary. Users are currently being trained, and the new system will be put into production in January 2008.

The Department has relocated the individual mentioned in the finding to another residence on the property. The relocation was completed on August 31, 2007.

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Department of Transportation (DOT)

Agency: 405

Audit Report: 6627

Finding Number: 003

Finding: The Department of Transportation does not have adequate internal controls in place to ensure gasoline purchased is for authorized purposes.

Resolution: The Department's headquarters, regions, and divisions staff have enhanced existing controls to monitor the use of fuel and vehicles, as outlined below.

- Department staff create and retain vehicle use logs for all vehicles in classes 1-5. The region transportation officers are monitoring the vehicle use logs. Per Department policy, the vehicle use logs are to be retained for three years.
- Headquarters staff continue to work with region and division staff to ensure accurate odometer readings are entered at the time of fueling and ensure the fuel card used at the time of fueling is the card assigned to the vehicle.
- Department staff review and investigate vehicles with questionable fuel consumption identified in the quarterly exception reports. These reports are generated from Transportation Equipment Fund (TEF) headquarters office and sent to the maintenance engineer and TEF superintendent in each region. TEF superintendents review the data and verify that exceptions have been explained. Variances that cannot be explained are sent to region organization managers who are required to research and respond to each variance on the comment box of the variance report and return the report to the TEF headquarters office.
- The regions have developed additional security measures over Voyager and Department fuel cards to ensure the security of the cards. For example, in some regions the fuel card has been attached to the vehicle keys.

The headquarters office continues to monitor fuel card transactions and usage.

In April 2007, the headquarters office improved the security over creating internal Department fuel cards by limiting password access to make a fuel card to the primary and backup fuel desk personnel. The assistant equipment manager responsible for fuel management systems is monitoring reports on the fuel cards created to ensure these transactions are appropriate.

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Department of Ecology (ECY)

Agency: 461

Audit Report: 6650

Finding Number: 001

Finding: The Department of Ecology did not comply with federal requirements for payroll costs charged directly to its Capitalization Grants for Clean Water State Revolving Fund program.

Resolution: By August 2007, the Department completed the following corrective actions:

- The Water Quality Program management team reviewed the federal Office of Management and Budget Circular A-87 to gain an understanding of federal requirements for documentation of direct payroll charges to grants. A process was developed that will ensure payroll charges are adequately supported.
- All employees within the program were orientated on the proper requirements and expectations for documentation of direct payroll charges to federal grants.
- The Department consulted with the Environmental Protection Agency (EPA) Region 10 on the most appropriate method for charging the Water Quality Program's administrative staff payroll costs to the capitalization grant. A process was agreed upon that is acceptable to both the Department and the EPA.
- The Water Quality Program reconciled the payroll costs it charged to the capitalization grant to actual time worked on the grant. The Department and the EPA Region 10 reached an agreement on the most appropriate method for repaying the questioned costs. The transaction was completed on October 15, 2007. On November 14, 2007, Department staff met with EPA Region 10 staff to review the transaction, and all agreed it was completed properly.

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Recreation and Conservation Funding Board (RCFB)
— previously the Interagency Committee for Outdoor Recreation (IAC)

Agency: 467

Audit Report: 6608

Finding Number: 001

Finding: The Interagency Committee for Outdoor Recreation did not comply with federal requirements for suspension and debarment for the Salmon Recovery Program.

Resolution: The Recreation and Conservation Funding Board (previously IAC) believed that the certification format in use was adequate but discovered, as a result of the audit, that the specific text was out of date. In response to this finding, new language, which has been reviewed by the auditor, has been incorporated into contracts issued by the Board. This new language includes an expanded certification regarding suspension and debarment and sub-contract agreements. Effective January 10, 2007, all federally-funded agreements include this certification.

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Pierce College (PIE)

Agency: 637

Audit Report: 6610

Finding Number: 001

Finding: Pierce College did not have adequate internal controls to ensure all vacation leave taken by employees was recorded in the payroll system.

Resolution: As a result of this finding, the College has taken the following actions:

- The College reviewed current leave balances and leave-taking patterns and investigated anomalies. The College verified that employees who had little or no leave recorded had not taken leave that was unrecorded. In regards to the employees specifically identified by the auditor, three employees' leave balances were adjusted to reflect the unrecorded leave. The other is no longer employed by the College. The College was unable to recover the cost of the excess leave before the employee left and determined it would not be cost effective to pursue recovery.
- The vice president of Administrative Services notified supervisors they are required to maintain physical control over signed leave slips until they forward them to payroll and reminded them of the College policy that requires supervisors to reconcile leave slips with official payroll leave balances.
- The College is adapting a leave tracking system developed by another college. The system will allow online viewing of employee leave balances by employees and their supervisors. Implementation of the new system is planned for January 2008.
- In conjunction with the leave tracking system implementation, the College plans to update its administrative policy and procedures on leave reporting and reconciliation. These documents will clearly establish responsibilities and standardize the reconciliation of approved leave and payroll leave records.
- Once the new system and policy are in place, the College will conduct mandatory supervisor training on leave procedures.

The College will continue to monitor procedures over leave reporting and reconciliation by including targeted questions in the annual risk assessment.

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Green River Community College (GRC)

Agency: 649

Audit Report: 6668

Finding Number: 001

Finding: Green River Community College's Help Center's internal controls were inadequate to ensure all employees were paid only for hours worked.

Resolution: Finding of fraud. Refer to page 78.

Wenatchee Valley College (WVC)

Agency: 686

Audit Report: 6649

Finding Number: 001

Finding: Wenatchee Valley College had inadequate controls over purchase card expenditures, which resulted in unallowable and questionable expenditures.

Resolution: The College has implemented the following changes to procedures:

- In January 2007, the College purchasing card program administrator began periodic reviews of department records to ensure compliance. As of July 2007, six departments had been audited. Since then, procedures were changed to require proof of compliance with each reconciled purchasing card statement.
- Detailed receipts are now required to be submitted with reconciled statements for payment. The receipts and purchase logs are audited by the fiscal services staff to ensure that separation of duties is documented, specifically, that a different person in each instance made and approved the purchase and that itemized receipts are presented.
- Mandatory training for card custodians was held on February 15 and 22, 2007. The training covered all aspects of purchasing card procedures and emphasized compliance with policy and internal control procedures.
- Purchasing card custodians are required to attend annual training to review their responsibilities and state and College purchasing policies.

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Wenatchee Valley College (WVC)

Agency: 686

Audit Report: 6649

Finding Number: 002

Finding: The Wenatchee Valley College bookstore does not have sufficient internal controls over its inventory and financial operations.

Resolution: The point-of-sale system is now utilized for better documenting of inventory adjustments and will eventually produce a report of adjustments to be reviewed quarterly. The bookstore manager will review, sign, and forward the report to the vice president of Administrative Services, who will sign and return it to the bookstore. The development of the report is currently underway.

The physical inventory procedures are being reviewed. Better documentation from the inventory service was requested and will be available. The detailed inventory from the physical count will be reconciled to the point-of-sale system inventory report and adjustments posted if necessary.

The discount policy was reviewed and procedures were updated to be more specific. Revised procedures will be reported to the board of trustees in February 2008.

Duties have been segregated in accounts receivable so the person who invoices does not receipt payments.

More detailed procedures for recording cash custody have been adopted and staff have been trained. The procedures establish responsibility for cash in each situation, such as cash in vault, cash in cashier tills, and cash used to pay for books purchased at end-of-quarter book buyback.

Cashiers sign on and off the registers or are restricted to a single register.

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Wenatchee Valley College (WVC)

Agency: 686

Audit Report: 6649

Finding Number: 003

Finding: Wenatchee Valley College had inadequate controls over library inventory.

Resolution: The College implemented the following procedures:

- Orders are not placed, approved, received and inventoried by the same person. Generally four individuals are involved – one to order, one to approve, one to receive (in the Central Services department), and one to inventory.
- Circulation staff open and record receipt of all packages, reconciling the packing slips to the orders placed.
- Books and videos are added to the college catalog within a week, unless there are unusual circumstances. The additions are made by a library specialist and monitored by the librarian.
- Purchases made with the library's purchasing card require a second signature, and the monthly statement is reconciled to the receipts and packing slips by both the card custodian and the college purchasing manager.
- The library has established a process for approving purchases for the library collection made by College employees in other departments. Purchases by library personnel are approved by the librarian or library director. Per College policy, all purchases require an approval by a second person.

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Schedule 2 – Fraud Findings by Agency

December 2007

AGENCY NUMBER	AGENCY	AUDIT NUMBER	FINDING NUMBER	PAGE
110	Office of Administrative Hearings	6657	001	75
235	Department of Labor and Industries	6612	001	77
649	Green River Community College	6668	001	78

Status of Resolution of Reported Frauds

December 2007

Office of Administrative Hearings (OAH)**Agency: 110**

Audit Report: 6657

Finding Number: 001

Finding: The Office of Administrative Hearings does not have adequate internal controls over payroll which resulted in a misappropriation of \$55,360.

Fraud Amount: \$55,360

Recovery to Date: \$71,185 (\$55,360 plus \$15,825 in audit costs)

Resolution/Status: The Office of Administrative Hearings (OAH) agrees with the auditor's findings and has taken the following actions:

- The payroll functions have been separated to strengthen internal controls. The accounting manager verifies changes in the payroll system by reviewing changes made by the OAH Human Resources office and any changes requested by employees. A fiscal analyst inputs the leave, attendance, and hours worked into the payroll system and compares to reports from the OAH internal timesheet system. This information is verified by the accounting manager.
- The financial manager reviews and certifies the payroll register to ensure that employees are receiving the correct salary amount each pay period. This certification strengthens internal controls by providing an independent review of the payroll.
- A payroll cancellation report is run and reviewed by the financial manager each pay period to ensure that no warrants are canceled without the approval of the financial manager.
- The incoming mail is now distributed to each section of the fiscal unit by a designated mail person. The payroll checks are distributed to a fiscal analyst.
- Finally, the new state payroll system only allows one check per pay period for each employee. Duplicate and/or additional payroll checks cannot be input into the system.

OAH committed to conducting an internal audit to ensure continued compliance with the recommendations of the auditor. The internal audit was completed, and it verified that OAH implemented the recommendations of the auditor. OAH improved the internal controls for the payroll process by the separation of duties in the fiscal office to ensure that no single person has security or responsibility for the entire process and to require that certain reports be reviewed and verified by staff other than the accounting manager.

Status of Resolution of Reported Frauds

December 2007

OAH has worked closely with the Thurston County Prosecutor's Office to seek restitution from the former accounting manager for the \$55,360 plus the \$15,825 in audit costs. The Superior Court collected the full amount of \$71,185 and sent the amount to OAH in July 2007.

Criminal Action Taken: In May 2007, the former employee was charged in Thurston County Superior Court by the Thurston County Prosecutor's Office with one count of theft in the first degree for multiple occurrences. She entered a plea arrangement that requires her to perform community service, remain crime free for one year, and make full restitution.

Personnel Action Taken: The employee was terminated by the agency.

Amount to be Recovered: The total amount of \$71,185 was recovered from the former employee.

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Status of Resolution of Reported Frauds

December 2007

Department of Labor and Industries (L&I)**Agency: 235**

Audit Report:	6612
Finding Number:	001
Finding:	An adjudicator in the Department of Labor and Industries Crime Victims' Compensation Program misappropriated at least \$431,376.
Fraud Amount:	\$431,376
Recovery to Date:	\$0.00 (Awaiting settlement from Key Bank)
Resolution/Status:	Refer to audit report 6611, finding number 002, on page 12 for corrective action taken on internal controls. The Department has undertaken the following financial recovery activities in response to this audit finding: <ul style="list-style-type: none"> • Hired a special assistant attorney general to develop financial recovery strategies. • Partnered with the Office of the State Treasurer to recover funds from Key Bank. • Prepared an administrative Order and Notice to recover all misappropriated funds plus a 50% penalty. • Notified the Internal Revenue Service of possible additional employment tax effects involving the misappropriated funds.
Criminal Action Taken:	The Department worked with the Thurston County Prosecutors Office, attended the sentencing and addressed the court. On May 22, 2007, the ex-employee received a 40-month sentence.
Personnel Action Taken:	The individual was terminated by the Department.
Amount to be Recovered:	The Department is awaiting a settlement from Key Bank.
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Status of Resolution of Reported Frauds

December 2007

Green River Community College (GRC)

Agency: 649

Audit Report: 6668

Finding Number: 001

Finding: Green River Community College's Help Center's internal controls were inadequate to ensure all employees were paid only for hours worked.

Fraud Amount: Unable to determine

Recovery to Date: No Recovery

Resolution/Status: The following steps were completed by August 2007:

- Reassigned the Help Center supervisor to a non-supervisory position.
- Instituted a tracking system for tutor schedules.
- Revised the policy so tutors may not work when library is closed.
- Implemented job descriptions and pay scales for tutors.
- Installed bar-code scanners to track tutor hours. The scanners are installed, but not yet functioning. Tutor time is being tracked by a manual system until the scanners become active which is planned for January 2008.

Criminal Action Taken: The auditor referred this matter to the King County Prosecuting Attorney for action deemed appropriate. The College is not aware of any action on this item.

Personnel Action Taken: The Help Center supervisor was issued a disciplinary letter by the College on April 11, 2007. As a result of the disciplinary action, the Help Center supervisor was demoted, effective May 1, 2007, to a program coordinator in a different unit with no supervisory or budget responsibilities.

The auditor referred this matter to the Washington State Executive Ethics Board for action deemed appropriate. The College is not aware of any action on this item.

Amount to be Recovered: No Recovery

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