

STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

**2009**  
**Audit Resolution Report**

ACCOUNTING DIVISION

DECEMBER 2009

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STATE OF WASHINGTON

# AUDIT RESOLUTION REPORT

December 2009

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**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 specific expenditures or financial transactions reported in audits performed by the State Auditor's Office.

Washington State laws require post audits of every state agency. As part of the audit process, exceptions to specific expenditures or financial transactions 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 31<sup>st</sup> 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 post audits, which were reported in individual audit reports, the Statewide Single Audit report, and special audit reports. These audit reports were issued between November 1, 2008 and October 31, 2009. The audit reports issued during that period include 73 exceptions, seven of which relate to fraud.

Agencies are required to submit corrective action plans to OFM within thirty 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.

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**Schedule 1 – Audit Findings by Agency**

December 2009

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185	Horse Racing Commission	1001211 .....	001 .....	17
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235	Department of Labor and Industries	1000740 .....	001 .....	20
240	Department of Licensing	1000778 .....	001 .....	21
240	Department of Licensing	1000778 .....	002 .....	22
245	Military Department	1000335 .....	001 .....	23
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300	Department of Social and Health Services	1001539 .....	001 .....	25
300	Department of Social and Health Services	1001539 .....	002 .....	26
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300	Department of Social and Health Services	1001539 .....	005 .....	29
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300	Department of Social and Health Services	2008 F .....	003 .....	34
300	Department of Social and Health Services	2008 F .....	004 .....	35
300	Department of Social and Health Services	2008 F .....	005 .....	37
300	Department of Social and Health Services	2008 F .....	010 .....	38
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**Schedule 1 – Audit Findings by Agency**

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350	Superintendent of Public Instruction	1000730 .....	001 .....	74
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670	Seattle Community Colleges – District 6	1000493 .....	001 .....	88
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2008 F = Statewide Single Audit Report

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**Department of Commerce (COM)**  
**-- formerly the Department of Community, Trade, and Economic Development**

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**Agency: 103**

**Audit Report:** 2008 F

**Finding Number:** 007

**Finding:** The Department of Community, Trade, and Economic Development did not comply with federal performance reporting requirements.

**Resolution:** The Department concurs with the finding. As stated in the finding, the U.S. Department of Housing and Urban Development (HUD) had not provided clear direction on the scope of the report nor made an issue of the fact that the report had not been submitted. In addition, the reporting issue was not raised during several program reviews conducted by HUD personnel at the Department.

The Department's Housing Division determined the performance reporting requirements for the Home Investment Partnership program and filed the required report by the due date of March 31, 2009.

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**Status of Audit Resolution**

December 2009

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**Department of Commerce (COM)**

**Agency: 103**

**-- formerly the Department of Community, Trade, and Economic Development**

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**Audit Report:** 2008 F

**Finding Number:** 008

**Finding:** The Department of Community, Trade, and Economic Development did not comply with federal suspension and debarment requirements for subrecipients.

**Resolution:** The Department's Office of Crime Victims Advocacy followed contract language recommended by the Office of Justice Programs financial guide located on their website. The Department now understands that the guidance was inaccurate. Further, this contract language issue was not raised during a program review by the Department of Justice, Office of Justice Programs, Office for Victims of Crime conducted within the past year.

All new contracts effective July 1, 2009, contain the required suspension and debarment language as found in the agency's standard contract template.

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**Office of Financial Management (OFM)**

**Agency: 105**

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**Audit Report:** 1000619

**Finding Number:** 001

**Finding:** An excessive number of employees at state agencies have access to critical functions in the Human Resource Management System (HRMS).

**Resolution:** The Office of Financial Management (OFM) reviewed centralized roles/privileges/authorizations for the four OFM staff identified in the audit as having access to critical functions (critical access) and removed access for one user who no longer needed it. OFM worked with the Department of Personnel (DOP) to develop, test, and implement a new financial approver role that allows OFM staff to accomplish their duties with inquiry only access, which eliminates the need for access to critical functions. This role is scheduled for release by DOP in January 2010. At that point, OFM will be able to assign the three remaining users to this new role and remove the remaining critical accesses from these users.

Additionally, OFM researched role assignments at six agencies representative of state government to determine, where determination was possible, whether role assignments are reasonable given an individual's assigned duties and agency internal control objectives. OFM documented this research and will share specific results with the research agencies. Based on research, OFM reached general conclusions about role assignments which will be incorporated into ongoing assistance and training provided to agencies. OFM will continue to share overall recommendations with affected user groups.

OFM plans to provide ongoing agency support by sharing conclusions through assistance and training, which may include group training in conjunction with DOP as well as agency-requested one-on-one guidance. OFM is also exploring additional resources such as best practices, checklists, and agency self-assessment tools. Any materials jointly developed for new or enhanced DOP training will be evaluated for inclusion in OFM's existing training program.

Refer also to the Department of Personnel resolution for this finding on page 12.

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**Office of Financial Management (OFM)**

**Agency: 105**

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**Audit Report:** 1000619

**Finding Number:** 002

**Finding:** An excessive number of employees in state payroll offices have conflicting duties in the Human Resource Management System (HRMS).

**Resolution:** Using role assignment data from six agencies representative of state government, segregation of duties data from the Department of Personnel (DOP), and internal control objectives, the Office of Financial Management (OFM) defined which personnel/payroll duties should be segregated and then determined which HRMS roles individually or in commonly used combinations grant conflicting duties. OFM then began a collaborative effort with DOP to review HRMS roles and determine any changes that can be accomplished without changing the underlying role-based security structure. Role review will continue in 2010.

In 2009, OFM began work to develop and recommend detective controls to be used centrally and/or at the agency level as a short-term solution, and to be continued if separation of duties cannot be enhanced in the system due to either technical or funding constraints. This work included research to determine whether enhancing system reports to detect errors would be a sufficient compensating control when segregation of duties cannot be achieved. Based on the results of this research, OFM reached general conclusions about segregation of duties and compensating controls with respect to the HRMS environment. During 2010, OFM will further develop agency risk assessment and internal control recommendations.

OFM plans to provide ongoing agency support by sharing conclusions through assistance and training, which may include group training in conjunction with DOP as well as agency-requested one-on-one guidance. OFM is also exploring additional resources such as best practices, checklists, and agency self-assessment tools. Any materials jointly developed for new or enhanced DOP training will be evaluated for inclusion in OFM's existing training program.

Refer also to the Department of Personnel resolution for this finding on page 13.

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**Office of Financial Management (OFM)**

**Agency: 105**

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**Audit Report:** 1000619

**Finding Number:** 003

**Finding:** Users can make unauthorized changes to data in the Human Resource Management System (HRMS).

**Resolution:** During 2009, the Office of Financial Management (OFM) worked with the Department of Personnel (DOP) to:

1. provide additional information to state agencies regarding how to modify and use existing HRMS reports to track and monitor changes users made to HRMS data, and
2. evaluate potential changes to increase the usability of these reports.

During 2010, this work will be further developed and the results will be provided to agencies.

During 2010, OFM will also work with DOP to develop and conduct training sessions on internal controls, focusing on risk assessment, implementation of detective controls, documentation of the use of controls, and monitoring the effectiveness of controls.

Refer also to the Department of Personnel resolution for this finding on page 14.

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**Status of Audit Resolution**

December 2009

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**Office of Financial Management (OFM)**

**Agency: 105**

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**Audit Report:** 1000619

**Finding Number:** 004

**Finding:** The Human Resource Management System (HRMS) is not supported by a disaster recovery backup site.

**Resolution:** The Department of Personnel (DOP) and the Department of Information Services (DIS) have completed consultation and planning efforts for a disaster recovery backup site. DOP is working with the Office of Financial Management to evaluate options to fund the cost of such a site.

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**Office of Financial Management (OFM)**

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**Agency: 105**

**Audit Report:** 1000619

**Finding Number:** 005

**Finding:** A number of manual processes in the Human Resources Management System (HRMS) should be automated.

**Resolution:** Refer to the Department of Personnel resolution for this finding on page 16.

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**Department of Personnel (DOP)**

**Agency: 111**

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**Audit Report:** 1000619

**Finding Number:** 001

**Finding:** An excessive number of employees at state agencies have access to critical functions in the Human Resource Management System (HRMS).

**Resolution:** Centralized Role Development: Department of Personnel (DOP) began to restrict access to critical functions through implementation of special “report tree” access for centralized payroll processing, replacing the assignment of roles with excess authorizations for three critical workgroups. Work is underway to create report tree profiles for the three remaining critical workgroups. Additionally, DOP began work to create a special “firefighting” role to allow expanded access for emergency payroll processing, to replace the current temporary assignment of roles with excess authorizations. The State Auditor’s Office is providing guidance in the development of these roles and profiles.

Automated Tools: DOP identified the resources and costs of implementing a third-party tool to facilitate the logging and monitoring of critical access as recommended by the auditors. DOP and the Office of Financial Management (OFM) are evaluating potential funding options.

Audit Log: As resources allow, DOP is researching and developing the associated cost estimates for implementing audit log tracking within the HRMS application. DOP is also undertaking efforts to work with the Department of Information Services to identify the resources required and the feasibility of enabling audit log functionality within the SAP application, of which HRMS is a part.

Security Training for Agency Users: At the conclusion of OFM’s assessments detailed in their corrective action plan, DOP will work with OFM where it is necessary to improve additional HRMS security training offered to agencies.

Refer also to the Office of Financial Management resolution for this finding on page 7.

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**Department of Personnel (DOP)**

**Agency: 111**

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**Audit Report:** 1000619

**Finding Number:** 002

**Finding:** An excessive number of employees in state payroll offices have conflicting duties in the Human Resource Management System (HRMS).

**Resolution:** Centralized Role Development: Department of Personnel (DOP) began to restrict access to critical functions through implementation of special “report tree” access for centralized payroll processing, replacing the assignment of roles with excess authorizations for three critical workgroups. Work is underway to create report tree profiles for the three remaining critical workgroups. Additionally, DOP began work to create a special “firefighting” role to allow expanded access for emergency payroll processing, to replace the current temporary assignment of roles with excess authorizations. The State Auditor’s Office is providing guidance in the development of these roles and profiles.

Decentralized Role Maintenance Assessment: DOP collaborated with the Office of Financial Management (OFM) to identify the resources required to evaluate each of the decentralized roles and anticipates continuing this work in conjunction with OFM staff through calendar year 2010.

Support for OFM Efforts: DOP is providing guidance and input to OFM as they undertake the evaluation of separation of duties detailed in their corrective action plan. DOP is working collaboratively with OFM to identify possible solutions and with the Deputies’ Human Resource Management Group in prioritizing solutions and securing agency support for any identified solutions.

Refer also to the Office of Financial Management resolution for this finding on page 8.

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**Department of Personnel (DOP)**

**Agency: 111**

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**Audit Report:** 1000619

**Finding Number:** 003

**Finding:** Users can make unauthorized changes to data in the Human Resource Management System (HRMS).

**Resolution:** System-based Approvals: The Department of Personnel (DOP) is currently planning efforts to evaluate potential options within delivered, off-the-shelf functionality to require approval of transactions entered into HRMS. If these options exist, DOP will develop the associated cost estimates and work to identify impact to agency business processes. DOP will work with the Deputies' Human Resource Management Group in prioritizing solutions and securing agency support for any identified system-based solutions. DOP will also review the automated tool recommended by the auditors to determine if it will provide additional functionality to achieve system-based controls.

Report Usability: DOP collaborated with the Office of Financial Management (OFM) to provide additional information to state agencies regarding the utility of system reports available to track and monitor changes to HRMS data made by users. Efforts are underway to evaluate potential changes to the usability of these reports.

HRMS Data Monitoring Training for Agency Users: OFM and DOP are working together to improve training offered to agencies in using the existing reports and tools to monitor changes to HRMS data.

Refer also to the Office of Financial Management resolution for this finding on page 9.

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**Status of Audit Resolution**

December 2009

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**Department of Personnel (DOP)**

**Agency: 111**

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**Audit Report:** 1000619

**Finding Number:** 004

**Finding:** The Human Resource Management System (HRMS) is not supported by a disaster recovery backup site.

**Resolution:** The Department of Personnel (DOP) and the Department of Information Services completed consultation and planning efforts for a disaster recovery backup site. DOP is working with the Office of Financial Management to evaluate options to fund the cost of such a site.

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**Status of Audit Resolution**

December 2009

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**Department of Personnel (DOP)**

**Agency: 111**

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**Audit Report:** 1000619

**Finding Number:** 005

**Finding:** A number of manual processes in the Human Resources Management System (HRMS) should be automated.

**Resolution:** The Department of Personnel (DOP) developed a plan to explore additional opportunities for automating manual processes within delivered functionality and to develop the associated cost estimates. Where appropriate, DOP is working with other central service agencies to improve and/or automate shared processes. DOP will work with the Deputies' Human Resource Management Group to prioritize any opportunities for automation and implement improvements as resources become available.

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**Horse Racing Commission (HRC)**

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**Agency: 185**

**Audit Report:** 1001211

**Finding Number:** 001

**Finding:** The Washington Horse Racing Commission does not have adequate controls over receipting and reporting of license fees.

**Resolution:** On March 25, 2009, Commission staff met with representatives of the Office of Financial Management's Small Agency Client Services (SACS) to discuss approaches for strengthening controls. The following controls have been established:

- Quarterly reconciliations are being conducted by SACS to ensure all deposits are properly recorded in the appropriate account.
- In June 2009, the Commission instituted a new cash receipts policy for the proper handling of cash receipts, including licensing fees, industrial insurance premiums, fines, etc. Specifically, the policy requires:
  - Each employee to use his/her individual secured login when working the licensing counter.
  - Each license transaction to be accounted for separately. If possible, one employee will be in charge of issuing licenses and the second person will do a separate cash count to verify amounts collected. If it becomes necessary for more than one person to issue licenses in a day, then each person will do an independent cash count to verify amounts collected.
  - Staff to verify that check and cash composition matches the daily deposit report. Discrepancies are to be reported to the supervisor.
  - If any additional transactions are made after the daily receipts are reconciled, then a second transaction report is to be printed and any additional receipts reconciled against the final transaction report.
  - All deposits to be deposited in the bank on the day they are collected or by the end of the next day and to have a separate deposit slip filled out. If monies are not deposited properly, the employee is to notify the supervisor.
  - All bank deposits to be stamped with the restrictive endorsement stamp.
  - Receipts held overnight to be locked in the safe.
  - The cash drawer to remain locked when licensing staff leaves the office.
  - The supervisor to report to the confidential secretary in Olympia discrepancies in cash/check composition and deposits that are not made within the policy timeframe.
  - The agency's confidential secretary to perform a monthly reconciliation, except during the off-season, comparing the total dollars for licenses, fines, and industrial insurance premiums reported in the Commission's Equine Licensing and Management System to the deposits received and to report the results of such reconciliation to the executive secretary.

The new cash receipts policy was issued as a special directive. A hard copy was sent to all Commission employees as well as verbally shared with employees responsible for cash receipts. It will become part of the Commission's 2010 Policy Manual.

**Status of Audit Resolution**

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The coding error described in the audit finding occurred in the Agency Financial Reporting System only and not in the monthly report that was furnished to the Commission. As such, the coding error had no impact on the Commission's ability to make policy/budget decisions.

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**Status of Audit Resolution**

December 2009

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**Washington State Patrol (WSP)**

**Agency: 225**

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**Audit Report:** 2008 F

**Finding Number:** 009

**Finding:** The Washington State Patrol did not comply with federal requirements for suspension and debarment for the National Motor Carrier Safety program.

**Resolution:** The State Patrol implemented written procedures in its Supply Section requiring that the Excluded Parties List System (EPLS) be checked to insure a vendor is not listed as suspended or debarred. A screen print from the EPLS showing the result is filed in the purchase file for the item being procured. This requirement is carried out for all purchases of \$25,000 or greater which use federal funds regardless of whether the purchase is made off a master state contract or with delegated purchasing authority.

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**Department of Labor and Industries (L&I)**

**Agency: 235**

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**Audit Report:** 1000740

**Finding Number:** 001

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

**Resolution:** Automation of Pension Benefits: The Department has taken steps to automate the manual calculation of the pension benefits and implemented the following system and procedural changes to address this finding:

- Phase 1, implemented January 2008, automated the process for calculating the permanent reduction factor of the monthly benefit for pensioners that receive pension advances or had received a previously paid permanent partial disability award.
- Phase 2, implemented December 2008, automated the process for calculating the monthly pension entitlement amounts for new pensioners.
- Phase 3 involves automating the calculation of the monthly benefits for a pension recipient who is also entitled to social security disability or retirement payments. In accordance with state law, the Department is entitled to adjust the recipient's monthly benefit amount when they are simultaneously entitled to these federal benefits. This phase is divided into two stages. The first stage, implemented in March 2009, calculates the entitlements for recipients receiving social security benefits for the first time. Stage 2 is currently being programmed and tested. It will calculate the entitlements for future offsets and tracks recipients going in and out of offset. Implementation is scheduled for December 2009.
- Phase 4 will involve creating a new computer screen linking all the prior phases together. New incoming pension claims will be processed through this screen to start the monthly benefit process. Phase 4 is planned to be completed in June 2010.

One-Time Pension Payments: In response to this finding, the Department restructured job duties within the pension unit and created a new position to review all one-time pension payments. Once the automation of the manual calculation of pension benefits is completed, the Department will conduct an analysis to determine the programming needs and costs to automate the one-time pension payments.

System Security: Due to the complexity of the mainframe security issues identified, the Department submitted a series of service requests to have three Information Services core teams assigned to evaluate and resolve the issues. The cleanup project for security issues was restructured in July 2009. To date, security issues have been resolved in approximately 25% of the Department's business areas. The cleanup effort is scheduled to be completed by June 2011.

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**Department of Licensing (DOL)**

**Agency: 240**

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**Audit Report:** 1000778

**Finding Number:** 001

**Finding:** The Department of Licensing does not have adequate controls over cash receipting at selected license service offices.

**Resolution:** While the Department currently has controls in place over cash receipting and revenue reconciliation, it acknowledges that there is always room for improvement. In light of this finding, the following actions have been taken:

- The Department clarified its cash receipting policy to strengthen controls and assign increased responsibilities for management oversight. As a result, district managers (DMs) now perform spot checks to verify compliance with the policy requirements, including check/cash composition of the deposits, as they routinely visit the license service offices (LSOs). Information on these spot checks is documented in their bi-weekly reports to the driver's licensing examination administrator.
- The Department developed a new monthly report to assist in monitoring "no fee transactions." The report pulls a minimum of five driver's license transactions for each office in which a "no fee transaction" has occurred and identifies the licensing service representative (LSR) that completed the transaction by individual badge number. DMs receive a report for their district monthly and are responsible for verifying that LSRs followed department procedures in handling "no fee transactions."
- The Department generates a report that identifies voided transactions by LSO and badge number. Staff was reminded of the policy requirement that supervisors complete the trend reports daily, the employee signs off on the trend report monthly, and the DM reviews and signs off on the trend reports. In addition, a new DM audit process that includes a review of voided transactions was adopted in 2009. Information from these audits is reviewed semiannually to identify and address problem areas or compliance concerns.
- On April 15, 2009, an operations memo was sent by headquarters notifying all field staff and supervisors of the changes to the cash receipting policy and reminding staff of policy requirements on deposits, "no fee transactions," and voided transactions.

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**Department of Licensing (DOL)**

**Agency: 240**

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**Audit Report:** 1000778

**Finding Number:** 002

**Finding:** The Department of Licensing does not adequately monitor contracts with county auditors and subagents to ensure proper administration of vehicle licensing.

**Resolution:** The Department partially disagrees with this condition. Several controls are currently utilized that monitor fees and tax collections including employee reviews of operations, field audits, fraud unit activities, and county audits. The amount identified by the auditors as potential uncollected sales tax appears to be overstated based upon the Department's research. That said, in light of the finding, the following actions were taken:

- Copies of the contracts are maintained by the Finance and Administration contracts office (electronically) and by Liaison and Support Services in the corresponding agent/subagent file (hard copy). An internal manual spreadsheet documents insurance and bonding compliance for each agent or subagent office. Updating the spreadsheet is an ongoing effort since the insurance and bonds, in most cases, are renewed annually. Offices found to be out of compliance are contacted by Liaison and Support Services. Issues are escalated as appropriate through management if noncompliance continues.
- The Department completed the entire state audit cycle of agents and subagents in June 2009 and started the next three-year cycle that will cover all agents and subagents. The Department recruited for an additional permanent auditor in the Field Audit and Compliance Unit, and this position was filled on November 1, 2009.
- The Department is reviewing voided transaction reports to determine high-risk transactions. Potential issues are being researched further. Thirty days of transactions are reviewed for each office every six months. Results suggest less than 5% of transactions require additional verification work, and this equates to an accuracy rate of greater than 95% for all transactions.
- A spreadsheet for monitoring inventory reporting is updated monthly by the Liaison and Support Services staff. Offices that are late reporting are contacted and reminded of their responsibility as outlined in policy. Appropriate actions per contract are initiated if noncompliance continues.

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**Status of Audit Resolution**

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**Military Department (MIL)**

**Agency: 245**

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**Audit Report:** 1000335

**Finding Number:** 001

**Finding:** The Military Department is not accurately calculating survivor death benefit compensations.

**Resolution:** The Department's risk manager, who has experience in the calculation of death benefits, reviewed the calculations for all death benefits going back to the start of each claim. The review resulted in benefit amounts different than originally calculated and being paid. Because of the complexity of the calculations, the Department consulted with the Department of Labor and Industries Insurance Services staff that have the expertise to calculate benefit payments. They examined the risk manager's review and agreed with the recalculations.

The Department completed a detailed comparison between the recalculated death benefits and original benefits. As a result, the Department adjusted or is in the process of adjusting monthly benefits.

The Department is also in the process of drafting policy and procedures for processing death benefit claims and for maintaining the related records and files.

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**Status of Audit Resolution**

December 2009

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**Military Department (MIL)**

**Agency: 245**

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**Audit Report:** 1000335

**Finding Number:** 002

**Finding:** The Military Department's internal controls over fixed assets are not sufficient to safeguard public assets.

**Resolution:** A complete physical inventory was conducted by the end of fiscal year 2009. All data discrepancies that were uncovered by the audit as well as those found during the physical inventory were researched and corrected.

The procedure for assigning state identification numbers was changed so that an identification number is issued when an asset is ordered as opposed to when it is received. A monthly review process was implemented to ensure all tag numbers that were issued were entered into the Capital Asset Management System. Exceptions are investigated and resolved.

The Department has reviewed the current procedures and identified all training issues related to noncompliance with the adopted policy. Procedures are being revised where necessary and training was developed and provided to the appropriate individuals to help them understand their role in the inventory control process and how to appropriately follow the procedures.

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 1001539

**Finding Number:** 001

**Finding:** The Department of Social and Health Services, Children's Administration and Economic Services Administration paid an adoptive parent, foster care providers and childcare providers who had not cleared background checks.

**Resolution:** The Department is addressing this finding as follows:

During May 2009, Working Connections Child Care (WCCC) coordinators reinforced current policy with staff and reminded them to ensure background checks are completed on every provider prior to authorizing payment until the automated process is in place.

During June 2009, Children's Administration (CA) issued a management directive to staff responsible for reviewing background check results. The directive explained the new procedure on how to deal with rejected background check forms. CA worked with the Background Check Central Unit when preparing the directive.

By February 2010, CA will implement the second release of its FamLink system which will prevent payments to providers that do not have proper documentation of a completed background check. This is in addition to the edits FamLink currently has in place that prevent payments to providers who are not properly licensed.

By December 2009, Economic Services Administration is anticipating the implementation of an automated feature to its Barcode system that will prevent workers from finalizing an authorization for childcare until verifying a current background check is on file for the provider. The anticipated Barcode feature will also assist staff in ensuring background checks include all required data elements before they are processed.

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 1001539

**Finding Number:** 002

**Finding:** The Department of Social and Health Services did not have controls in place to prevent misappropriation and ensure payroll accuracy.

**Resolution:** In March 2009, the Department reviewed all Human Resource Management System (HRMS) users and removed conflicting roles where possible. These changes will help to ensure that individuals responsible for processing payroll do not have the ability to add or delete individuals from the personnel system. Where conflicting roles could not be eliminated, the Department established compensating controls.

In June 2009, written communication was sent to all the Department's HRMS users identifying the necessary compensating controls. Also, procedures were developed and published to provide applicable staff with information on how to run necessary reports and expectations for their use. These corrective actions will help the Department ensure payroll accuracy and prevent misappropriation through HRMS.

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**Department of Social and Health Services (DSHS)**

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**Agency: 300****Audit Report:** 1001539**Finding Number:** 003**Finding:** The Department of Social and Health Services internal controls over provider payments are not adequate, resulting in misappropriations totaling approximately \$230,000.**Resolution:** In response to the issue of inadequate internal controls noted in this finding, Department administrations took the following actions:

## Economic Services Administration:

- Developed and completed training for supervisors on the proper use of reports that stresses payment accuracy.
- Implemented a preauthorization process that includes systems controls that prevent staff from submitting authorizations for payments that are over the standard amount and do not have appropriate supervisory approval.
- Began requiring a no authorizing supervisor to review and approve childcare authorizations made by childcare supervisors.

## Aging and Disability Services Administration:

- The Developmental Disabilities Division (DDD) program manager for the Social Service Payment System (SSPS) began reviewing Client Authorization Services Input System (CASIS) output reports on a quarterly basis to provide additional monitoring of all authorizations including those made by supervisors.
- Began requiring staff who authorize payments to verify that the provider has a current contract for the service being authorized. This was accomplished in accordance with DDD's internal policy. Supervisors are also required to verify this work during case file reviews.
- Increased percentage of required supervisory review of client case files and CASIS output reports from 41% to 50%. ADSA is working toward 100% compliance by clarifying policy expectations; providing additional training and Quality Control and Compliance support to accomplish file reviews; streamlining the file review and reporting process; and monitoring compliance more closely.

Note: This finding addresses the inadequate internal controls under which misappropriations occurred. The actual misappropriations cited in this finding were written as two separate fraud findings in the statewide single audit report. The resolution for the misappropriations are reported in the fraud section of this publication under audit report 2008 F, finding numbers 014 and 019, on pages 96 and 97, respectively.

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**Status of Audit Resolution**

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 1001539

**Finding Number:** 004

**Finding:** The Department of Social and Health Services does not ensure all payments made through its Social Services Payment System are supported and approved.

**Resolution:** By June 2009, the Economic Services Administration (ESA) and Aging and Disability Services Administration (ADSA) reviewed and took action on their respective overpayment exceptions identified during the course of the audit. ESA developed report training that stresses payment accuracy and conducted the training for supervisors. ESA also implemented a preauthorization process that requires supervisors to approve authorizations over the standard amount prior to payment.

By July 2009, ADSA provided training to staff on identifying possible duplicate authorizations before they are made. ADSA also instituted a monthly program manager review of output reports to identify possible duplicate payments. These are referred to regional staff for follow-up. In addition, ADSA is continuing to participate in the development of the ProviderOne payment system which will include features to prevent duplicate authorizations and payments.

Children's Administration (CA) reviewed all exceptions identified in the audit for possible overpayments and referred all confirmed overpayments to the Office of Financial Recovery by December 2009. By February 2010, CA will implement a second release to its FamLink system that will have edits designed to prevent overpayments.

All three administrations consulted with federal grantors to determine if funds used for inappropriate payments need to be repaid to the federal government and are taking action where necessary.

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 1001539

**Finding Number:** 005

**Finding:** The Department of Social and Health Services' Economic Services Administration systems are vulnerable to misappropriation and inappropriate data changes.

**Resolution:** The three systems discussed in this finding are Jobs Automated System (eJAS), Support Enforcement Management Systems (SEMS) and Automated Clearinghouse (ACH) Manager. In May 2009, the Department implemented manual procedures to ensure program changes made in all three systems are properly authorized, reviewed, and accurate.

By the end of March 2010, the Department will:

- Implement a two-step process to prevent changes to program code between the time it is approved and released.
- Develop a new ACH Manager system that allows only authorized staff to log in. Staff who process payments through the ACH Manager will each be assigned a unique logon ID and password.
- Review change control software to determine whether any currently available software packages meet the needs of the Department and provide an automated solution. This will be done in relation to eJAS, SEMS, and ACH Manager to ensure program changes are properly authorized, reviewed, and are accurate.
- Implement a process to review and maintain logged changes to ACH Manager data to ensure changes are appropriate.

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 1001539

**Finding Number:** 006

**Finding:** The Department of Social and Health Services does not adequately monitor access to critical systems.

**Resolution:** The critical systems discussed in this finding are utilized by the Economic Services Administration (ESA) and the Aging and Disability Services Administration (ADSA).

The finding directed at ESA dealt with access to Job Automated System (eJAS), Automated Client Eligibility System (ACES), and Support Enforcement Management System (SEMS). The policy is to update system access immediately upon a change in employment status, and ESA will continue to stress this requirement.

To ensure compliance with the policy, ESA is implementing an automated reconciliation process that compares employment changes with system access accounts monthly. Changes in state employment status (termination or change of duties) will result in appropriate changes to system access. This process will be implemented for SEMS in December 2009 and is planned for eJAS and ACES in 2010.

To prepare for the implementation of the automated process, ESA is in the process of performing a complete manual review and cleanup of current system access for all three systems (eJAS, ACES, and SEMS). This cleanup includes access by users as well as programmer access to directly modify critical data files and programs. Access is being updated or revoked as appropriate.

The part of the finding directed at ADSA dealt with ADSA contractors having access to the Electronic Agency Contracts Database (EACD).

In April 2009, ADSA completed the following corrective actions:

- All individuals having access to the EACD were reviewed by Contract Management staff, and access was updated or revoked as necessary.
- A report detailing access to the EACD was created and is distributed quarterly to field offices of Area Agencies on Aging, Home and Community Services, and Division of Developmental Disabilities for review. Field office staff mark the report and return it to Headquarters, where contract staff also review the report and are responsible to revoke access as appropriate based on their internal review and field office feedback.

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 1001539

**Finding Number:** 007

**Finding:** The Department of Social and Health Services does not adequately monitor contracts with Crisis Residential Centers to ensure compliance with state law and contract requirements.

**Resolution:** In June 2009, Children's Administration (CA) staff met with stakeholders, including CA staff and Crisis Residential Center staff, to revise recommendations on how the compensation structure of the contracts can be changed to comply with new state law. CA developed proposals to change contract language to clearly outline the monitoring obligation and process. In addition, proposals were developed for payment methodologies that prohibit payment for stays beyond the number of days allowed by state law.

The proposed contract improvements and proposed payment methodologies were approved and implemented in 2009. The new payment structure requires staff to review the number of days clients stayed at the facility and to reduce the amount paid if the maximum stay was exceeded.

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 001

**Finding:** The Department of Social and Health Services does not ensure that retroactive Food Assistance payments to clients are calculated correctly as prescribed by state and federal law.

**Resolution:** In June 2009, the Department's Economic Services Administration (ESA) reviewed all twenty-four cases cited in this audit. Nineteen cases were identified as having a potential error. Community Services Division (CSD) headquarters staff reviewed these cases and determined nine cases were acceptable and did not require additional work; ten were returned to field staff to determine the correct supplement amount the client was eligible for in each case. The remaining five cases were for incorrect payments for which the Department followed established rules and policies to determine the amount of overpayment. Once the overpayment was established, the appropriate paperwork was sent to the Office of Financial Recovery.

To prevent this situation from occurring in the future, ESA developed training and sent a memo to the field alerting staff of the newly released, mandatory online training for Basic Food underpayment/overpayment rules and process titled "The Business of Benefit Errors." All eligibility staff were required to complete the training by September 2009. Completion of the online training was tracked automatically by the Learning Center training system.

In addition to the training, existing reviews are still in effect and completed regularly. Mandatory supervisory audits are completed monthly, and the Operations Support Division conducts management evaluations and audits the Food Assistance Program on an ongoing basis.

Once the statewide single audit is distributed at the federal level, federal agencies will be in a position to work with ESA to determine if the questioned costs identified in the audit need to be adjusted or repaid.

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**Department of Social and Health Services (DSHS)**

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**Agency: 300**

**Audit Report:** 2008 F

**Finding Number:** 002

**Finding:** Food Assistance public funds were misappropriated at the Department of Social and Health Services' Economic Services Administration.

**Resolution:** Finding of fraud. Refer to page 93.

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 003

**Finding:** The Department of Social and Health Services, Economic Services Administration, did not comply with documentation requirements for its Random Moment Time Sample to ensure administrative costs was properly charged to federal and state funds.

**Resolution:** The Department took or will take the following steps to address the issues noted in this finding:

- In October 2008, instructions for Random Moment Time Sample (RMTS) and RMTS-Barcode, the computer system that generates the RMTS samples and results, were sent electronically to all RMTS coordinators. Communication included contact information for coordinators who have questions or need technical assistance.
- In December 2008, an internal newsletter article was published in an effort to educate field staff on RMTS requirements, processes, and responsibilities. This was followed by the Operations Support Division (OSD)/Fiscal creating and distributing a monthly report for Community Service Office (CSO) administrators that communicates RMTS audit results by location. OSD/Fiscal will continue to conduct monthly audits of RMTS samples. Each CSO will be audited annually.
- In January 2009, the OSD/Fiscal chief attended a Community Services Division regional administrator meeting to discuss RMTS requirements and audit results. This was followed by OSD/Fiscal identifying members of a workgroup to evaluate the current process, update the current RMTS instructions, and develop training materials for CSO administrators and RMTS coordinators. The RMTS workgroup met in May 2009 and established an "Improvement Charter" that was approved by Economic Services Administration (ESA) division directors. In August 2009, the RMTS workgroup recommended automating the sampling process through Barcode to achieve efficiencies and eliminate common errors. Information Technology staff were able to automate the process, and the RMTS workgroup conducted usability testing in October 2009.
- In November 2009, six CSOs piloted the automated RMTS sampling process. Refinements to the automated process are scheduled to occur in December 2009 with implementation and training scheduled to occur by the end of January 2010. This change in the RMTS process must be updated and approved in the Public Assistance Cost Allocation Plan. The changes will be submitted to the Office of Accounting Services to be included with the January 2010 update.
- Once the statewide single audit is distributed at the federal level, federal agencies will be in a position to work with ESA to determine if the questioned costs identified in the finding need to be adjusted or repaid.

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 004

**Finding:** The Department of Social and Health Services is not complying with federal requirements for allocating employee salaries and wages in accordance with its Public Assistance Agency Cost Allocation Plan (PACAP).

**Resolution:** This finding involves twelve employees at three of the Department's administrations: Financial Services Administration (FSA), Social Service Payment System (SSPS), and Economic Services Administration (ESA).

FSA responded that in light of this audit finding:

- The Information and Technology Office (ITO) and the Office of Accounting Services (OAS) began maintaining documentation on how the ITO staff time is charged to the benefiting funding sources as described in the Public Assistance Cost Allocation Plan (PACAP). Documentation is maintained by the Grants Management section within OAS.
- The Office of Financial Recovery (OFR) began maintaining documentation on how the enforcement manager position is charged to the benefiting funding sources as described in PACAP's base methodology.

SSPS responded to this finding as follows:

- The SSPS office chief worked with the affected administrations and developed a memorandum of understanding (MOU), which established a specific methodology for accurately allocating the costs of the four staff in the Provider File unit to the correct federal funding source. The MOU was reviewed and signed by administrations, and the methodology was implemented in March 2009.
- The PACAP was updated to reflect the exception for the allocation of these four staff using the methodology agreed to in the MOU. The plan was submitted to the Division of Cost Allocation (DCA), but was returned for additional work. It will be amended and resubmitted to DCA in December 2009.

ESA is addressing this finding as follows:

- In October 2008, ESA's Operations Support Division (OSD)/Fiscal placed the discussion of time and effort requirements and how it relates to the written PACAP as a standing item on the quarterly Community Services Division (CSD) regional business manager (RBM) meeting agenda.
- In December 2008, OSD/Fiscal worked with the RBMs to determine why the six ESA staff identified by the auditors were split-coded and if language needs to be added to the written PACAP. The outcome was that there currently is language in the PACAP about four of the employees' positions. The RBM initiated and is maintaining the proper documentation to support the split coding. For the remaining two employees, an update to the PACAP was submitted in April 2009.

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In regards to whether any questioned costs need to be repaid to the federal agencies:

- OAS worked with the Centers for Medicare and Medicaid Services, Region 10, to determine if any repayments are required for FSA and SSPS. CMS is satisfied with the resolution and did not request repayments due to this audit finding.
- After the statewide single audit has been completed and distributed at the federal level, federal agencies will be in a position to work with ESA to determine if the questioned costs identified need to be adjusted or repaid.

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 005

**Finding:** The Department of Social and Health Services did not comply with federal requirements for time and effort documentation for the Medical Assistance and Food Stamps Employment and Training programs.

**Resolution:** In January 2008, prior to the audit undertaken by the State Auditor's Office, the Economic Services Administration (ESA) regional business managers (RBMs) received time and effort training from the Office of Accounting Services (OAS). The RBMs are responsible for compliance with time and effort requirements in their respective regions. This includes providing technical assistance on these requirements to supervisors and Community Service Office administrators.

In August 2008, OAS updated the Department's administrative policies regarding time and effort to more clearly reflect federal requirements. These updated policies were presented and discussed with the Community Service Division (CSD) RBMs at their quarterly meeting in October 2008. The discussion of time and effort requirements was added as a standing item on the quarterly meeting agenda.

In January 2009, the Operations Support Division's (OSD) Fiscal office chief attended a CSD regional administrator meeting to emphasize the importance of time and effort requirements and to discuss the audit findings and resolution.

In February 2009, OSD reviewed the Region 3 time certification and timesheets and found them to be in compliance. In May 2009, OSD reviewed the Region 6 time certification and timesheets and found them to be in compliance. Due to time constraints, no time and effort documentation was reviewed at the September 2009 meeting. However, OSD has committed to completing a review of the remaining four regions' time and effort documentation by June 30, 2010, and continuing the review cycle as an ongoing task.

After the statewide single audit has been distributed at the federal level, federal agencies will be in a position to work with ESA to determine if the questioned costs identified in the audit need to be adjusted or repaid.

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**Status of Audit Resolution**

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 010

**Finding:** Federal funds were misappropriated at the Department of Social and Health Services' Division of Children and Family Services.

**Resolution:** Finding of fraud. Refer to page 95.

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 011

**Finding:** The Department of Social and Health Services does not ensure that Temporary Assistance to Needy Families payments are reduced for clients who do not participate in WorkFirst activities as required by state and federal law.

**Resolution:** During March 2009, the Department reviewed the cases cited in this audit to determine if the teens were in school. For cases where they were not in school, appropriate actions were taken to follow state policy and pursue the sanction process. All cases were acted on and updated.

As a result of this finding, the Department's further review of applicable state statutes has clarified that the state statutes governing teen education requirements apply to teens who are themselves parents and not to teens in general. Neither state nor federal law nor regulation requires dependent teens age 16 or older who are not parents to complete an individual responsibility plan and participate in WorkFirst activities.

The Department amended the Temporary Assistance to Needy Families state plan in August 2009 to eliminate the requirement to sanction dependent children (16 and 17 years of age) who are not in school. In addition, the Department revised the WAC and WorkFirst handbook to eliminate documentation of dependent teen school attendance as a program requirement.

After the statewide single audit has been distributed at the federal level, federal agencies will be in a position to work with Economic Services Administration to determine if the questioned costs identified in the audit need to be adjusted or repaid.

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**Status of Audit Resolution**

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 012

**Finding:** The Department of Social and Health Services is not reimbursing the federal government its proper share of child support collections.

**Resolution:** The finding and questioned costs were the result of a failure to update the accounting system to reflect the correct federal medical assistance percentage (FMAP) rate for state fiscal year 2008. Only the Department's Office of Accounting Services (OAS) can change the FMAP rate in the accounting system, and the Division of Child Support accounting unit did not communicate the correct rates to OAS.

In September 2008, the Economic Services Administration (ESA) Fiscal Services Office began incorporating a review of the FMAP rate in the administration's monthly cost allocation review process and began notifying OAS if any changes are needed based on the results. This will ensure the correct federal/state split of child support collections.

In October 2008, a journal voucher was prepared to move questioned costs from federal expenditures to state expenditures by reducing the subsequent federal draw.

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 013

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

**Resolution:** In July 2008, the Department of Early Learning (DEL) and the Department of Social and Health Services (DSHS) implemented a process to reconcile childcare payments to childcare provider attendance records to determine the payments were supported by appropriate documentation. The Departments documented their respective responsibilities in the October 8, 2008, service level agreement.

On a monthly basis, licensed child center and childcare licensed family home payment files are randomly selected from the Social Service Payment System (SSPS) by DSHS. DEL sends a written request to the providers to obtain attendance records from providers and provides them to DSHS to reconcile with the SSPS payment files. If a discrepancy is found, DSHS follows DEL policy to write an overpayment notice. If providers fail to provide DEL with the requested attendance records, DSHS finds the case in error and writes an overpayment notice.

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**Department of Social and Health Services (DSHS)**

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**Agency: 300**

**Audit Report:** 2008 F

**Finding Number:** 014

**Finding:** Child Care public funds were misappropriated at the Department of Social and Health Service's Economic Services Administration.

**Resolution:** Finding of fraud. Refer to page 96.

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 016

**Finding:** The Department of Social and Health Services does not have internal controls to ensure Child Welfare Services complies with earmarking compliance requirements.

**Resolution:** The Department concurs with this finding and understands the "assurance" required by the change to the Social Security Act as signed into law September 28, 2006. Until October 2009, the Department had a manual process in place for allocating costs to the child welfare grant. Journal vouchers were created by staff and approved by the senior finance manager who, prior to approving the journal voucher for processing, verified that only ten percent of the total costs (the maximum allowed by the new law) charged to the grant were administrative costs. This process remained in place for all charges incurred prior to updating the automated cost allocation system.

Beginning with the October 2009 plan, the Department allocates charges incurred for the child welfare program automatically to the grant. This is done through the use of a formal structure within the automated cost allocation plan that allows knowledgeable staff to establish a path for appropriate eligible expenditures to be charged. This means charges are allocated to the grant as payments are made and do not need to be transferred to the grant as adjustments.

In August 2009, the Children's Administration discussed the amounts charged to the 2008 grant with the federal grantor. The grants for federal fiscal years 2007 and 2008 were adjusted as part of the final claim process and administrative expenditures claimed were within the ten percent limit. Thus, the federal grantor did not disallow any costs.

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 017

**Finding:** The Department of Social and Health Services, Children's Administration, is not following established internal controls over the eligibility of clients receiving adoption assistance payments.

**Resolution:** The Department took or will take the following actions regarding staff compliance with internal controls surrounding adoption support:

- In March 2009, the Department reviewed internal adoption support processing and documentation procedures with region staff. Emphasis was on program eligibility, review, and documentation requirements specified in state laws and regulations. Since the audit, new staff have taken over these duties and received training for the duties which included an explanation of these requirements.
- In April 2009, the Department utilized program requirements as well as lessons learned from the audit to share with staff in all regions and adoption support program managers to enhance overall documentation of eligibility and payment/benefits. A statewide conference call was held with all adoption support coordinators to discuss requirements and information from the audit.
- Starting in May 2009, regional adoption support supervisors began spot-checking current adoption support files on a quarterly basis as a way to verify guidelines are followed. Spot-checking will be an ongoing part of the supervisors' tasks.
- By July 2009, all regions trained adoption support staff in guidelines for internal operations for eligibility determinations and internal controls around them.

With respect to the questioned costs, the Department took or will take the following actions:

- In February 2009, the Department obtained the list of files reviewed during the audit.
- In November 2009, the Department submitted documentation to the grantor that outlines corrections to individual case deficiencies and asked for direction on whether or not federal shares of these transactions needed to be returned. Administration for Children and Families in Region 10 is currently working with the Department to determine if any federal funding should be repaid based on the finding.

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**Status of Audit Resolution**

December 2009

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 018

**Finding:** The Department of Social and Health Services, Office of Financial Recovery and Health and Recovery Services Administration, does not have internal controls to ensure that interest penalty collections are refunded to the federal government.

**Resolution:** In November 2008, the Department remitted the 2008 state fiscal year federal portion of the interest to the Centers for Medicare and Medicaid Services (CMS) through the federal draw process.

In March 2009, the Department created an interest report to calculate the federal share of the interest and implemented a process for remitting the federal share to CMS each month through the federal revenue draw process. The transaction is a credit to the federal draw, which reduces the Department's next assistance draw by the amount of the interest. The transaction detail is included on the federal claim form each quarter.

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**Department of Social and Health Services (DSHS)**

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**Agency: 300**

**Audit Report:** 2008 F

**Finding Number:** 019

**Finding:** Public funds were misappropriated at the Department of Social and Health Services' Division of Developmental Disabilities.

**Resolution:** Finding of fraud. Refer to page 97.

**Status of Audit Resolution**

December 2009

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 020

**Finding:** The Department of Social and Health Services did not have adequate internal controls to ensure the federal share of overpayments made to Medicaid providers are refunded to the federal government.

**Resolution:** In April 2009, the Office of Financial Recovery (OFR) and Office of Accounting Services (OAS) updated the Department's overpayment procedures to identify the title and position numbers of the managers and supervisors who have responsibility and authority for each aspect of the overpayment refunding process. OAS trained grants management staff on the process of repayment of prior-prior biennium recoveries. Current and prior biennium recoveries are treated as a reduction of expenditure (for current period recoveries) or as a liquidation of a receivable (for prior biennium recoveries.)

In July 2009, the Department worked with the appropriate staff of the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS), Region 10, to ensure that they are satisfied that the state has refunded the federal share of overpayments that had not been remitted timely. CMS Region 10 staff provided written confirmation of satisfaction that the state refunded the federal share of overpayments in question, and CMS is satisfied that the process changes will preclude future occurrences.

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 021

**Finding:** The Department of Social and Health Services, Health and Recovery Services Administration's internal controls are inadequate to identify and recover Medicaid overpayments to pharmaceutical providers made when billing codes are used inappropriately.

**Resolution:** The Department does not concur with this finding, but the Health and Recovery Services Administration (HRSA) will continue working with the Washington State Pharmacy Association (WSPA) to prevent inappropriate payments for pharmacy claims that are not allowable under the Medicaid program.

HRSA is now performing an ongoing risk analysis and assessment to determine the appropriate level of post payment audit coverage for third party liability (TPL) claims. This effort has resulted in a plan being devised and implemented to ensure that audits are focused on the most aberrant providers. On a quarterly basis, paid claims data is run to identify providers with the highest usage of manual override codes. The providers are ranked by paid amount and those with the highest dollars are prioritized and reviewed by the Office of Program Integrity (OPI). In state fiscal years 2007-2009, OPI conducted an average of three TPL audits per quarter, resulting in the identification and issuance of \$1.4 million in overpayment notices to providers. As of November 2009, the Department has recouped \$1.28 million of these overpayments.

Following ProviderOne implementation, scheduled for March 2010, the Department plans to add a new TPL edit and to enhance the pharmacy point-of-sale system. These changes incorporate additional controls to identify and recover overpayments or, in some cases, to prevent them.

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 022

**Finding:** The Department of Social and Health Services does not have adequate internal controls to ensure new applicants meet federal citizenship requirements before receiving Medicaid benefits.

**Resolution:** In May 2008, the following measures were initiated:

- Citizenship verification and identity processes were developed by the Health and Recovery Services Administration (HRSA) to ensure accurate eligibility decisions for all applicants 19 years of age and older and for all non-pregnant applicants under the age of 19.
- HRSA provided citizenship verification and identity training related to eligibility for non-pregnant applicants under the age of 19 to medical eligibility staff.
- HRSA began requiring citizenship verification and proof of identity (with a 90-day grace period) for all non-pregnant applicants under the age of 19 prior to Medicaid approval.

In July 2008, the following measures were initiated:

- HRSA provided citizenship verification and identity training related to eligibility for applicants 19 years of age and older to medical eligibility staff.
- HRSA began requiring citizenship verification and proof of identity for all applicants 19 years of age and older prior to Medicaid approval.
- HRSA began providing a weekly report of approved new applicants that did not have correct citizenship codes in the Automated Client Eligibility System to field staff for review. If citizenship had not been verified, the client's Medicaid coverage was terminated.

In September 2008, manual accounting entries were completed by the Division of Rates and Finance to fund expenditures with state funds for enrollees who had not satisfied federal requirements. These adjustments were processed in February 2009 for claims that had been paid for services during July 2008 through December 2008. The accounting adjustments affected payments for services provided to all clients who had been identified as "non-cooperative" and therefore ineligible for that period. These ongoing adjustments are completed quarterly.

The federal Children's Health Insurance Program Reauthorization Act legislation, passed in April 2009, allowed for all Medicaid applicants to be given a reasonable period of time to provide citizenship verification and to receive Medicaid benefits during this period of time. Applicants who declare they are citizens can receive Medicaid while they work with the Department to obtain citizenship verification. If clients fail to cooperate with the Department in obtaining verification, their Medicaid coverage is terminated.

State of Washington

**Status of Audit Resolution**

December 2009

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 023

**Finding:** The Department of Social and Health Services does not have adequate internal controls to ensure people receiving Medicaid benefits have valid Social Security numbers.

**Resolution:** Beginning in February 2007, Health and Recovery Services Administration (HRSA) has been sending "No Social Security Number (SSN)" reports to the Community Services Division (CSD) of the Economic Services Administration (ESA), Aging and Disability Services Administration (ADSA), and staff within HRSA. The "No SSN" report lists individuals who have received services without a valid SSN and provides supervisors with a report to monitor and audit staff to ensure SSNs are requested, received, and verified.

Beginning August 2008, HRSA's Medical Eligibility Determination Services staff enter and verify all SSNs for HRSA non-adoption support cases. Supervisors consistently perform random audits to confirm that verification of all SSNs is occurring.

The audit testing revealed 79 clients for whom the Department could not provide evidence of a correct SSN. The administrations involved in the audit reviewed these clients and all cases were resolved by February 2009.

In January 2009, HRSA and Children's Administration (CA) developed a policy regarding staff responses to SSN mismatch alerts. HRSA and CA staff received training on the new policy in February 2009.

In March 2009, the following measures were taken:

- ESA/CSD developed a policy that established clear expectations for supervisors regarding their monitoring of staff responses to SSN mismatch alerts. These were shared with CSD financial coordinators who shared the information with their financial supervisors.
- ESA distributed a memo to field offices instructing them to consistently review the SSN alerts they receive.
- HRSA sent a "Do You Know" document to staff reminding them to consistently and properly resolve SSN mismatch alerts. This document was also meant to remind supervisors and office chiefs how important it is for HRSA staff to resolve SSN problems as part of their normal business practices.

In July 2009, the HRSA foster care Medicaid team performed a one-time review of all active caseloads for non-federally verified SSNs, which included adoption support cases. If an SSN was not found, HRSA worked with the foster care health program manager at CA to get a verified SSN for the child. In each case where a SSN was not verified, termination procedures were initiated.

State of Washington

**Status of Audit Resolution**

December 2009

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**Status of Audit Resolution**

December 2009

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 024

**Finding:** The Department of Social and Health Services, Health and Recovery Services Administration's internal controls are insufficient to ensure payment rates to its Healthy Options managed care providers are based on accurate data.

**Resolution:** The Department does not concur with the finding and will not be taking additional corrective action. The Department is of the opinion that the process currently in place is sufficient.

Although the Department does not directly review costs reported by managed care organizations (MCO) to the Department's actuaries, there is a significant and sufficient verification of the accuracy and completeness of the information. Each MCO must have the submitted information certified in writing as accurate and complete by an independent actuary. The Department's actuary then validates the information submitted by comparison to the audited financials submitted to the Office of the Insurance Commissioner. The actuary also compares costs between MCOs and resolves outliers.

The rate-setting methodology and rates have been approved by the Centers for Medicare and Medicaid Services (CMS) annually as a part of contract approval. Additionally, in an audit of Healthy Options, CMS had no findings concerning rate setting.

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 025

**Finding:** The Department of Social and Health Services, Health and Recovery Services Administration, does not comply with the state law (RCW 74.09A) and the federal Deficit Reduction Act of 2005 to identify all third parties liable for payment of Medicaid services.

**Resolution:** The Department believes that it is in compliance with the Deficit Reduction Act of 2005. Health and Recovery Services Administration (HRSA) meets this standard by making data available to all insurers to use for third party liability reporting and by matching data directly with those insurers most likely to provide third party coverage to Medicaid recipients. In September 2009, the Department sent letters to all 4,024 active third party payers on file in the Medicaid Management Information System (MMIS) reminding them of the Department's willingness to perform data matches.

While the Department believes it meets legal requirements now, with the implementation of the new ProviderOne system, which will replace MMIS, the Department will further enhance data matching activities. The anticipated go-live date for ProviderOne is March 2010.

After the system is implemented and the Centers for Medicare and Medicaid approves the data elements jointly agreed to by the state and insurers, HRSA will be able to send an electronic coordination of benefits eligibility inquiry to health plans who have signed trading partner agreements with the Department. The trading partners will be able to respond electronically to eligibility inquiries to indicate the availability of third party healthcare coverage as of a particular date. For those insurers or carriers who may not have their systems ready to participate electronically, HRSA will continue working with them using the methods currently in place.

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 026

**Finding:** The Department of Social and Health Services does not have adequate internal controls to ensure non-emergency medical transportation expenditures are allowable and adequately supported.

**Resolution:** The Department does not agree that it lacks adequate internal controls to ensure that the state's non-emergency transportation (NEMT) expenditures are legitimate, allowable, and adequately supported, or that the Department does not monitor transportation brokers to ensure all Medicaid rules are followed and costs are appropriate. The Department performs the following activities in line with its administrative policy for risk assessment and contract monitoring:

- The Department requires all NEMT brokers, by contract, to annually complete and provide the state with copies of independent audits. Seven of eight brokers are required to complete federal single audits. The eighth broker is very small and must meet single audit requirements. All brokers are in compliance with this annual audit requirement.
- Department staff performs annual pre contract risk assessments for all brokers. These contracts are defined as client service contracts and not subrecipients, which would require a higher standard of fiscal monitoring.
- Department staff review monthly broker invoices, back-up documentation, and reports before the invoices are approved for payment.
- Program managers review monthly for service delivery patterns and trends including use of low-cost modes of transportation as well as cost per trip.
- Review of billing packet and reports is noted in the Department's automated contracts database.
- Program managers monitor and respond to "daily operations" activities including inquiries, complaints, and all client incident/accident reports.
- The team of program managers prioritizes, based on risk assessment and historical information, which brokers need onsite reviews for consultation, technical assistance, and compliance monitoring to ensure broker activities comply with state and federal regulations.
- Annually, the program managers rotate on-site reviews of the eight brokers. Each broker is reviewed every other year for specific issues or general contract compliance. Six of eight total brokers were visited in 2008. These onsite reviews include direct observation, documentation review, and interviews with broker managers, bookkeepers, and direct-service staff.
- Annually, program managers review broker service delivery and service expenditures in detail, looking at multiyear historical data and reviewing broker regions against others of similar size and characteristics. This in-depth review is done in preparation for contract/budget negotiations for the next contract year in order to negotiate the best value for the state.

**Status of Audit Resolution**

December 2009

HRSA has submitted a state plan amendment (SPA) to CMS to move nonemergency medical transportation from administrative match to medical match. As part of the SPA process, CMS is providing directions about the program structure necessary to receive medical match funding. In addition, HRSA staff are working with the Department of Justice Office of Inspector General to refine program audit and monitoring processes and relevant contractual language.

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 027

**Finding:** The Department of Social and Health Services, Aging and Disability Services Administration, Home and Community Based Services division, does not have internal controls to ensure Medicaid payments to in-home service providers are allowable and supported.

**Resolution:** While the Department maintains that state law assigns the responsibility for scheduling, tracking, and timekeeping of in-home service providers to the client receiving the services, in response to this finding:

- In March 2009, the Department issued a management bulletin to Area Agencies on Aging and the Division of Developmental Disabilities that addressed the statutory mandate to review a sample of timesheets to verify that services provided are allowable and documented on the timesheets. Case managers are instructed to document their review of timesheets and discussion of service verification with clients in a "Service Episode Record."
- In October 2009, the Department issued a written communication to clients on employer responsibilities including time tracking and record keeping. Between November 1, 2009, and October 31, 2010, the form will be distributed and reviewed during the initial and annual assessments with all clients who employ an individual provider (IP). After October 31, 2010, the form must be distributed and reviewed with new clients who select an IP and with current clients who switch to an IP from a homecare agency or residential setting.

In addition, the Department is in the process of procuring a system that will send clients a notice of the allowable services they are to receive and how to report if they do not receive those services. The new system is not expected to be implemented for approximately two years. Until then, Aging and Disability Services Administration will continue to ensure that clients:

- Understand they are responsible for supervising their care provider and ensuring the services provided are allowable. If a client is unable to supervise their care provider, agency-managed personal care may be available, or the client and case manager identify a representative who will monitor services. If a representative is not available, by policy the case manager who monitors the provision of services contacts the client more frequently.
- Have been given information on how to contact their case manager if there are concerns about service delivery, and are informed that they can and should report problems with providers.
- Understand that, as the employer, they can terminate the services of their provider. The Department also has the authority to terminate payment in the event there is a good faith belief that services are not being provided as authorized to a Medicaid client.

**Status of Audit Resolution**

December 2009

The Social Service Payment System will not process payments in excess of hours authorized. A provider is therefore unable to claim and be reimbursed for hours that exceed those authorized by the case manager.

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 028

**Finding:** The Department of Social and Health Services, Health and Recovery Services Administration, does not have adequate internal controls to ensure all controlled substances prescribed for Medicaid clients are authorized and allowable.

**Resolution:** The Department does not agree with this finding for the following reasons:

1. There are not any federal or state statutes that require a payer (e.g. state) to validate the Drug Enforcement Administration (DEA) number of a prescriber. Therefore, the Department disagrees that the lack of an edit that validates the DEA number for Schedule III - V drugs constitutes inadequate internal controls or that the lack of such validation renders the payment unallowable.
2. The Department believes that responsibility for compliance with controlled substance requirements lies with the prescribing provider and the dispensing pharmacies. There are not any provisions in the Controlled Substance Act or the state Uniform Controlled Substance Act that could be interpreted as a requirement relating to payment of claims for controlled substances.

A controlled (scheduled) drug is one whose use and distribution is controlled because of its abuse potential. Scheduled drugs are rated in the order of their abuse. Schedule II drugs are drugs with a high potential for abuse. The Department has the following controls in place regarding DEA numbers and Schedule II drugs:

- While not a federal or state requirement, the Department implemented a pharmacy point-of-sale (POS) edit in July 2002 for the purpose of validating the DEA number of the prescribing physician for Schedule II drugs.
- In addition to the edit in the POS that validates the DEA number for Schedule II drugs, the Department has a set of robust program integrity activities that includes pharmacy utilization review, pharmacy rules-based algorithms that identify improper payments, and data mining activities that identify patterns outside the norm.

In the absence of any requirement to validate DEA numbers for controlled substances, the Department considers that this set of program integrity activities provides adequate controls to ensure that controlled substances are authorized and allowable.

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**Department of Social and Health Services (DSHS)**

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**Agency: 300**

**Audit Report:** 2008 F

**Finding Number:** 029

**Finding:** The Department of Social and Health Services, Health and Recovery Services Administration, does not perform a quarterly retrospective drug use review as required by federal law.

**Resolution:** The Department maintains that it is in compliance with federal regulations pertaining to retrospective and prospective Drug Utilization Review (DUR). Federal regulations stipulate the Department must perform quarterly retrospective DUR via use of predetermined standards to monitor a number of measures related to drug use.

The Department conducts these retrospective reviews as required every quarter. For each of the required measures, an analysis is completed and the results of that analysis are reported to the Centers for Medicare and Medicaid Services (CMS) Region 10. These results are reported on forms CMS specifically created for reporting the results of the analysis on each of these measures, including overutilization, abuse, and misuse.

Additionally, the Department utilizes algorithms, conducts provider modeling, conducts audits, and uses client specific prior authorization processes to identify inappropriate use of drugs.

The Department's focus has been on the appropriateness of physician prescribing which includes both therapeutics and misuse and abuse of drugs, while the auditors focused on the usefulness of utilization review in detecting fraud. While fraud detection is required by federal law, there are other divisions within the Health and Recovery Services Administration (HRSA) that specifically address fraud. The pharmacy administrator routinely refers clients, pharmacies, and prescribers that come to light through the retrospective DUR to the appropriate division within HRSA for investigation.

The Department believed it had presented reports to the auditors which document its compliance with the federal regulations and will continue to work with the auditors to understand what additional documentation is needed to demonstrate compliance. HRSA received a confirmation on October 2, 2009, from CMS that the state's annual DUR reports for both 2007 and 2008 were compliant with the federal requirements for retrospective and prospective review. This was reported to the auditor on October 5, 2009. The Department is also working with the auditors to coordinate a meeting with CMS by January 2010 to review the Department's efforts to comply with the applicable federal regulations.

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**Status of Audit Resolution**

December 2009

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 030

**Finding:** The Department of Social and Health Services, Economic Services Administration, Medicaid Eligibility Quality Control Unit (MEQC), did not retain documentation to support the results of its federally required audits of Medicaid client eligibility.

**Resolution:** In response to this finding, the Medicaid Eligibility Quality Control (MEQC) unit took the following actions:

- In July 2008, the MEQC unit received records retention training from the Department's records officer.
- In August 2008, beginning with the Division of Developmental Disability waiver cases, the MEQC Unit converted to electronic recordkeeping, with staff entering data directly into an electronic database. All paper forms are now imaged and stored electronically. Each project has a unique database, and all databases are backed up every night.
- In January 2009, the MEQC Unit developed a formal records retention procedure in accordance with state and federal records retention requirements.

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**Department of Social and Health Services (DSHS)**

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**Agency: 300**

**Audit Report:** 2008 F

**Finding Number:** 031

**Finding:** The Department of Social and Health Services, Aging and Disability Services Administration, does not have adequate controls in place to ensure all assets applicants own are counted when Medicaid eligibility is determined.

**Resolution:** The Department does not agree that federal rules require verification of financial statements for the previous five years unless a transfer has been declared or there are inconsistent facts in the record or other problems with the application.

The Department agrees that the financial documents reviewed for most applications do not provide a complete picture of the applicant's financial circumstances during the five years prior to the month of application. However, with the majority of the applications, this is not necessary because assets and asset transfers are not an issue. In addition, there is currently no infrastructure that would allow the Department to run an asset check on any applicant without specific information as to what the asset is and where the asset is located. Currently, the only means that the Department has of obtaining that information is through the applicant's self-declaration on the application and the interview with the client.

The practice the Department has been operating under for more than two decades relies on self-declaration by the client for any asset transfers or sales within the five-year look back period and the client's signature attesting to the accuracy of the application. Federal requirements for medical assistance applications state that an agency's policies and procedures for determining eligibility must be conducted in a manner consistent with simplicity of administration and the best interests of applicants and recipients. The Department is committed to ensuring that Medicaid clients are financially eligible for the program benefits that they receive and will continue to pursue and verify any declared asset transfers that it becomes aware of through the interview process or as declared by the applicant to ensure that they were appropriate transfers and not done to qualify for Medicaid.

The Department provided details of its policies and procedures related to transfers of assets to the Centers for Medicare and Medicaid (CMS), Region 10, on June 11, 2009, and asked for their comments and opinions on whether the Department's current methods comply with federal guidelines. A follow-up email was sent in November 2009, but CMS has not yet responded. The Department will continue to pursue a determination from CMS and, when it is received, will take appropriate action.

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 032

**Finding:** The Department of Social and Health Services does not have internal controls in place to ensure errors identified by the Medical Eligibility Quality Control Unit (MEQC) are reviewed adequately and in a timely manner.

**Resolution:** In July 2008, the Medicaid Eligibility Quality Control (MEQC) program developed a discrepancy report log to help staff track discrepancies in eligibility determinations and claims and to ensure that the appropriate representatives in the Health and Recovery Services Administration received the problem and information reports. This log describes each error and identifies the case, the community services office involved, the survey number, and the date the report was sent to the regional representative who is responsible for monitoring the log and ensuring cases are corrected. The discrepancy reports are stored electronically in a system called Barcode and can be viewed by appropriate personnel.

When each MEQC audit is complete, MEQC staff review the discrepancy report log along with information in the Automated Client Eligibility System to determine whether eligibility staff has completed corrective action on individual cases. Corrective action is completed on an average of 82% of discrepancies at the time of review. After review, a log of all cases with outstanding corrective action is sent to the appropriate representative for follow-up.

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 033

**Finding:** The Department of Social and Health Services, Health and Recovery Services Administration, does not have adequate internal controls to ensure its verification process complies with federal intent.

**Resolution:** Even though the Department does not agree with the finding, the following actions have been or will be taken to improve the verification process:

- In February 2009, the Department began sending surveys on approximately 500 claims selected using specific sampling criteria approved by the Department and supplied by the current Medicaid Management Information System (MMIS) vendor on a monthly basis.
- Upon implementation of the ProviderOne system, which will replace MMIS in March 2010, Health and Recovery Services Administration (HRSA) will automatically generate approximately 2,500 manual survey verifications each month.

While the verification process has not proven to be fruitful for identification of fraud, waste, or abuse in the Medicaid program, the Department believes the processes discussed below, which are currently in place, are much more effective:

- The Department has a toll-free hotline to solicit information on Medicaid provider fraud, waste, and abuse. On a monthly basis, HRSA receives an average of eight referrals that warrant further investigation based on calls received on the hotline.
- The Department has an email address for external clients, stakeholders, and internal state staff to report Medicaid provider complaints. On a monthly basis, HRSA averages 11 referrals that warrant further investigation based on emails.
- Additionally, the Department has a set of robust program integrity activities including utilization review and data mining activities. The Payment Review Program (PRP) runs proactive data analyses on paid claims to identify providers who appear to be billing aberrantly for certain services or whose billings vary greatly from their peers. Over the last nine years, thousands of overpayments, audits, and Medicaid Fraud Control Unit referrals have resulted from these data reviews.

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 034

**Finding:** The Department of Social and Health Services, Aging and Disability Services Administration, Home and Community Based Services Division, does not have adequate controls in place to ensure Medicaid recipients have received the services for which Medicaid is being billed.

**Resolution:** The Department concurs that it does not have a process that provides Medicaid recipients with information on the number of hours billed to the Department by individual providers (IP). The Department is in the process of procuring a system that will improve the verification process. Specifically, the new system will generate monthly notices to all clients informing them how many hours were paid to the provider on their behalf during the previous month. The clients will be instructed to notify the Department if they notice a discrepancy in the hours provided versus the hours billed.

The new system is not expected to be implemented for approximately two years. In the meantime, the Department will rely on the following controls that are currently in place:

- Case managers complete an assessment that results in an authorization of hours that cannot be exceeded by a provider invoice.
- Clients receive a copy of the service summary that tells them the number of hours of service they are eligible to receive. Clients are advised that they can choose when those hours are provided and direct the individual provider when to provide them. Case managers also advise clients to contact them if they are not receiving the hours (or care) for which they are eligible.
- Clients are expected to keep copies of timesheets for their IPs and case managers periodically review these timesheets and verify with the client that authorized services have been provided. Case managers are instructed to document the review of timesheets and the discussion of service verification in a "Service Episode Record."
- The Department, through its Payment Review Program, runs algorithms to detect possible fraudulent claims. Overpayments are initiated and referrals are made to the Medicaid Fraud Control Unit as indicated by findings.
- The Social Service Payment System will not process payments in excess of hours authorized. A provider is therefore unable to claim and be reimbursed for hours that exceed those authorized by the case manager.

**Status of Audit Resolution**

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In September 2009, the Department completed a revision of a written communication titled "Acknowledgement of My Responsibilities as the Employer of My Individual Providers." Staff have been instructed to review this form with all clients who employ an individual provider. By October 31, 2010, the form will be reviewed with all clients who employ an IP.

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 035

**Finding:** The Department of Social and Health Services, Aging and Disability Services Administration, did not ensure evaluations or re-evaluations of level of care for clients receiving in-home care services have been performed at least once every 12 months.

**Resolution:** The Department addressed this finding as an opportunity to provide additional training and direction to staff on the assessment process with emphasis on changing the assessment status to "current" upon completion. This information was provided to all applicable staff through the distribution of a factsheet.

The Department will continue its monitoring process to ensure level of care assessment for clients receiving in-home services is completed at least once every twelve months. The Department includes comprehensive monitoring as part of the quality assurance monitoring cycle. A minimum of six percent of the active caseload is monitored on an 18-month cycle. Each file is reviewed for assessment timeliness and the monitoring tool includes the question, "Did the annual assessment occur within 12 months of the previous assessment?"

Currently, the Department has set a benchmark of 90% for compliance with assessment timeliness. Results are measured against this benchmark during each quality monitoring cycle. During the 2006-2007 internal monitoring cycle, 95% compliance was achieved. The Department does not set the benchmark for assessment timeliness at 100% because there are routine reasons that an assessment may not be completed on time. Two examples of these reasons include the client's inability to meet with the case manager to do the assessment and delays in locating a provider of personal care.

After the statewide single audit is distributed at the federal level, federal agencies will be in a position to work with ADSA to determine if the questioned costs identified in the audit need to be adjusted or repaid.

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 036

**Finding:** Department of Social and Health Service, Health and Recovery Services Administration, does not have adequate controls to ensure providers meet ongoing eligibility requirements to participate in the Medicaid program.

**Resolution:** This finding noted concerns about respiratory therapists, adult day health providers, and durable medical equipment (DME) providers. The Department concurs with this finding and is improving the monitoring of these providers' licenses as follows:

In February 2009, Health and Recovery Services Administration (HRSA) began receiving changes to provider enrollment information from the Adult Day Health Providers program, which is administered by the Aging and Disability Services Administration (ADSA). HRSA received a current listing of all providers contracting with ADSA and currently enrolled with HRSA and other administrations. HRSA will be notified by the ADSA program manager when there are changes in the licensure of a provider.

In March 2009, HRSA modified WAC 388-530 removing the requirement that all DME providers must have appropriately trained and qualified staff to be eligible as a Medicaid provider. The public hearing was held January 27, 2009, and the rule was filed with an effective date of March 1, 2009.

In May 2009, HRSA sent letters to sixteen respiratory therapists requesting documentation of current licensure and status. In June 2009, HRSA reviewed the documentation and licenses requested. As a result, one provider contract was terminated.

In March 2010, the ProviderOne system is scheduled to be implemented. ProviderOne will retain the information on licenses and will automatically generate reminder letters to providers thirty days prior to their license expiration. ProviderOne will also prevent payment if a provider's license is expired at the time of service.

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**Department of Health (DOH)**

**Agency: 303**

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**Audit Report:** 1000952

**Finding Number:** 001

**Finding:** The Department of Health has inadequate controls over the security and monitoring of daily cash receipts.

**Resolution:** In response to the finding, the Department took the following measures:

- The Department reviewed the feasibility of reconfiguring its cash receipting processing area, referred to in the auditor's finding as the "bullpen," to ensure that all staff are within observation while performing cash receipting duties. While a few minor changes were made, the cost of a complete reconfiguration, as recommended by the auditors, is prohibitive given the current budgetary environment.
- The Department shortened its check processing time to facilitate compliance with legal requirements for timing of deposits. Prepared deposits are kept in the safe prior to pick up by the courier for deposit.
- The Department reviewed the access list to the remittance processing room and determined that 26 employees is an absolute minimum given agency security assignments. Revenue office staff have access to the remittance processing room only during normal business hours. This limits the number of employees who have access during non-business hours to emergency personnel, agency executive and support staff. In addition, the Department's Tumwater campus security system records employee access on a twenty-four hour basis.

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**Department of Health (DOH)**

**Agency: 303**

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**Audit Report:** 1000952

**Finding Number:** 002

**Finding:** The Department of Health has inadequate controls over the security of fuel cards and monitoring fuel card purchases.

**Resolution:** In response to the finding, the Department implemented the following measures:

- All but one of the Department of Transportation (DOT) fuel cards were cancelled.
- The one remaining card is secured and accountability for it is assigned to a single employee.
- Fuel cards are no longer stored in vehicles under any circumstances.
- All other fuel cards (for example, Comdata) are attached to the key holder, and there is a sign-out log used each time an employee picks up the keys.

In response to unauthorized fuel purchases reported in the audit, DOT and the Department of General Administration (GA) upgraded the gas theft risk rating of DOT fueling stations and greatly increased the related internal controls and monitoring. On a regular basis, GA reports all suspicious fuel card activity to its customers, including the Department of Health. It is the customer's responsibility for follow-up review or investigation. As deemed appropriate, the Department's Office of Facilities and Business Services requests fuel invoices or special reports to follow up on problems identified by GA.

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**Department of Veterans' Affairs (DVA)**

**Agency: 305**

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**Audit Report:** 1000849

**Finding Number:** 001

**Finding:** The Washington Department of Veterans' Affairs has inadequate controls over security of fuel cards and monitoring of fuel card purchases.

**Resolution:** In response to this finding, fuel cards assigned to the Veterans Home in Retsil were secured and vehicle mileage logs were established. The logs were placed in all Veterans Home vehicles and staff are specifically required to log all miles driven.

Additionally, the Department published and implemented an agency policy specific to the fleet card system to standardize practices and controls for the use of fuel cards at all locations. The Department instituted a monthly reconciliation of vehicle mileage logs to gas purchases, completed by the plant manager at each facility. In addition, accounts payable staff reconcile monthly invoices to fuel receipts for each facility prior to payment.

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**Status of Audit Resolution**

December 2009

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**Department of Corrections (DOC)**

**Agency: 310**

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**Audit Report:** 1000494

**Finding Number:** 001

**Finding** Public funds were misappropriated from the Offender Welfare and Betterment Fund at McNeil Island Correction Center.

**Resolution:** Finding of fraud. Refer to page 99.

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**Department of Corrections (DOC)**

**Agency: 310**

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**Audit Report:** 1000494

**Finding Number:** 002

**Finding:** The Department of Corrections does not have adequate internal controls over local funds.

**Resolution:** The Department's Internal Audit department conducted a full review of all local fund bank accounts and internal control procedures for each institution and headquarters. Each institution reviewed the findings from the Internal Audit review and corrected identified shortcomings. The most common findings were too many people having access to the safe and Trust Accounting System and a lack of segregation of duties related to managing local fund bank accounts.

In May 2008, the Department had a meeting with all local business managers to review expectations of appropriate internal controls, the conditions that led to the theft at McNeil Island Corrections Center, and lessons learned from the theft. Refer to the finding of fraud page 99.

The Department reviewed Trust Accounting System access and restricted unnecessary access. The Department's internal audit team reviewed the updated access to make sure it provides good segregation of duties.

The Department completed a standard procedures manual for all local funds in June 2009. This requires all bank reconciliations, financial statements and Agency Financial Reporting System (AFRS) entries to be completed by the 15th of the subsequent month and signed copies of all bank reconciliations to be sent to headquarters for review by the 25th.

After reviewing information for accuracy and reasonability, the headquarters local funds staff sends a monthly report to the Department's comptroller by the first of the month documenting completion of previous month's bank reconciliations, financial statements, and AFRS entries by cutoff. The comptroller will follow up with any manager that fails to meet expectations.

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**Superintendent of Public Instruction (SPI)**

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**Agency: 350****Audit Report:** 1000730**Finding Number:** 001

**Finding:** The Office of Superintendent of Public Instruction does not have adequate internal controls in place to ensure all personal service, client service and purchased service contracts and amendments comply with the State Administrative and Accounting Manual and General Administration Office regulations.

**Resolution:** Initially, the Office of Superintendent of Public Instruction (SPI) notified all division heads and requested they contact vendors without approved contracts and have them stop work until contracts were fully approved. SPI then took the following actions:

1. SPI initiated discussions with all of its divisions to determine the cause of the contracts issues and why the issues occurred. Three main causes were identified: the contracts office not returning the contracts to the divisions timely, the vendors not returning the contracts timely, a misunderstanding by contract managers that legislatively mandated contracts must comply with the same requirements as all other contracts regarding approval dates, etc.
2. SPI changed procedures so the status of contracts is reviewed on a weekly basis. The contracts administrator meets with all divisions with current contracts in the process of approval to discuss timelines and ensure that requirements are being met. In addition, the chief of staff and assistant superintendent of Financial Services both approve all contracts and meet weekly with the contracts administrator to discuss any questions they have prior to approval. This additional review and inquiry helps to ensure compliance with contract provisions.
3. SPI has assigned a person from each division to be the point of contact responsible for contract review prior to submission to the Contracts Office.
4. SPI is sharing best practices among its divisions and periodically discusses contract requirements at director's meetings to reinforce the importance of compliance with contract regulations.
5. SPI utilizes the state contracting requirements detailed in the *State Administrative and Accounting Manual* to ensure compliance with all contracts.

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**Department of Early Learning (DEL)**

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**Agency: 357****Audit Report:** 1000739**Finding Number:** 001**Finding:** The Department of Early Learning did not have internal controls in place or perform adequate monitoring to ensure background checks are performed for childcare providers as required by state law.**Resolution:** This finding pointed out a need for improvement in three key areas related to background checks for childcare providers: provider training, provider monitoring, and timeliness of background checks. The Department addressed this finding as follows:

The Department communicated the background check requirements to all childcare providers via a provider letter, a posting to the Department's website, and an email alert through the Department's email distribution system. The background check requirements are also covered in provider orientation which is mandatory for new licensees.

While each provider has responsibility to ensure background checks are completed on all its employees that have access to children, this requirement is monitored by the Department during the routine licensing monitoring visits. In April 2008, the Department issued a revised policy strengthening expectations around background check verification and documentation. The policy was sent to all licensors and was reviewed via teleconference with all supervisors.

The issue of timeliness concerns the speed at which fingerprint checks are done and the process for handling rejected applications. The Department is working with a private company to implement electronic fingerprint transfers. This new process will improve both the quality and speed of background checks. Implementation is planned for the first quarter of 2010.

For rejected background check applications, the Department sends out notification letters to providers and licensees informing them that the application has missing or incomplete information. Once the letter has been sent, the Department's Background Check Application System tracks all outstanding applications. The Department uses this system for license monitoring to determine if a background application has been made and to check the status of a background check at a provider's request.

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**Department of Early Learning (DEL)**

**Agency: 357**

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**Audit Report:** 2008 F

**Finding Number:** 013

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

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

**Status of Audit Resolution**

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**Department of Early Learning (DEL)**

**Agency: 357**

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**Audit Report:** 2008 F

**Finding Number:** 015

**Finding:** The Department of Early Learning does not have adequate controls to ensure that contractors have not been suspended or debarred from working on federally funded programs.

**Resolution:** As a result of this finding, the Department began checking the federal suspension and debarment website for all federally funded contracts, prior to the issuance of a contract. The information from this website is printed out and placed in the official contract file. All contracts issued on or after October 29, 2008, were checked against the suspension and debarment website.

Additionally, with the assistance of the Attorney General's Office, the Department developed a basic contract template for federal contracts which includes the required federal suspension and debarment language. All contracts issued on or after June 30, 2009, contain the suspension and debarment language.

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**University of Washington (UW)**

**Agency: 360**

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**Audit Report:** 1000473

**Finding Number:** 001

**Finding:** The University of Washington lacks adequate controls to safeguard and account for small and attractive equipment.

**Resolution:** Subsequent to the audit, the University performed a risk assessment on equipment between \$300 and \$2,000 and determined that, from a cost-benefit perspective, the University's small and attractive equipment items will continue to be limited to only weapons. This is consistent with the University's long-standing policy. The University will review this decision when it updates its risk assessment every three years.

University policy and controls have been in place over small and attractive assets (other than weapons) for many years. Specifically, University policy:

- Recommends that items of a sensitive nature other than weapons and firearms "be internally inventoried, inscribed or marked with indelible ink as property of the University of Washington, or affixed with a barcoded noninventorial tag."
- Requires any theft be reported immediately to the University Police or, if off campus, to the nearest police station. In addition, documentation is required for lost or stolen equipment, including proper departmental authorization, police case number (for stolen equipment), date, and circumstance of loss or theft. Where pertinent, federal agencies are also to be informed with a statement concerning when the item was last seen.

That said, in response to the issues noted related to firearms inventory in the University Police Department, the University refined its policies to protect its assets from loss or misuse. Departmental inventory contacts are trained on the procedures prior to obtaining access to the University's asset tracking system. However, because the University Police Department keeps a separate log of firearms, the University's trained inventory contact does not always receive location and custodian changes in a timely manner.

To address this situation, the University's central Equipment Inventory Office worked with the Police Department to make sure its workflow and controls are consistent with applicable policies, facilitating timely update to the asset tracking system and adequate backup when unexpected personnel absences occur. The Police Department circulated an internal memo for review and employee signature that described the issues that came up during the audit and re-emphasized the importance of following those established policies.

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**University of Washington (UW)**

**Agency: 360**

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**Audit Report:** 2008 F

**Finding Number:** 037

**Finding:** The University of Washington was reimbursed by its Vision Research Program for unallowable charges.

**Resolution:** The University augmented existing internal controls in the Animal Care and Use Program in the areas of increased communication, training, and monitoring; development of guidelines; and revisions to forms and standard operating procedures to prevent unauthorized procedures from being paid for with grant funds.

The University resolved all compliance issues related to this condition with the National Institutes of Health Office of Laboratory Animal Welfare. The total amount refunded and to be refunded for unallowable charges is \$20,783.

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**The Evergreen State College (TESC)**

**Agency: 376**

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**Audit Report:** 1001797

**Finding Number:** 001

**Finding:** An employee at the college misappropriated at least \$50,000 in public funds from the Academic Travel Program between January 1, 2005 and September 30, 2008.

**Resolution:** Finding of fraud. Refer to page 100.

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**Western Washington University (WWU)**

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**Agency: 380**

**Audit Report:** 1000929

**Finding Number:** 001

**Finding:** Western Washington University lacks adequate controls over monitoring, safeguarding, tracking and accounting for its assets and inventory.

**Resolution:** In response to this finding, the University:

- Performed a risk assessment for identifying small and attractive assets.
- Updated inventory policies to reflect the risk assessment results in compliance with the *State Administrative and Accounting Manual (SAAM)* policy on small and attractive assets.
- Completed a physical inventory in compliance with SAAM.
- Implemented a new procedure to ensure appropriate assets are tagged and entered in the asset management system. The procedure assigns responsibility for various tasks to staff in the University's Central Stores unit and the departments making purchases.
- Improved the tracking of surplus assets by creating a database of asset data, assigning a unique tracking number for each asset, labeling the asset, and following its movement from pickup to disposal.

The University is in the process of preparing a formal reconciliation of inventory count to inventory records with an expected completion date of December 31, 2009.

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**Department of Transportation (DOT)**

**Agency: 405**

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**Audit Report:** 1001050

**Finding Number:** 001

**Finding:** The Department of Transportation did not comply with state contracting and purchasing laws.

**Resolution:** The Department is working to strengthen internal controls over purchasing and contracting in its Ferries Division to ensure compliance with state rules as well as internal policies and procedures. The Department took steps to improve oversight over purchasing by moving eight buyers from the Vessel Maintenance and Administrative Services Divisions into a new section within Finance and Administration at Ferries, and by reminding employees of their responsibility regarding purchasing rules. Two Ferries Division employees have completed public procurement training and achieved their Certified Professional Public Buyer certification.

Training sessions for Ferries Division purchasing staff were held, including joint training sessions with the Accounting expenditure staff which helps ensure consistency and compliance through the purchase to payment process. Additionally, headquarters staff conducted training classes on contracts for all headquarters and regional staff responsible for contracts and agreements, including Ferries Division employees, to ensure contract rules and regulations are followed throughout the Department.

The Ferries Division is in the process of phasing out the use of temporary employment agencies. Currently, there is only one temporary employee at the Ferries Division. A purchased services contract for temporary personnel was finalized to ensure the use of temporary personnel complies with state contract rules and regulations, should the need arise in the future. The contract was competitively bid.

In terms of the audit's recommendations regarding meals with meetings, the Department will continue to work hard to ensure compliance with state laws and rules in this area. Appropriate staff reviewed the meals with meetings rules and regulations to ensure future compliance.

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**Department of Ecology (ECY)**

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**Agency: 461****Audit Report:** 1001212**Finding Number:** 001**Finding:** The Department of Ecology does not have a process to ensure its asset management system is properly used and monitored, resulting in an inaccurate inventory and an increased risk of loss or misappropriation of state resources.**Resolution:** In response to this finding, the Department took or will take the following steps:

- Designated an agency inventory officer with asset inventory and tracking oversight responsibility and authority.
- Will establish policies and procedures to ensure assets reported as lost, missing, or disposed of are removed from the Capital Asset Management System (CAMS) in a timely manner.
- Will establish within Department policy a physical inventory schedule that meets the two-year physical inventory requirement, while taking into consideration peak work periods for Department programs.
- Will conduct a complete physical inventory of assets recorded in CAMS and program unique systems, reconcile any differences, and remove any missing or surplus assets. The Department will make every attempt to locate missing items and investigate any significant or recurring losses.

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**Department of Ecology (ECY)**

**Agency: 461**

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**Audit Report:** 1001212

**Finding Number:** 002

**Finding:** The Washington Department of Ecology is not safeguarding fuel cards nor monitoring fuel card purchases, increasing the risk of loss or misuse of state resources without detection.

**Resolution:** The Department took or will take the following steps in response to the finding:

- Revised the vehicle mileage log form to address fuel purchase card usage for purchases for assigned vehicles or ancillary equipment.
- Will update policies relating to Department vehicles to ensure fuel purchase cards are secured and monitored.
- For all of its locations, the Department will ensure that fuel purchase cards are secured when not in use.
- Will educate drivers by putting materials in the vehicle binders, putting an article in the Department's newsletter, sending emails, covering the information during defensive driving training, and through conversations with managers and drivers. This has started and will be an ongoing activity.
- Will reconcile the invoices from the state fuel card contract vendor and Department of Transportation with purchase logs each month. If any discrepancies are found, the key controller for the card in question will be notified to contact the driver and update the logs. Any misuse identified will be addressed in accordance with Department policy. This procedure started with the August 2009 billing and will be an ongoing activity.

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**Recreation and Conservation Funding Board (RCFB)**

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**Agency: 467**

**Audit Report:** 2008 F

**Finding Number:** 006

**Finding:** The Recreation and Conservation Office does not have adequate internal controls over subrecipient monitoring.

**Resolution:** The Recreation and Conservation Funding Board (Board) developed a formal risk assessment tool and process. With the implementation of this tool in December 2009, risk assessments will now be conducted on all grantees on a biennial basis when new grants are funded. The results of the assessment are used to categorize the grantee as high, medium, or low risk, and that risk category influences the level of subrecipient monitoring required. For example, for each active grantee in the high-risk group, the Board plans to perform a desk review or a site visit within each two-year period and may require more frequent progress reports.

The Board's subrecipient monitoring has evolved into a five-pronged approach:

1. Invoice review: Prior to payment of invoices, fiscal staff review the expenditure listing to ensure items are allowable under the grant, costs are within limitations of the grant, and expenditures are within the timeframe of the grant.
2. Desk review: In August 2008, fiscal staff started performing desk reviews to ensure costs reimbursed are accurate and allowable. These are after-the-fact reviews of grantees, checking source documents such as timesheets, vendor invoices, and bank records against amounts billed to the Board.
3. Audit review: Annually, fiscal staff review the audit reports of all grantees required to undergo a federal audit. For grantees not required to have an audit, staff ensure there is a letter on file certifying the grantee is below the dollar threshold requiring a federal audit.
4. Site visits and training: Both the desk reviews and feedback from subrecipients indicated that many grantees were in need of training on some basic grant requirements such as timekeeping. As a result, fiscal staff now conduct weekly online training sessions that allow grantees to participate in real-time and ask specific questions. Staff will also be visiting a large proportion of the high-risk grantees over the next two years. The purpose of these visits is to review the subrecipient's records and processes, answer their specific questions, and provide additional training to grantee staff.
5. Review of closed grants: Starting in March 2009, each time an agreement is closed, grant management staff review the grant project file and the Board's project information system to ensure site inspections, project deliverables, and final reports are complete and adequately documented.

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**Status of Audit Resolution**

December 2009

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**Department of Fish and Wildlife (DFW)**

**Agency: 477**

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**Audit Report:** 1001214

**Finding Number:** 001

**Finding:** The Department of Fish and Wildlife has inadequate controls over bulk fuel reporting and monitoring.

**Resolution:** A draft policy and procedure is currently going through the Department's final review and approval process. The policy and procedure establish tighter controls over bulk fuel by requiring issuance of a monthly usage report to the asset manager and internal auditor for trend and usage analysis and providing for follow up through the chain of command for sites not reporting. The approved policy and procedure will be communicated to Department staff by posting the policy on the agency website and sending an agency-wide email informing staff of the policy.

In addition to the revised policy, existing controls were tightened to include a monthly review by site of all bulk fuel usage at the central office level. The monthly report includes a detailed list of each piece of equipment using bulk fuel that month. The report provides usage for gasoline and diesel and includes lawn mowers, generators, vehicles, pumps, tractors, chain saws, off-road vehicles, etc. It summarizes the gasoline and diesel usage separately by site by month. The central office monitoring includes looking at trends and investigating monthly anomalies in usage. A copy of this monitoring procedure was provided to the auditors.

In addition, in October 2009, the Department sent out an agency-wide survey on bulk fuel tanks. The results of the survey were received and provided the information needed to update the Department's bulk fuel tank inventory.

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**Department of Agriculture (AGR)**

**Agency: 495**

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**Audit Report:** 1001664

**Finding Number:** 001

**Finding:** The Department of Agriculture has inadequate internal controls over revenue collection in the Plant Services Division.

**Resolution:** In response to this audit finding, the Department has strengthened internal controls as follows:

In regards to the nursery inspector invoices, the Plant Services Division implemented the following procedure:

1. Headquarters staff distribute prenumbered invoices to each nursery inspector to use for billing their services. Staff maintain a spreadsheet application to record, monitor, and track the invoices.
2. Nursery inspectors issue invoices at the time services are provided. On a weekly basis, inspectors send copies of the issued invoices to headquarters.
3. Headquarters staff update accounts receivable records and perform a monthly reconciliation of invoices distributed to each inspector. Staff document the results and submit the reconciliation to the program manager.
4. Program manager reviews and signs the monthly reconciliation.
5. Program manager submits monthly reconciliation to chief financial officer.
6. Program manager follows up with inspectors on invoices issued to the inspectors but not yet used or reported on that are over 120 days outstanding.

In regards to the Prosser Laboratory invoicing, the Plant Services Division decommissioned the invoicing feature of the laboratory computer application in July 2009. Instead of issuing invoices, the laboratory staff send all billing information electronically to headquarters and prenumbered invoices are issued from the Olympia office.

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**Seattle Community Colleges - District 6 (SCCD-6)**

**Agency: 670**

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**Audit Report:** 1000493

**Finding Number:** 001

**Finding:** Seattle Community Colleges' internal controls over payroll at the Maritime Academy were inadequate.

**Resolution:** In order to prevent a similar situation from occurring in the future, the District's payroll department runs a "multiple jobs" report just after the start of each quarter showing which employees are working more than 133%. This percentage was chosen because it will include full-time faculty members who are teaching an additional class (one class = 33% of a load). These reports are then sent to the vice president of instruction (VPI) at each college asking if the workload indicated on the report is legitimate and whether there is a timeframe conflict. The VPIs confirm that they reviewed the list and addressed any concerns if there are any noted.

With respect to the specific situation identified in the finding, a repayment agreement was signed by both parties in October 2009. The individual will be making annual payments of \$2,000 for the next three years. Per RCW 43.09.330, both the Attorney General's Office and State Auditor's Office were involved in reaching this loss settlement.

Additionally, on October 3, 2008, an ethics complaint was filed with the Executive Ethics Board. The District provided to the Executive Ethics Board a file containing numerous email communications between the individual and a third party, showing that the individual used state resources and work time for personal gain. As of November 11, 2009, the District has yet to hear from the Executive Ethics Board regarding this complaint.

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**Status of Audit Resolution**

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**Tacoma Community College (TCC)**

**Agency: 678**

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**Audit Report:** 1000073

**Finding Number:** 001

**Finding:** Public funds were misappropriated at Tacoma Community College and food service records falsified in an attempt to conceal the losses.

**Fraud Amount:** Finding of fraud. Refer to page 102.

**Status of Audit Resolution**

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**State Board for Community and Technical Colleges (SBCTC)**

**Agency: 699**

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**Audit Report:** 1000924

**Finding Number:** 001

**Finding:** The Center for Information Services did not comply with state travel and contract filing regulations.

**Resolution:** The Center for Information Services (CIS) ceased to exist as a separate entity and became a division of the State Board for Community and Technical Colleges (State Board) as of July 1, 2008. The finding reported in this audit was related to activities prior to assumption of responsibilities by the State Board.

Once CIS became part of the State Board, the CIS employees and operations became subject to the internal and administrative controls of the State Board which include controls to ensure compliance with state travel regulations and personal service contract filing regulations. Under State Board policies, all travel and personal service contracts, including those operations formerly known as CIS, are monitored for compliance with state rules.

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**Schedule 2 – Fraud Findings by Agency**

December 2009

<b>AGENCY NUMBER</b>	<b>AGENCY</b>	<b>AUDIT NUMBER</b>	<b>FINDING NUMBER</b>	<b>PAGE</b>
300	Department of Social and Health Services	2008 F .....	002 .....	93
300	Department of Social and Health Services	2008 F .....	010 .....	95
300	Department of Social and Health Services	2008 F .....	014 .....	96
300	Department of Social and Health Services	2008 F .....	019 .....	97
300	Department of Corrections	1000494 .....	001 .....	99
376	The Evergreen State College	1001797 .....	001 .....	100
690	Tacoma Community College	1000073 .....	001 .....	102

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## Status of Resolution of Reported Frauds

December 2009

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**Department of Social and Health Services (DSHS)**

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**Agency: 300**

<b>Audit Report:</b>	2008 F
<b>Finding Number:</b>	002
<b>Finding:</b>	Food Assistance public funds were misappropriated at the Department of Social and Health Services' Economic Services Administration.
<b>Fraud Amount:</b>	\$74,460
<b>Recovery to Date:</b>	\$20,000
<b>Resolution/Status:</b>	<p>The Department took the following steps to prevent an incident such as the one noted in the finding from happening again:</p> <ul style="list-style-type: none"><li>• In the initial stages of the internal investigation, the Economic Services Administration (ESA) ran a query that included characteristics of the misappropriation case by running and reviewing the "date processed" report to see if there were any questionable timeframes. No additional cases were identified from the report.</li><li>• In addition to mandatory monthly random supervisory audits and the Basic Food Program management evaluation audits, ESA now requires supervisors to run and review a monthly "date processed" report to see if there are any questionable timeframes. Cases are reviewed and appropriate action taken if a questionable timeframe is identified. Each of the six regions is required to report monthly that offices in their region have completed this requirement. The first report was due on April 10, 2009. All regions report monthly to headquarters when they have completed the review.</li><li>• On February 25, 2009, the Department sent a memo to the field reminding all field staff about:<ul style="list-style-type: none"><li>◦ The state law and Department policy requiring staff to promptly notify the State Auditor's Office of any known or suspected loss of public funds.</li><li>◦ Department policy regarding allegations of employee criminal activity.</li><li>◦ Department policy regarding standards of ethical conduct for employees.</li></ul></li></ul> <p>After the statewide single audit has been distributed at the federal level, federal agencies will be in a position to work with ESA to determine if the questioned costs identified in the audit need to be adjusted or repaid.</p>
<b>Criminal Action Taken:</b>	Criminal charges were filed and judgment entered for full restitution to the Department. Initially, the ex-employee was charged with welfare fraud, a felony, but was allowed to plead guilty to second-degree attempted theft, a gross misdemeanor, by promising to pay back the money.

**Status of Resolution of Reported Frauds**

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**Personnel Action Taken:** The employee resigned.

**Amount to be Recovered:** \$78,531 (includes amount of the misappropriation plus \$4,071 in related audit and investigation costs)

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**Status of Resolution of Reported Frauds**

December 2009

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 010

**Finding:** Federal funds were misappropriated at the Department of Social and Health Services' Division of Children and Family Services.

**Fraud Amount:** \$2,250 \*

**Recovery to Date:** \$0

**Resolution/Status:** Effective internal controls in this case, which involved a two level review, resulted in discovery of the misappropriation. The supervisor referred the travel reimbursement request to the area administrator due to the amount requested. The area administrator reviewed case entries and contacted clients to confirm whether the social worker actually made home visits as claimed. This led to the discovery of the employee's falsified records.

During June 2009, Children's Administration (CA):

- Contacted the federal agency and determined the appropriate amount to be repaid.
- Submitted financial information to OFR for collection of the misappropriated amount. The collection process will automatically return the federal portion to the granting agency.

The fraud has made CA staff more aware of the need for vigilance when reviewing travel reimbursement requests from staff.

**Criminal Action Taken:** The individual was charged with theft in the second degree, but did not appear for the scheduled trial.

**Personnel Action Taken:** Disciplinary action resulted in the termination of the employee involved.

**Amount to be Recovered:** \$3,780 \* (includes amount of the misappropriation plus \$1,530 in related audit/investigation costs)

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\* Amounts displayed are preliminary. Final amounts to be determined.

**Status of Resolution of Reported Frauds**

December 2009

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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 2008 F

**Finding Number:** 014

**Finding:** Child Care public funds were misappropriated at the Department of Social and Health Service's Economic Services Administration.

**Fraud Amount:** \$130,377

**Recovery to Date:** \$0

**Resolution/Status:** Economic Services Administration reviewed internal controls and implemented an automated process to strengthen existing internal controls. The new process went into effect June 1, 2009, and requires a supervisor review of authorization requests prior to authorizing exception payments.

Annually, all Department employees are required to review and sign the Employee Annual Review checklist that covers the Department's policy on standards of ethical conduct for employees.

Refer also to the resolution for audit report 1001539 finding number 003 on page 27.

**Criminal Action Taken:** The Office of the Inspector General turned over the entire prosecution packet to the U.S. Attorney's Office. The U.S. Attorney agreed to take the case and prosecute the two nonpermanent employees on criminal charges (fraudulent use of social security numbers when they defrauded the Childcare Program). The agent assigned to the case advised there likely will be no action until early 2010.

**Personnel Action Taken:** The following personnel actions were taken:

- The two non-permanent employees were dismissed from state service on January 8, 2008.
- The permanent employee was placed on home assignment from January 16, 2008 through February 1, 2008, while the case was investigated by the Washington State Patrol (WSP). The WSP found no wrongdoing on the part of the employee. The employee returned to work February 2, 2008.

**Amount to be Recovered:** \$134,202 (includes amount of misappropriation plus \$3,825 in related audit/investigation costs). This is the recommendation that will be submitted during the penalty phase of the investigation/prosecution.

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**Status of Resolution of Reported Frauds**

December 2009

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**Department of Social and Health Services (DSHS)**

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**Agency: 300**

<b>Audit Report:</b>	2008 F
<b>Finding Number:</b>	019
<b>Finding:</b>	Public funds were misappropriated at the Department of Social and Health Services' Division of Developmental Disabilities.
<b>Fraud Amount:</b>	\$99,290
<b>Recovery to Date:</b>	\$0
<b>Resolution/Status:</b>	<p>In response to this finding, the Department enhanced oversight of payments and authorized services. In July 2009, the Division of Developmental Disabilities (DDD) implemented changes to its Social Services Payment System (SSPS) monitoring policy to specify monitoring roles and documents that require review. On a monthly basis, supervisors now review payment output reports, one of which was designed to highlight possible duplicate authorizations. The supervisors document their findings in the SSPS Report Reviews database. Findings are retained for at least three years and include documentation of follow-up action taken when problems are noted.</p> <p>Supervisors review one case file per case resource manager (CRM) per year for non-waiver clients and one case file per CRM per quarter for waiver clients. DDD Central Office selects the files to be reviewed either randomly or based on specific criteria, depending on the client's program. Files are monitored for appropriateness of services currently authorized. Any suspected fraud is reported to the Central Contract Services Office and the Division of Fraud Investigations or Medicaid Fraud Control Unit (MFCU) as appropriate.</p> <p>The Department is seeking to recover the amount misappropriated by the employee and the home health agency as well as all investigative costs.</p> <p>Refer also to the resolution for audit report 1001539 finding number 003 on page 27.</p>
<b>Criminal Action Taken:</b>	In February 2008, the Department referred the employee who misappropriated \$8,290 and the home health agency that received approximately \$91,000 to the Attorney General's Office and MFCU. Charges have been filed and all parties pleaded guilty.
<b>Personnel Action Taken:</b>	The employee resigned.
<b>Amount to be Recovered:</b>	\$99,290

State of Washington

**Status of Resolution of Reported Frauds**

December 2009

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**Status of Resolution of Reported Frauds**

December 2009

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**Department of Corrections (DOC)**

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**Agency: 310**

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**Audit Report:** 1000494

**Finding Number:** 001

**Finding:** Public funds were misappropriated from the Offender Welfare and Betterment Fund at McNeil Island Correction Center.

**Fraud Amount:** \$170,000

**Recovery to Date:** \$120

**Resolution/Status:** On November 30, 2007, staff at the McNeil Island Corrections Center (MICC) received an inquiry from Bank of America regarding a check issued from their Offender Welfare and Betterment Fund. MICC staff reviewed a faxed copy of the check and deposit slip received from the bank and noted the check written to an employee's spouse and deposited in their joint bank account. MICC staff notified the Department's internal auditor who went to MICC and investigated the situation. The Department also notified the State Auditor's Office as required by law.

The Department's internal auditor identified problems with internal controls at MICC including access to the safe, timeliness of bank reconciliations, and segregation of duties. The local business advisor made necessary changes to improve these internal controls by restricting access to the safe, changing employees' duties and monitoring to ensure assigned staff complete bank statement reconciliations by the 15th of the month. Designated staff are now also conducting safe audits randomly without prior knowledge of staff.

The Department's headquarters staff are currently reviewing MICC monthly bank reconciliations for accuracy, reasonableness, and timeliness. Refer also to the resolution for finding number 002 on page 73.

**Criminal Action Taken:** On August 15, 2008, a felony judgment for \$177,633 in restitution to the Department was entered in Pierce County, Washington, number 08-1-03777-2.

**Personnel Action Taken:** The employee was terminated by the Department on February 22, 2008.

**Amount to be Recovered:** \$177,663 (includes amount of misappropriation and \$7,663 in related audit/investigation costs)

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**Status of Resolution of Reported Frauds**

December 2009

**The Evergreen State College (TESC)****Agency: 376**

<b>Audit Report:</b>	1001797
<b>Finding Number:</b>	001
<b>Finding:</b>	An employee at the college misappropriated at least \$50,000 in public funds from the Academic Travel Program between January 1, 2005 and September 30, 2008.
<b>Fraud Amount:</b>	\$50,000
<b>Recovery to Date:</b>	\$23,579
<b>Resolution/Status:</b>	<p>The College's academic deans are responsible for ensuring that faculty participating in study abroad programs are trained on and complying with the following existing policies and procedures:</p> <ul style="list-style-type: none"> <li>• Students are to deposit funds for travel/program expenses, if not assessed at the time of registration, directly with the College at the Cashier's Office.</li> <li>• All travel arrangements must be made through the College Travel Office unless approved in writing by the budget dean.</li> <li>• Contracts must be signed by an appropriate college official, not the faculty.</li> <li>• Faculty are required to provide appropriate supporting documentation for all expenditures.</li> <li>• Faculty will complete and submit all required forms, contracts, and waivers for overseas travel to the proper college office prior to the travel.</li> </ul> <p>In response to this finding, the College developed and implemented a plan for the academic budget dean, Budget Office staff, Business Office staff, and the coordinator of international programs to meet with all faculty participating in a travel abroad program to train them on the appropriate policies and procedures. The meeting will be held prior to the start of each academic year. The first meeting was held in October 2009.</p> <p>Faculty are required to sign a statement that they have read the policies and understand the conditions for travel abroad. As part of the training, the College will include a checklist that is to be completed and signed by the faculty for each program to ensure compliance with policies. Students are instructed by the faculty to deposit all related travel funds directly with the College, not the faculty. The academic budget staff reconcile the student payments to the travel program participants.</p>
<b>Criminal Action Taken:</b>	The case was referred to Thurston County Prosecutor's Office. At this time, they have opted not to prosecute case.
<b>Personnel Action Taken:</b>	Personnel action is in process and resolution is expected by December 31, 2009.

**Status of Resolution of Reported Frauds**

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**Amount to be Recovered:** The College received approval from the Attorney General's Office and the State Auditor's Office to settle the case for \$23,579.

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**Status of Resolution of Reported Frauds**

December 2009

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**Tacoma Community College (TCC)**

**Agency: 678**

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**Audit Report:** 1000073

**Finding Number:** 001

**Finding:** Public funds were misappropriated at Tacoma Community College and food service records falsified in an attempt to conceal the losses.

**Fraud Amount:** \$14,588

**Recovery to Date:** \$0

**Resolution/Status:** The College changed its management structure for the food service operation and established internal controls including monitoring and oversight over cash handling. Specifically, the College instituted cash handling procedures for both the cashiers and their managers. The procedures list daily requirements for cash control as well as specific actions that are prohibited. Each food service cashier and manager is required to sign a copy of the procedures, acknowledging that they have read and understand the cash handling procedure.

**Criminal Action Taken:** The College filed a police report with Tacoma Police Department regarding the theft. The case number is 082800557. The case is in active investigation status.

**Personnel Action Taken:** The employee who misappropriated the funds and falsified records resigned her position. In her resignation, she stated her intention to make restitution for her actions.

**Amount to be Recovered:** \$29,123 (\$14,588 plus \$14,535 in related audit costs). This is the recommendation that will be submitted by the District Attorney during the penalty phase of the investigation/prosecution.

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