

STATE OF WASHINGTON
OFFICE OF FINANCIAL MANAGEMENT

2010 Audit Resolution Report

ACCOUNTING DIVISION
DECEMBER 2010

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STATE OF WASHINGTON

AUDIT RESOLUTION REPORT

December 2010

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 (SAO). It also provides an overview of two special SAO reports involving other practices related to financial transactions.

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

This report summarizes the status of resolution of audit exceptions related to regularly scheduled agency post audits, which were reported in individual audit reports, the statewide single audit report, and other special SAO reports. These reports were issued between November 1, 2009 and October 31, 2010. The audit reports issued during that period include 72 exceptions, 4 of which relate to fraud. SAO recommendations resulting from two special reports are also included in a separate section of this report.

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 2010

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107	State Health Care Authority	1003719	001	9
140	Department of Revenue	1003255	001	10
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240	Department of Licensing	1003818	001	15
245	Military Department	1003620	001	16
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300	Department of Social and Health Services	1003750	001	18
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Schedule 1 – Audit Findings by Agency

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2009 F = Statewide Single Audit Report

Supreme Court (SUP)

Agency: 045

Audit Report: 1003491

Finding Number: 001

Finding: The Supreme Court does not have adequate internal controls over cash receipting to prevent or detect the misappropriation of public funds.

Resolution: The Court's case management system is not a cash receipting system. Because case volume is unpredictable, estimating revenue then comparing to actual revenue would not provide an adequate control. All cash receipts are recorded and reconciled. Cases cannot proceed without waiver or the receipt of a filing or other fee. Staff that receipt monies cannot access the case-processing system. Staff is determining if compensating controls, beyond the cash reconciliation process noted above, can be identified and implemented.

All cash receipting duties have been segregated. Deposit staff no longer has control access to the accounting system. Staff independently reconciles all deposits to the accounting system.

Procedures are in place to record all revenue. A procedure ensuring that two people open the mail is now in place. A procedure is also now in place that ensures that the deposit detail reconciles to money deposited.

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Administrative Office of the Courts (AOC)

Agency: 055

Audit Report: 1003489

Finding Number: 001

Finding: The Administrative Office of the Courts did not adequately monitor state grants awarded to courts throughout the state.

Resolution: Administrative Office of the Courts staff is working with local courts to develop a documentation review process that provides the adequate level of control while not being overly burdensome.

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Status of Resolution of Audit Findings

December 2010

Governor's Office of Indian Affairs (INA)

Agency: 086

Audit Report: 1003817

Finding Number: 001

Finding: The Governor's Office of Indian Affairs did not comply with state contracting regulations.

Resolution: By January 31, 2011, the Office will have a signed personal service contract for the current vendor and will file it with the Office of Financial Management (OFM). Also, staff responsible for signing and managing personal service contracts will take the required contracts training.

The Office does not have any current interagency agreements, but understands and will follow appropriate contracting rules for any future interagency agreements, including filing signed contracts with OFM prior to beginning work.

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Department of Commerce (COM)

Agency: 103

Audit Report: 2009 F

Finding Number: 010

Finding: The Department of Commerce, Energy Division, does not have controls to ensure it complies with reporting requirements for the State Energy Program.

Resolution: The required status reports were filed before the audit was completed, and program staff developed a tickler system to ensure that status reports are filed timely in the future.

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State Health Care Authority (HCA)

Agency: 107

Audit Report: 1003719

Finding Number: 001

Finding: The Health Care Authority does not verify the continuing eligibility of Basic Health Plan subscribers in a timely manner, increasing the risk of ineligible individuals receiving Basic Health benefits.

Resolution: The Health Care Authority (HCA) addressed the finding by rewriting WAC 182-25-040(11) to better clarify the process and requirements of recertification, as follows:

- The auditor interpreted the WAC to mean the six month recertification period should be measured from the beginning of the previous recertification, rather than from the end of the previous process as is currently done. This is clarified in the updated WAC. In the interest of administrative simplification, measuring the six month period from the end of the recertification process is adequate. Following the auditor's interpretation would double the cost of recertification which HCA believes would outweigh the benefit that would be received.
- The updated WAC also clarified the methodology to determine enrollees who should receive the twice-annual recertification rather than the annual process.

The updated WAC is effective January 1, 2011.

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Department of Revenue (DOR)

Agency: 140

Audit Report: 1003255

Finding Number: 001

Finding: The Department's internal controls are inadequate to ensure accurate compilation, reporting and safeguarding of unclaimed property to prevent errors and misappropriation.

Resolution: When the auditor called attention to control conditions related to the unclaimed property report process, the Department immediately initiated efforts to enhance its computer system and improve and monitor the work processes in order to eliminate or mitigate the risks identified. It bears noting there is no evidence of improprieties resulting from the conditions cited in the current finding.

Critical system and process improvements necessary to address the identified conditions were prioritized and implemented before the most recent unclaimed property reporting due date of November 1, 2010. System-generated reports to enhance monitoring activities are under development and will be available by April 2011.

Specific actions taken or planned by the Department include:

- Formed a work group, including staff from the Information Services Division and the Unclaimed Property Program, to monitor the progress of enhancements to the unclaimed property system.
- Continued to market and encourage use of the electronic filing option which is more efficient and eliminates many of the manual processing internal control concerns.
- Improved physical security and made changes in retaining reported owner information:
 - Built a secure (locking) storage room and limited access to authorized staff.
 - Changed record retention period to six years, in accordance with the general records retention schedule.
- Took steps, through process improvements and technology solutions, to ensure owner information reported in paper form, compact disc (CD) or diskette is adequately protected against unauthorized changes prior to and during data entry into the unclaimed property computer system:
 - Equipment was installed and workflow processes changed to scan original owner reports as submitted. A batch process is used to ensure reports are scanned. The reports are then scanned a second time where they are prepared for entry into the system.
 - Holder reports (CDs or diskettes) are received directly by a work unit that has no access to modify data. The CDs and diskettes are inventoried and verified as uploaded to a secure read-only network location, then placed in the secure room for storage.
 - A review process occurs when adjustments are made to stock values and dividend amounts.
 - Once owner or refund data is entered into the system, any and all changes to the system will be tracked by logon ID and appropriately monitored on an ongoing basis.

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- System reports for monitoring modifications made to owner report data will be completed by April 2011.
- The Department will initiate a sampling process of verifying refund warrants against source documents by April 2011.

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Department of Labor and Industries (L&I)

Agency: 235

Audit Report: 1002840

Finding Number: 001

Finding: The Department did not adequately monitor contractor deposit accounts and payment overrides.

Resolution: The Department's Specialty Compliance Division's fiscal desk staff is responsible for notifying contractors about inactive account credit balances and forwarding unclaimed balances to the Department of Revenue's (DOR) Unclaimed Property Section. A policy and procedure for notifying contractors about inactive account credit balances and forwarding unclaimed credit balances to the DOR's unclaimed property section on a monthly basis was implemented and the responsibility is defined in the fiscal desk staff's expectations. Contractors are notified about their inactive account and asked whether they wish to maintain the account or have the balance refunded. If no response is received within 30 days, the balance is transferred to DOR. The first set of unclaimed balances for inactive accounts was sent to DOR in August 2009.

The Specialty Compliance Division implemented a new procedure and made changes to its technology to define the circumstances when a fee can be waived and to ensure that justification is documented in advance for any fees that are waived. The system now requires a reason to be entered before a fee can be waived. The program manager for contractor registration now uses monthly reports generated by the system to monitor these actions.

The Financial Services Program fiscal analyst is responsible for reconciling the contractor deposit account (CDA) balance in the Front Counter System against the Agency Financial Reporting System balance. This responsibility is defined in the fiscal analyst's expectations. Information Services created a monthly CDA balance report from the Front Counter System to provide the information necessary for this reconciliation. The Financial Services Program fiscal analyst has performed a monthly reconciliation of the CDA since June 2009.

Formal documentation of procedures in desk manuals was completed in April 2010.

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Audit Report: 1002840

Finding Number: 002

Finding: Internal controls over the Department of Labor and Industries' Front Counter System are inadequate to safeguard public resources.

Resolution: The Department took or will take the following actions to improve transaction review and segregation of duties:

- Developed and implemented policies and procedures for processing nonpermit refunds and, separately, for review and approval of voids and corrections. The policies include management oversight expectations to monitor appropriate processing of voids, corrections, and nonpermit refunds. Training was provided to field office managers, and the duties described in the policies were documented in staff expectations.
- Implemented a new policy limiting the number of sales auditors allowed in each office to two unless a documented exception is granted.
- Implemented a system edit to prevent the changing of in-transmittal dates to periods in which the Department is not open for operation.
- Created service requests to update the Front Counter System. The requested changes include adding an edit to prevent the same user from creating and subsequently voiding a transaction. User requirements are being defined, but the changes will not be implemented until July 2011 due to other software updates.
- Policies and procedures will be created for reconciling non-sufficient fund (NSF) memos with the system. Changes will be made to the Front Counter System to support the monitoring and reconciliation of NSF transactions. The changes will not be implemented until July 2011 due to other software updates.

The Department took or will take the following actions to address the system access issues:

- Implemented a change to the Front Counter System to ensure that users will be locked out after 5 unsuccessful logon attempts. The lockout period lasts 30 minutes unless the user contacts the Information Technology service desk for a password reset. There is also a new report of unsuccessful log in attempts given to the Information Systems Security Office.
- Implemented an agencywide approach to ensure that users are required to re-enter their password after a period of 15 minutes of inactivity. The time-out occurs at the "machine" level making it impossible to access any application without logging into the machine.
- Developed and documented a process to verify that code has not been modified by an unauthorized source. Going forward, the web application development server lab managers still have the same access to source code and production servers. The code promotion process that demonstrates what their access really entails has been documented and reviewed by internal auditors who agree the process maintains the appropriate separation of duties. The state auditors will be returning to the Department at a later date for a demonstration of the code promotion process.

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- Removed access to the production database for 14 programmers who have permission to execute stored procedures. Internal Audit will coordinate with the business unit to verify the fix.
- Will determine what updates to the security matrix are required, including whether changes to the security groups (i.e., the number of users, the specific accesses they have, etc.) are necessary and practical.

To address the issue of inadequate review and documentation of system changes, the Department implemented a new process to review, authorize, and document program changes. After the original adoption, it was determined additional and more detailed procedures are needed. A new peer review team is currently updating procedures.

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Department of Licensing (DOL)

Agency: 240

Audit Report: 1003818

Finding Number: 001

Finding: The Department of Licensing does not adequately monitor vehicle licensing activities by county auditors and subagents to ensure compliance with established policies and procedures which places public funds at risk.

Resolution: The Department appreciates the work completed by the state auditors. While the Department disagrees with the finding, it acknowledges that there is continually room for improvement to any operation. The Department, through oversight and internal control operations, has not identified loss of public funds. It is also noted the risks stated on the part of the auditor are absent evidence of any actual loss.

As part of its continuous improvement process, the Department implemented the following:

- Ensured all contracts for agents/subagents are appropriately executed and are located in the appropriate file.
- Based upon Assistant Attorney General advice, modified Department policy regarding insurance or bond requirements. Contracts, insurance, bond, certificates of appointment, and other required documentation are maintained centrally.
- Established controls so only certified Department personnel have the ability to change system access levels.
- Verified that system access is restricted to correspond with definition of "least privileged access" so that parties having access are granted privileges only to the level of their job responsibilities.

The Department is in the process of formulating options for oversight of voids that are less labor-intensive than those recommended by the auditors. The Department's goal is to exercise higher level of control within the constraints of diminishing resources. Considering insurance or bonding requirements, the Department views risk in the area of voids to be nominal. Options for managing this concern will be based and implemented on risk-appropriate controls.

The Department is looking for alternative methods to resolve suggested control vulnerabilities in "field auditing" by utilizing technology modeling and data mining, and focusing on indicated high risk operations.

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Military Department (MIL)

Agency: 245

Audit Report: 1003620

Finding Number: 001

Finding: The Military Department has an incorrect interpretation of state regulations regarding counting, reconciliation and certification of its asset inventory.

Resolution: The Department completed the inventory counts of all assets on hand as of June 30, 2009, and reconciled all differences. Assets that had been previously surplus were recorded as such in the Capital Asset Management System (CAMS). Items that were not located were reported to the State Auditor's Office and the Office of Financial Management (OFM), as required, and the asset records were updated in CAMS. Completion of the inventory was certified.

A draft of the updated policy and procedure was submitted to OFM for review to ensure compliance with the *State Administrative and Accounting Manual*. Based on comments and concerns provided by OFM, the draft policy and procedure were revised. The revised policy and procedure were signed by the Department's director and became effective November 1, 2010.

Training on the policy and procedure requirements will be provided by the Finance Division to all appropriate staff prior to January 31, 2011.

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Military Department (MIL)

Agency: 245

Audit Report: 1003620

Finding Number: 002

Finding: Washington Military Department's monitoring of Youth Academy purchase card use is not sufficient to prevent or detect misuse.

Resolution: Just as the audit was getting started late in Fiscal Year 2009, the Department became aware of potential problems in the Youth Academy and began developing a more stringent approach to management of purchase card transactions. Implementation of the changes was postponed until the audit was complete in the event other problems were discovered that required additional attention.

Once the audit was complete, the Department took the following actions:

- The purchase card policy and procedures were revised, approved, and signed effective November 1, 2010.
- Every step of the process is clearly articulated, and roles and responsibilities are clarified in the policy revision. The Youth Academy business manager was on the work team charged with rewriting the policy and procedures.
- Training will be provided by the Finance Division to all purchase card holders and users prior to January 31, 2011. As part of the training, all purchase card holders and users will be required to sign an updated user agreement.
- The Department uses an online system for purchase order approval and, with the signing of the new policy, began using this system for pre-approval of purchase card transactions for all purchases over \$500.
- In addition to various review and approval steps in the purchase card process, the Finance Division staff handling purchase card payments will immediately report any noncompliance with agency policy to Finance Division management.

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Audit Report: 1003750

Finding Number: 001

Finding: The Department of Social and Health Services' Children's and Economic Services administrations paid foster care and child care providers who had not cleared background checks.

Resolution: The Department partially concurs with this finding. The finding involved Children's Administration (CA) and the Economic Services Administration (ESA). Each administration provided a response to address the recommendations of the auditor.

Children's Administration

In May 2010, CA reviewed in FamLink, the Department's automated case management information system, each exception identified during the audit and made necessary corrections.

CA is in the process of forming a workgroup to address the audit recommendations. By January 2011, CA will work with the Department's Background Check Central Unit to ensure the communication and training materials to be developed as a result of this finding include accurate information about processing background checks.

Also, CA is currently evaluating its background check policy to ensure it is aligned with current state law and agency rules; developing communication and/or training on background check requirements; and developing additional training around tracking background check information in FamLink.

Economic Services Administration

An automated feature was added to the Barcode system in December 2009 so it now searches for a current background check. If the system cannot find a current background check for the provider, an edit is sent to the caseworker notifying them that a background check could not be found. The edit tells the caseworker to verify that the provider has a current background check before authorizing child care services.

In September 2010, ESA sent a memo to staff reminding them to obtain completed background checks on providers and document their efforts in the electronic case record. The memo addressed the concerns listed in the recommendations made by the auditor. Also, ESA corrected the exceptions identified during the audit.

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Audit Report: 1003750

Finding Number: 002

Finding: The Department of Social and Health Services does not adequately monitor access to critical systems to prevent unauthorized access or misuse.

Resolution: The Department concurs with this finding. Several of the Department's administrations addressed systems access for which they are responsible. Specifically, Central Contract Services (CCS) resolved all exceptions identified during the audit related to the Agency Contracts Database (ACD). The Economic Services Administration (ESA) resolved exceptions identified during the audit related to the Automated Client Eligibility System, Support Enforcement Management System, Electronic Jobs Automated System, and Social Service Payment System.

In June 2010, the Department implemented a process to ensure access to critical systems is terminated when employees are terminated. The Human Resources Department (HRD) distributes a report weekly to the Information Systems Services Division (ISSD), CCS, ESA, and the chief financial officer's (CFO) designees that lists employees terminated the previous week. Based on the report, access is updated as follows:

- ISSD is responsible for removing reported individuals from the Active Directory, mainframe security, virtual private network remote access, and secure email.
- Program staff designated by the CFO is responsible for removing building access and access to systems not covered by ISSD for those employees on the list.
- In June 2010, CCS began using the list to remove access to ACD.
- ESA uses an automated process to compare the ESA list of employees against the HRD list. Access to ESA related systems is deleted if it is determined an individual no longer is employed at ESA or no longer requires access. In September 2010, ESA implemented an additional automated reconciliation process that compares employment changes with system access accounts on a monthly basis.
- Three days after receiving the weekly list, ISSD staff and program staff send an email to the senior director of HRD confirming access has been terminated for employees on the list or providing justification for why it was not eliminated (i.e. the employee was rehired). The senior director monitors responses to confirm reports are returned and signed off. Reports are maintained by HRD.

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Audit Report: 1003750

Finding Number: 003

Finding: Western State Hospital does not have adequate internal controls at the Local Funds Office to prevent unauthorized access or misuse of the patient funds or the petty cash funds.

Resolution: By November 2009, the Department implemented all corrective action based on the recommendations made by the auditors. The recommendations and actions are as follows:

Establish controls over patient funds and petty cash funds to ensure they are safeguarded from loss or misuse.

- The Department implemented the use of two patient fund drawers and one petty cash drawer.
- Each drawer is keyed, with an individual cashier responsible for each drawer.
- If the regular cashier is not available, the key to the drawer is logged out to a substitute cashier.
- Each drawer is balanced daily.

Segregate duties such as preparing, recording, and reconciling account activity to ensure loss or misuse is prevented or detected in a timely manner.

- Staff in the Local Funds Office prepare and record account activity.
- Accounting staff in the Appropriated Funds Office reconcile and audit the local fund account activity. For both patient funds and petty cash, access to the database used to record patient activity is restricted to Local Funds Office staff.
- Patient funds are reconciled daily; petty cash is reconciled weekly; and both bank accounts are reconciled monthly, in compliance with the *State Administrative and Accounting Manual*.

Safeguard all money received by restrictively endorsing checks and using locking bags when transporting.

- Checks are restrictively endorsed upon receipt.
- Locking bags are now used when transferring checks from one office to another.

Patient funds and petty cash should not be comingled.

- Patient funds and petty cash funds are maintained in separate locked drawers.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 1003750

Finding Number: 004

Finding: The Department of Social and Health Services does not perform timely reconciliations of the State Payroll Revolving Account, resulting in losses and errors.

Resolution: The Department concurs with this finding. The Department developed a corrective action plan based on the recommendations of the auditors. All action items outlined in the Department's plan commenced by May 1, 2010. Reconciliation of discrepancies from Fiscal Year 2008 and prior is an ongoing activity as resources are available.

The corrective action items developed by the Department are correcting the deficiencies concerning overpayments, insurance deductions, and garnishments. The specific action items include:

- **Overpayments:** The Department's headquarters Payroll Office has prioritized and will continue to prioritize overpayment identification, reconciliation, and collection within available resources.
- **Insurance Deductions:** The Department developed and continues to refine procedures to reconcile insurance deductions. Reconciliation of the current activity in the insurance premium account will continue to be a priority for the Department.
- **Garnishments:** The Department developed a database in 2008 to appropriately handle garnishments. The database allows the Department to manage garnishments and their distribution. The \$19,000 residual amount from 2006 noted in the finding has been researched with the appropriate authorities and disbursed accordingly.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2009 F

Finding Number: 002

Finding: The Department of Social and Health Services is not complying with federal requirements for allocating employee leave buyouts.

Resolution: The Department concurs with this finding. During 2009, the Department appropriately transferred slightly over \$4.1 million to the termination leave base. Staff who was learning the transfer process relied upon procedures that did not adequately describe the transfer requirements. As a result, the 2009 liquidation portion of the prior year termination leave charges was inadvertently not transferred. The liquidation portion represents about 8% of the total termination leave charges for 2009.

In February 2010, the Office of Accounting Services updated procedures to reflect all parts of the termination leave transfer.

The Department submitted documentation to each granting agency regarding questioned costs. Repayment of the questioned costs is dependent on the granting agency's review of the Department's documentation. Responses from each granting agency are pending.

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Audit Report: 2009 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 law.

Resolution: The Department partially concurs with this finding. This finding was similar to the finding issued for Fiscal Year 2008. As a result of the 2008 finding, the Department planned to amend the Temporary Assistance to Needy Families (TANF) State Plan by eliminating the requirement to sanction 16- and 17-year-old children who are not in school. Also, the Department planned to revise the state rule and WorkFirst Handbook to reflect the change made to the State Plan. However, the Department was unable to implement these changes by the end of Fiscal Year 2009.

The Department proceeded with plans to modify the state rule, and the final state rule was adopted on July 14, 2009. In accordance with the Administrative Procedures Act, it became effective 31 days later. The WorkFirst Handbook was revised to reflect the rule change and also became effective August 14, 2009. The revisions eliminate both the requirement to sanction dependent 16- and 17-year-olds who are not in school and the requirement that these 16- and 17-year-olds attend school. The TANF State Plan was amended in November 2009 to reflect these changes.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2009 F

Finding Number: 012

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

Resolution: Refer to page 59 for the joint response from the Departments of Early Learning and Social and Health Services on this finding.

Department of Social and Health Services (DSHS)

Agency: 300

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Finding Number: 013

Finding: The Department of Social and Health Services, Children's Administration, does not ensure the eligibility of foster care payment recipients prior to paying them.

Resolution: The Department concurs with this finding. The Department performed a comprehensive review to identify all cases that were paid using a source of funds not consistent with the eligibility of the client. These cases were corrected in FamLink, the Department's automated case management information system, which then automatically processed a correction to adjust the funding according to the correct eligibility information. FamLink uses eligibility information on the case to determine the correct source of funds and does not rely on a manual determination from the worker.

On March 1, 2010, the Department released the second phase of FamLink. This allows for additional edits that complement current controls. Two examples of the new system edits are ensuring a valid license is on file before allowing payment for a licensed service and not allowing an in-home service to a child that is in an out-of-home placement.

By June 30, 2010, all exceptions identified during the audit were addressed and funding implications determined. This was done through a process described above where eligibility information found in the payment history file in FamLink was not consistent with the source of funds codes used.

By December 31, 2010, any federal funds drawn down inappropriately will be refunded through the biweekly draw process facilitated by the Department's Office of Accounting Services.

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Audit Report: 2009 F

Finding Number: 014

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

Resolution: The Department partially concurs with this finding. Monitoring of cases for children turning 18 is an area in which the Department is trying to improve. The Department does not agree with attaching questioned costs to cases where a scheduled review has not been done. The intent of a five-year review is not to verify eligibility, but to communicate with the adoptive parent and revisit their adoption agreement. There is no risk in overpayments associated with a five-year review. Exceptions identified in the audit where a five-year review was not conducted did not result in an overpayment, and reviews are no longer required by state law. Given this, the Department incurred no liability for not having performed them.

The Department took the following actions in response to the auditor's recommendations:

- During March 2010, the Department provided training on internal control procedures to staff in offices where internal control exceptions were noted. Program managers met with staff and developed a process that limits payments to children under 18 years old. This process will be used until FamLink, the Department's automated case management information system, is updated to alert staff when a child reaches seventeen and a half years of age.
- By December 31, 2010, the Department will review the cases for exceptions identified because of the ineligibility of the client. Where overpayments were made, corrections will be processed in FamLink, which will automatically return any federal portion of the payment.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2009 F

Finding Number: 015

Finding: The Department of Social and Health Services' internal controls are inadequate to ensure it refunds the appropriate amount to the federal Medicaid program when overpayments to providers are found.

Resolution: The Department concurs with this finding. The Aging and Disability Services Administration (ADSA) and the Health and Recovery Services Administration (HRSA), currently known as the Medicaid Purchasing Administration (MPA), were both involved with this finding.

ADSA agrees with the information in the audit related to Home and Community Based waiver services. The information will be used to review all adjustments and ensure the correct Federal Medical Assistance Percentage (FMAP) rate is charged in the future. Due to administrative and budget-related actions, any adjustments that may be necessary will not be made until the end of December 2010.

MPA acknowledges that the Medicaid Management and Information System (MMIS), in place during the course of the audit, was not capable of identifying the correct FMAP rate for prior year adjustments. ProviderOne, which replaced MMIS, was implemented May 9, 2010. The new system has the capability to calculate the correct FMAP adjustment rate based on the original date of payment. In July 2010, MPA processed a correction for claims covering the period of October 1 through December 31, 2008. This resulted in an adjustment of \$351,299 in favor of the Department.

By December 30, 2010, MPA will complete adjustments for the January 1, 2009 through May 8, 2010 period. The delay is due to the implementation of ProviderOne and the availability of data in the new data warehouse. The necessary claims are being identified now and the appropriate accounting adjustments to the federal share will be included on the current quarter federal report.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2009 F

Finding Number: 016

Finding: The Department of Social and Health Services did not have adequate controls to ensure it complied with federal requirements for allocating employee salaries and wages and other administrative costs in accordance with its Public Assistance Agency Cost Allocation Plan.

Resolution: The Department concurs that certain administrative costs were incorrectly allocated from May through August 2009; however, the Department does not concur with the questioned costs of \$12,163,750. The Department realized the error on August 18, 2009, and took action to correct the misallocation of funds. The cost allocation base information was updated immediately and correcting transactions were processed by the end of September 2009, before the federal claim was processed. Therefore, the Department believes no incorrect federal funds were drawn as a result of the error.

A written procedure was developed and implemented to mitigate the occurrence of future cost allocation base update errors. The procedure requires an Economic Services Administration fiscal staff person to conduct an internal review of cost allocation forms used to update base information prior to submission to the Office of Accounting Services for input. The procedure also requires an internal review of the information entered into the automated cost allocation system to verify that the information was input accurately.

The Fiscal Year 2009 statewide single audit has been distributed at the federal level. The Department is waiting to hear from federal agencies if any questioned costs need to be adjusted or repaid.

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Audit Report: 2009 F

Finding Number: 017

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 concur with this finding for the following reasons:

- Most clients do not have 60 months of financial documents available to provide. This is a very onerous request to make of clients, most of whom have not transferred assets in order to qualify. The process that the client or Department would have to go through to provide that much history would be lengthy and expensive, and it would not meet the federal requirement that policies and procedures for determining eligibility must be conducted in a manner consistent with simplicity of administration and be in the best interests of applicants and recipients.
- The Department would have to pay banks and other financial institutions to provide archived documents that the clients no longer have per WAC 388-490-0005(7). The length of time it would take to request and then review a minimum of 60 financial documents, with the possibility of hundreds more if there are multiple accounts, would make it impossible to meet the Department's standard of promptness for Medicaid applications with existing staff. Many additional staff would be required. Requiring all clients to provide 60 months of bank statements would not be cost-effective.
- Requiring clients to provide five years of financial documents would only pertain to bank accounts that are declared. The Department does not have a system in place to identify undeclared bank accounts and other types of undeclared transfers which is the primary reason for reliance on self-declaration.

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 asset transfers that it becomes aware of through the written application, the subsequent interview, or other means. The Department is continuing the following processes:

- Staff routinely checks online county assessor systems to see if clients have transferred property within the county they reside in based on any known addresses. Most counties limit searches to addresses.
- If the bank statements from the last three or six months contain payments or credits that present red flags, staff looks as far into this as necessary to resolve the issue.
- If the client declares a transfer, staff requests and obtains verification and thoroughly evaluates that transfer to ensure it is consistent with Medicaid rules.
- If the interview is inconsistent with the application, staff evaluates and probes inconsistencies as necessary.
- If staff learns of possible transfers through other means, they always follow up and verify.

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The Department submitted policies and procedures to the Centers for Medicare and Medicaid Services (CMS) Region 10 in June 2009 requesting an opinion as to whether or not the federal guidelines were being met. In its December 2009 response, CMS indicated states have flexibility on implementing the five year look-back provision according to the general “rules of reason.”

The Department believes the response from CMS validates the position that asking for financial documents for the entire look-back period is not required. The Department believes the methods described above meet the “rules of reason” test referred to by CMS in their email.

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Audit Report: 2009 F

Finding Number: 018

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

Resolution: The Department concurs with this finding. The Department does not have a process that provides Medicaid recipients with information on the number of hours billed to the Department by individual providers. The Department is in the process of procuring a Provider Compensation System (PCS) that will improve the verification process. The PCS will be a subsystem of ProviderOne, the new Medicaid Management Information System. It will generate monthly notices to all recipients informing them how many hours were paid to the provider on their behalf during the previous month. The recipients will be instructed to notify the Department if they notice a discrepancy in the hours provided versus the hours billed and paid.

Until the new system is implemented, the Department will rely on the following controls which are currently in place to ensure Medicaid recipients receive the services for which Medicaid is billed:

- Case managers complete an assessment that results in an authorization of hours that cannot be exceeded by a provider invoice.
- Recipients receive a copy of the service summary that tells them the number of hours of service they are eligible to receive. Recipients are advised that they can choose when those hours are provided and direct the individual provider when to provide them. Case managers also advise recipients to contact them if they are not receiving the hours (or care) for which they are eligible.
- Recipients are expected to keep copies of time sheets for their individual providers and case managers periodically review these time sheets and verify with the recipient that authorized services were provided. Case managers are instructed to document the review of time sheets 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.

Additionally, the Department took the following actions:

- In April 2010, the Department sent a letter to all currently authorized individual providers reminding them of their responsibilities as a contracted provider. Specifically, they were reminded of their obligation to maintain records and respond to inquiries to produce documentation.

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- Staff reviewed the document titled “Acknowledgement of My Responsibilities as the Employer of My Individual Providers” with all recipients who employ an individual provider. This activity was completed by October 31, 2010.

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Finding Number: 019

Finding: The Department of Social and Health Services, Health and Recovery Services Administration, does not comply with state law and the federal Deficit Reduction Act of 2005, thereby increasing the likelihood that the state is paying claims that should have been paid by liable third parties.

Resolution: Health and Recovery Services Administration is currently known as the Medicaid Purchasing Administration (MPA). MPA believes it is in compliance with state law and the federal Deficit Reduction Act of 2005. MPA meets this standard by making data available to all insurers to use for third-party liability (TPL) reporting and by matching data directly with those insurers most likely to provide third-party coverage to Medicaid recipients.

MPA's position was corroborated by an independent review. In November 2009, Health Management Systems (HMS) performed an assessment of the MPA's coordination of benefits (COB) operations, including recommendations addressing applicable legislation and state statutes. HMS is currently engaged with 40 Medicaid agencies to conduct TPL identification and recoveries. HMS brings a depth of subject matter expertise in Medicaid TPL best practices as well as a thorough understanding of current technologies and capabilities within the industry. The report indicated the following points (emphasis added):

- "In 2007, Washington passed Substitute House Bill 1826, updating its Medicaid data matching and recovery regulations as required by Section 6035 of the federal Deficit Reduction Act (DRA) of 2005. As a result, Washington's federal DRA compliant laws are fragmented across several sections of state statute"
- "However, despite the fragmentation, *Washington's law is compliant with the requirements set forth in the DRA*"
- "Current state statute instructs *health insurers* to determine joint-beneficiaries – those enrolled in both Medicaid and commercial health insurance."
- "The current language instructs DSHS to focus on the carriers with the highest probability of coverage. It does make sense for DSHS to focus efforts on carriers with large populations. However, these carriers should not be the sole focus."
- "Although improvements can be made to the State's data sharing and matching laws, it should be noted that *Washington has some of the strongest recovery language in the nation.*"

While MPA believes it currently meets legal requirements, the Department is further enhancing data-matching activities with the implementation of the new ProviderOne system which replaced the Medicaid Management Information System in May 2010.

Beginning in July 2010, MPA is now able to send an electronic COB eligibility inquiry to health plans who have signed trading partner agreements with the Department. The trading partners can respond electronically to eligibility inquiries to indicate the availability of third-party health care coverage at a particular time.

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MPA has no authority to compel insurers to sign a trading partner agreement. For those insurers or carriers who may not have their systems ready to participate electronically, MPA continues working with them using the methods currently in place.

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Audit Report: 2009 F

Finding Number: 020

Finding: The Department of Social and Health Services, Health and Recovery Services Administration, does not perform a quarterly retrospective drug use review of pharmaceutical claims data to identify patterns of fraud or abuse as required by federal and state law.

Resolution: Health and Recovery Services Administration is currently known as the Medicaid Purchasing Administration (MPA). This audit area continues to be one in which the auditors and MPA disagree on the intent and focus of the federal requirements. MPA's focus is on the appropriateness of prescribing physicians' drug selection; the auditors' focus is on the usefulness of the utilization review in detecting fraud. MPA has previously requested the Centers for Medicare and Medicaid Services (CMS), Region 10, review MPA's efforts to comply with this regulation and will continue to work with the auditors to verify compliance.

MPA believes that it is in full compliance with the federal rules for retrospective drug utilization review (DUR). Retrospective reviews are conducted for this purpose every quarter. An analysis is completed for each of the measures cited in the federal regulations, and the results of that analysis are reported to CMS. These results are reported on forms CMS specifically created for reporting the results, including overutilization, abuse, and misuse.

MPA's Pharmacy Policy Section uses pharmacy claim data to determine which drugs or classes of drugs will be the focus for each quarter. Predetermined standards are used along with a professional drug advisory committee to monitor all the measures, including overutilization, abuse, and misuse of any medication for that quarter. If "abuse" and/or "misuse" is identified in the process, the suspected abuser is referred to MPA's internal resources: Office of Patient Review and Coordination, the Quality Management Team Unit, the Payment Review Program Unit, and the Office of Payment Review and Audit (OPRA). MPA has designated OPRA as its contact point for referrals to the Medicaid Fraud and Control Unit (MFCU).

MPA's pharmacy administrator attended in-service trainings hosted by CMS to understand the DUR requirement and ensure MPA has activities in place that will support compliance. The pharmacy administrator contacted CMS in September 2009 to confirm that Washington Medicaid was in compliance with the federal requirements regarding retrospective and prospective DUR. The CMS pharmacist sent an email that, MPA believes, verifies Washington's compliance. The email states, in part:

CMS finds that you are conducting your DUR program in accordance with Section 1927 (g) of the Social Security Act. You were acting appropriately to refer identified outliers to your internal audit and integrity section for further investigation. It is their responsibility to refer the case(s) on to MFCU if indeed fraud or abuse has been determined. The DUR program is designed to educate physicians and pharmacists

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and patients on therapeutic appropriateness, over and under utilizations, therapeutic duplication, drug-disease contraindications, drug-drug interactions as well as clinical abuse and misuse.

In February 2010, MPA's pharmacy consultant attended the American Drug Utilization Review Symposium and met with CMS staff who confirmed that Washington was compliant with the federal regulations regarding retrospective DUR.

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Finding Number: 021

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

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. The Department is in the process of procuring a Provider Compensation System (PCS) that will improve the verification process. PCS will be a subsystem of ProviderOne, the new Medicaid Management Information System. When implemented, the new system will generate monthly notices to all recipients informing them how many hours were paid to the provider on their behalf during the previous month. The recipients will be instructed to notify the Department if they notice a discrepancy in the hours provided versus the hours billed and paid.

Until the new system is implemented, the Department will:

- Inform recipients during annual assessments, as well as at the time of contracting with an individual provider, they are responsible for supervising their care provider. If a recipient is unable to do so, agency managed personal care may be available or the recipient and case manager can identify a representative who will monitor services. If a representative is not available, by policy the case manager who monitors the provision of services makes more frequent contacts with the recipient.
- Inform recipients that, as the employer, they can terminate their provider. Also, the Department has the authority to terminate payment if there is a good faith belief that services are not being provided as authorized to a Medicaid recipient.
- Staff is expected to review a sample of time sheets and this expectation was reinforced by a Management Bulletin issued in 2009.

The Department provides the recipient a document titled "Acknowledgement of My Responsibilities as the Employer of My Individual Providers" that explains the above information. Also, 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.

In April 2010, the Department sent a letter to all currently authorized individual providers reminding them of their obligation to maintain records and respond to inquiries to produce documentation.

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Department of Social and Health Services (DSHS)

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Finding Number: 022

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: Health and Recovery Services Administration is currently known as the Medicaid Purchasing Administration (MPA). MPA does not concur with this audit finding. MPA believes there are sufficient controls in place to assure that managed care rates are set based on the verified managed care organizations' (MCO) actual costs of care. Actuarially certified, proprietary cost information is submitted directly to the MPA's actuary from the MCOs. MPA's actuary verifies the information submitted by comparing it to audited financial statements submitted to the Office of the Insurance Commissioner and encounter data submitted to the Department. The actuary also does analysis of prior years, compares MCOs to each other, and resolves outliers that arise from its analyses with the MCOs.

In addition, the MCOs each have compliant fraud and abuse controls to prevent provider fraud. These controls provide reasonable assurance that the data used in rate setting is accurate and complete. This assertion is supported by the fact that MPA has had no findings regarding rate setting in two Centers for Medicare and Medicaid Services (CMS) reviews and has had its rates consistently approved by CMS with their full understanding of the Department's rate setting methodology.

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Finding Number: 023

Finding: The Department of Social and Health Services is not complying with staffing requirements in its Medicaid Eligibility Quality Control project agreement.

Resolution: In August 2009, the Department's Economic Services Administration (ESA) submitted a request for a one-year extension of the Medicaid Eligibility Quality Control pilot project to the Centers for Medicaid and Medicare Services (CMS). ESA noted in the request that the number of staff required to manage the project was reduced. CMS approved the request and notified ESA in October 2009.

ESA requested an extension at the reduced staffing level for federal Fiscal Year 2010, and again CMS approved the request. This process will be repeated annually as long as the pilot program continues.

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Audit Report: 2009 F

Finding Number: 024

Finding: The Department of Social and Health Services, Health and Recovery Services Administration, does not have a system in place to adequately compensate for an inherent control weakness that is susceptible to errors and abuse.

Resolution: Health and Recovery Services Administration is currently known as the Medicaid Purchasing Administration (MPA). MPA concurs with the auditor's recommendation to strengthen controls over the entry of claims into the pharmacy point of sale (POS) system and will continue to explore and pursue these changes via the established system change control process. Some controls have already been identified that have the potential to provide enhanced information to pharmacies via POS. These changes are dependent upon additional information in the Coordination of Benefits (COB) portion of ProviderOne which was implemented in May 2010. MPA is also exploring the feasibility of other cost-avoidance methods including contracting with vendors for some COB eligibility reviews at the point of adjudication.

By December 2010, the ProviderOne System will be stabilized enough to allow providers to send and receive eligibility inquiries. MPA staff will also be able to perform these eligibility checks with other payers. When MPA staff verifies third-party liability (TPL) information from payers, they will update recipient's TPL information in ProviderOne.

MPA does not concur with the statement in the audit finding that, due to the lack of risk analysis and adequate post-payment audits, MPA cannot reasonably assure improper payments will be identified and recovered. This statement contradicts the State Auditor's Office report, *State Government Performance Review: Opportunities for Washington*, dated December 2009. In the Government Reform, Medicaid Pharmacy Overpayments section of that report, the auditor found that the Department "uses a risk assessment to prioritize and target pharmacy claims with high potential for a return of investment." The report further states that the risk assessment process is effective in identifying high-risk payments, but current MPA resources are limited and an opportunity for funding additional auditors was identified.

MPA has submitted a budget decision package requesting additional resources to increase its post-payment audit efforts and to investigate and determine available third-party resources. The decision package includes vendor services that will assist in automated data matching and leverage advanced technology to identify third-party resources and maximize cost avoidance and recoveries.

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Audit Report: 2009 F

Finding Number: 025

Finding: The Department of Social and Health Services, Health and Recovery Services Administration, internal controls are inadequate to ensure errors identified by the Medical Eligibility Quality Control Unit are reviewed adequately and in a timely manner.

Resolution: Health and Recovery Services Administration, currently known as the Medicaid Purchasing Administration (MPA), concurs with this finding. In November 2008, MPA took action to establish internal controls and ensure errors identified by Medicaid Eligibility Quality Control (MEQC) audits are corrected by field offices in a timely manner by designating a program manager to process and monitor corrective actions for MEQC audits. The process is as follows:

- The MEQC program manager notifies MPA's audit liaison and MPA's regional representative of all MEQC audits;
- The MPA audit liaison notifies the regional representative within a specified time when an audit is outstanding and informs the representative that the field must take corrective action on the audit within a specified period of time; and
- All corrective actions are monitored by the MPA audit liaison and reported back to the MEQC program manager on a monthly basis until corrective actions are completed.

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Audit Report: 2009 F

Finding Number: 026

Finding: The Department of Social and Health Services, Aging and Disability Services Administration, does not adequately monitor subrecipients to ensure Medicaid expenditures are allowable and supported.

Resolution: The Department concurs with this finding. During the time frame of this audit, Aging and Disability Services Administration (ADSA) resources were used to operate and train one Area Agency on Aging (AAA) while it received certification and became operational. Also during this time, ADSA staff worked with other AAAs to resolve findings from prior years' monitoring. Due to this workload, subrecipient monitoring, which was scheduled to begin in 2009, was delayed until 2010.

Approximately 98 percent of the referenced \$425 million for the 13 AAAs is for client services and the administration of those services. While fiscal and contract subrecipient monitoring did not occur during this time frame, all AAAs received in-depth monitoring of Medicaid case management, nursing services activities, and client services between May 2008 and December 2009. The monitoring is performed by a quality assurance unit within ADSA.

ADSA developed and implemented fiscal and contract subrecipient monitoring in state Fiscal Year 2010. This monitoring encompasses the programmatic and fiscal activities of the AAAs. As of November 2010, the Department conducted on-site reviews of four AAAs.

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Audit Report: 2009 F

Finding Number: 027

Finding: The Department of Social and Health Services did not ensure Medicaid services provided to undocumented aliens were allowable under its Alien Emergency Medical program.

Resolution: The Department does not concur with this finding. The Aging and Disability Services Administration (ADSA) and the Health and Recovery Services Administration, currently known as the Medicaid Purchasing Administration (MPA), were both involved in this finding. Each administration responded separately.

Aging and Disability Services Administration

Seventeen of the exceptions noted in the finding were for undocumented alien clients who received services from ADSA; however, they did not receive services under the Alien Emergency Medical (AEM) program. Fifteen of the clients received personal care services, 14 of these were minors who received those services from the Division of Developmental Disabilities. The minors were eligible for services under the state-funded "Categorically Needy Scope of Care," which is allowed by state law and Department rule.

Three of the above were undocumented clients who received long-term care services. The services were authorized through an "exception to rule." State-funded programs paid for the services these clients received.

All 17 of the ADSA clients were eligible for services that were 100% state funded. For this reason, the federal share identified by the auditor was not impacted.

Currently, tracking and maintaining cost adjustments to the federal share expenditures is a manual process requiring the use of spreadsheets to track the services received by individual clients. State dollars are transferred back to reimburse the Medicaid programs after expenditures are identified. This process will become automated when the ProviderOne phase two project is implemented, currently scheduled for late 2012.

ADSA has taken the following actions as a result of this finding:

- In June 2010, procedures were developed that ensure Medicaid funds for undocumented clients are used appropriately and are properly reported on the federal Medicaid reporting form.
- The federal Department of Health and Human Services was contacted to determine if any unallowable costs need to be reimbursed. Some questioned costs need to be reimbursed, and these adjustments will be completed by December 31, 2010.

Medicaid Purchasing Administration

MPA maintains that emergent conditions cannot be accurately identified using procedure codes. Many procedures can be used to treat both emergent and non-emergent conditions. MPA insists that the true indicator as to whether treatment was provided for an emergent condition is the diagnosis code, not the procedure code.

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On a quarterly basis, MPA identifies, by claim types and diagnoses codes, costs that are allowable for federal match and transfers those costs to earn federal match. All medical related costs for individuals who are covered under the AEM program are charged to state-only dollars.

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Agency: 300

Audit Report: 2009 F

Finding Number: 028

Finding: The Department of Social and Health Services' internal controls are inadequate to ensure the federal share of overpayments made to Medicaid providers are refunded to the federal government in a timely manner.

Resolution: The Department does not concur with this finding. The Department had a similar finding in Fiscal Year 2008. The Department discussed its process with the Centers for Medicare and Medicaid Services (CMS) auditor. The CMS auditor did not raise internal control concerns regarding the Department's accuracy and timeliness for refunding the federal share of overpayments to the federal government.

While the Department does not concur with the finding, significant staff training was completed within the last year. The training included the establishment of an internal monitoring process that ensures that the return of the federal share of overpayments is completed monthly and prior to the state's fiscal month close.

The Department will request that Health and Human Services (HHS) review the process identified in this audit finding during the federal clearing house audit process to ensure HHS is satisfied the overpayments have been properly refunded.

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Audit Report: 2009 F

Finding Number: 029

Finding: The Department of Social and Health Services did not ensure all individuals who receive Medicaid benefits have valid Social Security numbers.

Resolution: The Department partially concurs with this finding. This finding involved Economic Services Administration (ESA), Children's Administration (CA), and the Health and Recovery Services Administration (HRSA) which is currently known as the Medicaid Purchasing Administration (MPA). The following actions were taken in response to the audit recommendations:

ESA, CA, and MPA followed up on the exceptions identified in the audit.

- By September 2010, ESA reviewed and took appropriate action on all exceptions identified during the audit, and all actions were documented in the Automated Client Eligibility System.
- By the end of March 2010, CA took action on exceptions for which the administration was responsible. In reviewing the exceptions, CA determined only three of the nine identified for CA were actually claiming Medicaid. The three exceptions had a temporary SSN of 123456789 which is used by CA to get services started before the valid SSN is available. CA corrected the three cases and verified the SSNs.
- MPA resolved all exceptions identified during the audit. Cases were corrected and SSNs were verified in the state online query system. Also, ProviderOne, the new Medicaid payment system which was implemented in May 2010, allows certain cases to be closed and benefits removed from the client's medical services card when an individual has not provided a valid SSN within 60 days.

MPA staff in the Foster Care Medical Team (FCMT) continues to work with CA staff to identify and correct cases involving children with no SSN in out-of-home placement. FCMT staff works a "No SSN" list on a weekly basis and follows up with CA staff via email to request resolution on children in foster care without an SSN. A summary email is sent to the CA liaison at 30 days and 60 days when there is no SSN reported. Children in out-of-home placement are moved to state-only medical when there is no SSN provided and "good cause" cannot be established.

All financial staff from ESA and MPA were required to complete an interactive training module on SSN verification procedures. Training was completed in October 2010.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2009 F

Finding Number: 030

Finding: The Department of Social and Health Services, Aging and Disability Services Administration, did not evaluate or re-evaluate the level of in-home care services for some clients at least annually.

Resolution: The Department concurs with this finding. The auditor determined that 618 out of 57,597 assessments appeared to be late. Due to staff reductions, the Department was not able to complete a line by line review of all 618 assessments. However, this equates to a compliance rate of 98.9% for assessments that were completed within the required time frame. The Department feels this is well within an acceptable threshold given the routine reasons why an assessment could be late, such as the client's inability to meet with the case manager to do the assessment or delays in locating a provider of personal care.

In May 2010, the Department contacted the Centers for Medicare and Medicaid Services, Region 10, to discuss questioned costs and whether or not they need to be repaid. The Department was informed the questioned costs will be addressed when the audit is reviewed.

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Audit Report: 2009 F

Finding Number: 031

Finding: The Department of Social and Health Services' internal controls are inadequate to ensure non-emergency medical transportation expenditures are allowable and adequately supported.

Resolution: The Department's Health and Recovery Services Administration is currently known as the Medicaid Purchasing Administration (MPA). MPA does not concur with this finding, but is making improvements to oversight of transportation brokers as described below.

During July 2010, MPA took the following actions:

- Trained staff involved in contract monitoring to ensure contract monitoring activities are recorded in the Agency Contracts Database (ACD).
- Developed a formal monthly desk review and on-site contract monitoring document to ensure monitoring activities are documented, properly recorded in the ACD, and that hard copies of monitoring documents are being maintained.
- MPA Contracts Services Steering Committee reviewed current transportation contracts in preparation for writing the request for proposal (RFP) for a new contract. Also, in conjunction with the steering committee review, an internal contract review process explored ways to improve monitoring activities.
- The Non-Emergency Medical Transportation (NEMT) and Division of Behavioral Health and Recovery workgroup investigated ideas to reduce transportation costs associated with transporting clients needing regular methadone treatment and improving the monitoring of trips provided under the Regional Support Network contracts. The workgroup is exploring the pilot ideas with counties. Pilot ideas were also shared with the Contracts Steering Committee. The feasibility of these ideas is under consideration.
- Developed a formal process allowing Clinical Utilization Management and Patient Review and Coordination staff to review medically complex client cases that are associated with increased transportation costs. Complex client cases are forwarded to medical staff for review.

By January 2011, MPA will take the following actions:

- Develop a database that will allow MPA to receive trip data from transportation brokers. Also, it will allow MPA staff to review individual trips to ensure they are authorized and appropriate. The information received by this trip database will substantially increase the program oversight activities of MPA staff, facilitating these important activities during this period of restricted travel. More specificity is not possible at this time because the data has not yet been received, but it is anticipated that additional monitoring protocols will result from this effort. Transportation staff will work with staff from both Information Technology's database administration support and Medicaid integrity office to best utilize the new trip-level detail.

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- Participate in developing and implementing an RFP that will result in a new contract that will better define allowable medical appointments and client and service eligibility. The new contract will be performance based.
- Review and strengthen contract language, policies, procedures, and guidelines to ensure robust monitoring. MPA's NEMT staff developed stronger monitoring language, policies, procedures, and guidelines and included them in the transportation contracts beginning January 1, 2011. Examples include additional broker reports on subcontract monitoring and inspections, an increased percentage of vehicle inspections, and an increased percentage of broker verification of provided trips to ensure contract requirements are met.
- Develop working agreements/memorandums of understanding with partner agencies to better define what constitutes allowable trips.

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Audit Report: 2009 F

Finding Number: 032

Finding: The Department of Social and Health Services, Health and Recovery Services Administration's, internal controls are inadequate to ensure controlled substances prescribed for Medicaid clients are authorized and allowable.

Resolution: Health and Recovery Services Administration is currently known as the Medicaid Purchasing Administration (MPA). MPA does not concur with this finding and is of the opinion there are no federal or state statutes that require a payer (e.g. state) to validate the Drug Enforcement Administration (DEA) number of a prescriber. Therefore, MPA does not believe the lack of an edit that validates DEA for Schedule II-V drugs constitutes inadequate internal controls or renders the payments unallowable.

MPA believes that responsibility for compliance with controlled substance requirements lies with the prescribing provider and the dispensing pharmacies. There are no provisions in the federal 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. Below is a portion of the federal regulation which clearly states that the prescribing practitioner is responsible for assuring that the prescription conforms in all essential respects to the law and regulation:

(a) A prescription for a controlled substance to be effective must be issued for a legitimate medical purpose by an individual practitioner acting in the usual course of his professional practice. The responsibility for the proper prescribing and dispensing of controlled substances is upon the prescribing practitioner, but a corresponding responsibility rests with the pharmacist who fills the prescription....

MPA 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. While MPA considered this to be an essential validation to add to the POS, it was not implemented because of any federal or state requirement. Rather, MPA implemented this because Schedule II drugs are subject to the highest risk of abuse and it was prudent to provide this additional validation to guard against the potential for fraud and abuse.

Upon implementation of the new POS, the Schedule II edit occurs via a work-around that allows prescribers to submit either the DEA or National Provider Identifier (NPI) of the prescriber, and the POS ensures that the link between the two is valid. Because of the complexity of the work-around and because there is no national source for validation of NPI to DEA, the initial change request is currently on hold and the edit for Schedule II drugs will continue to function via the work-around.

In addition to the POS edit that validates the DEA for Schedule II drugs, MPA has a set of robust program integrity activities including pharmacy utilization review, pharmacy rules-based algorithms that identify improper payments, and data-mining activities that identify

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

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Audit Report: 1003176

Finding Number: 001

Finding: The Washington Department of Veterans' Affairs is not enforcing policies and procedures on fuel card purchases at the Washington Veterans' Home.

Resolution: The following actions were taken in response to this finding:

- After a detailed discussion with state auditors, the Washington Veterans' Home created and implemented a fleet card PowerPoint training session for drivers. All Veterans' Home drivers were required to complete the training prior to resuming use of the fleet card.
- The Department modified the Washington Veterans' Home training packet to make it generic to the Department. The training includes review of Department policy and provides detailed instructions on appropriate use of fleet cards, completion of vehicle logs, documentation, and verification. Time is also provided during the training to address questions from the drivers.
- The Department reviewed existing policies and procedures and updated them to further clarify the fleet card process. More detail was provided on the information drivers are required to include on vehicle logs; expectations for review/verification by supervisors and card holders; and reconciliation by accounting staff. The general purchasing policy articulates the Department's expectation that all purchases follow applicable laws, rules, policies, and procedures and that noncompliance will result in corrective and/or disciplinary action. A separate procedure to address appropriate responses for noncompliant purchases will be implemented in January 2011.
- The Department began training using the new materials in May 2010, and it will be presented on an as-needed basis with annual agencywide updates. Training must be completed by all new agency employees prior to driving any state vehicle and is required annually thereafter. Training will be tracked by the agency training and performance manager and monitored by the compliance committee.
- The Department implemented a process for central office accounts payable (AP) staff to conduct a monthly reconciliation of all vehicle logs and gas receipts to the fuel card statements. AP staff notifies the Central Office Procurement and Supply Specialist 3 (COPSS3) and the AP supervisor of any discrepancies identified. The COPSS3 and AP supervisor will follow the Department's procedures for addressing any noncompliant purchases when those procedures are implemented.
- In October 2010, the COPSS3 initiated quarterly audits of this process for verification and compliance with procedures, and reports the results to the agency compliance committee.

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Department of Corrections (DOC)

Agency: 310

Audit Report: 1002601

Finding Number: 001

Finding: The Department does not have adequate internal controls over Voyager fuel cards to prevent or detect misappropriation of public funds.

Resolution: In July 2009, the Department transitioned to the new Comdata fuel card. In addition to limiting transactions to fuel only and “pay at the pump” only, the Department also implemented limits on single transaction amounts and the number of transactions allowable per day.

Monthly, business staff in all institutions and community corrections regions select the 15 fuel cards with the highest monthly charges, as well as 5 randomly selected fuel cards, and review all transactions and related vehicle logs to verify the charges are properly logged, vehicle usage logs are completed consistent with Department policy, and fuel card usages are consistent with the use of the state vehicle. These audits also detect other exceptions: fuel type purchase exceptions are referred to managers to remind staff that premium fuel purchases are not allowed, and transactions that show as “miscellaneous” are referred to the Department’s Comdata administrators for further research and resolution.

Completed audits are submitted to Internal Audit and regional business managers for review monthly. On a yearly basis, the comptroller or designee randomly audits documentation maintained by regional business managers.

The 367 unutilized cards cited in the audit report are in active vehicles that are currently at locations with department gas pumps. However, these vehicles may need to leave the facility at any time and need gas cards attached to keys. Keys and gas cards are stored in a secure location with limited access.

Staff was reminded of the Department’s fuel card policy, and business staff was trained in the review process.

In light of the facts that the Department’s resources are limited and fuel charges are low dollar value items, the Department must consider the cost/benefit of additional controls. That said, the Department will ask its Internal Audit manager to consider what additional controls could be added to minimize risk.

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Department of Corrections (DOC)

Agency: 310

Audit Report: 1002601

Finding Number: 002

Finding: The Department does not have adequate controls over cash receipting in the mailrooms at the prisons to prevent or detect misappropriation.

Resolution: In response to the finding, the Department took or will take the following steps:

- Provided each employee with a unique logon to the receipting system and instructed them to follow agency policy not to share logons.
- Implemented a requirement that two staff are present at all times when mail is opened, logged, and receipted.
- Implemented a requirement that mailroom logs be signed when transferring funds from one person to another, acknowledging responsibility for the funds.
- Initiated daily reconciliations of the Trust Accounting System deposit records to the bank deposits.
- Will update cash-receipting system when funds are available. This will provide new software that can limit the ability to permanently delete a transaction. Staff will also have assigned roles with limited access, resulting in improved internal controls.

These procedures and the Department's expectations were communicated to staff.

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Department of Services for the Blind (DSB)

Agency: 315

Audit Report: 1003544

Finding Number: 001

Finding: The Department of Services for the Blind is not following its own policies or state requirements for accounting for and safeguarding Department assets, putting assets at risk for loss or misappropriation.

Resolution: The Department received current and complete electronic asset reports from the Information Technology, Assistive Technology, and Business Enterprise Program sections. These reports include small and attractive assets tracked by each unit and were used along with the asset listing from the Capital Asset Management System (CAMS) to perform the physical inventory. By December 31, 2010, the Department will have completed the physical inventory, reconciliation, and certification of capital assets.

The inventory due dates were added to the Department calendar to provide more visibility to the process.

The Department is updating its capital asset policy and procedures to designate the business manager as the Department's inventory officer and to be compliant with the *State Administrative and Accounting Manual (SAAM)*. Specifically, the policy update will mirror SAAM in regards to small and attractive asset definitions and tracking requirements. Each section of the Department will have an assigned asset tag number sequence and an employee assigned to track assets within that sequence. The updates are anticipated to be completed by December 31, 2010.

In addition, fiscal staff now performs a monthly reconciliation of CAMS to the Agency Financial Reporting System.

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Audit Report: 1003470

Finding Number: 001

Finding: The Higher Education Coordinating Board's internal controls are inadequate to ensure grant recipients comply with grant requirements prior to issuing payment.

Resolution: In response to this finding, the Board took or will take the following actions:

- The Board developed detailed written policies and procedures on service obligations which are consistent with state and federal requirements to ensure there is clarity on how vacation, sick, and holiday hours are treated and reported.
- The Board developed and distributed written instructions and guidance for grant recipients and facility administrators on how to properly complete the quarterly service verification form and on the consequences of fraudulent reporting. The form was revised, consistent with the new policies, procedures, and instructions.
- During the site application process, facility administrators are now required to certify their willingness to verify quarterly service and to ensure grant recipients comply with the program requirements.
- Facilities administrators are provided guidance on how to review time sheets or other supporting records prior to certifying the time reported by the grant recipient. Facilities administrators are asked to designate appropriate facilities personnel that are authorized to verify quarterly service and ensure grant recipients comply with the program requirements.
- The Board's program staff monitors questions and issues related to service verification to ensure effective communication with grant recipients and facility staff. As needed, program staff discusses policy and procedure changes with management. Program staff then updates the agreed upon policies and procedures and gives them to management for final approval.
- Program staff advises facility administrators they are required to retain a copy of the quarterly service verification form and supporting documentation as these records will be reviewed on both a random and targeted basis to help ensure the service obligations are being met.
- Program staff has not started this review process yet because there is no money in the budget for travel. As funding allows, the plan is to visit ten sites per quarter.

Prior to implementation, Accounting and Budget reviewed and approved the new forms, procedures, and instructions to ensure they meet internal control requirements.

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Superintendent of Public Instruction (SPI)

Agency: 350

Audit Report: 1002925

Finding Number: 001

Finding: The Office of Superintendent of Public Instruction lacks adequate controls to safeguard and account for its capital assets.

Resolution: In response to this finding, the Office of Superintendent of Public Instruction (SPI) took the following actions:

1. Communicated to all staff, through emails from the director and at cabinet meetings, that capital asset accountability is of the utmost priority for SPI.
2. Performed a physical inventory of all capital assets and small and attractive assets in April 2009.
3. Established a workgroup to identify roles and responsibilities surrounding all areas of capital asset management, and designated a new inventory officer with the responsibility of ensuring compliance with capital asset management policies.
4. Purchased and implemented, as of July 1, 2009, a new system for tracking all inventoriable assets ("capital" and "small and attractive") in real time. Each time an inventoriable item is moved, reassigned, or identified as surplus, the item's location is immediately updated in the system using a handheld scanning device. Several staff from the agency's accounting, information technology, audit, receiving, and surplus functions were trained on the use of this tracking system. This will tremendously reduce the amount of time spent conducting a physical inventory and will minimize SPI's risk of loss.
5. Drafted an updated capital asset policy to reflect the new tracking system discussed above and to comply with the *State Administrative and Accounting Manual (SAAM)*. The policy addresses roles and responsibilities of different sections in SPI and considers internal controls to reduce risk of errors and loss. Due to budget cuts and reorganization, this policy has not been finalized but is used to govern internal procedures to ensure compliance.
6. Changed procedures for tracking capital assets and notified all SPI employees of those changes and their individual responsibilities.
7. Completed the required reconciliation of the Capital Asset Management System records to the Agency Financial Reporting System as of February 28, 2010. This will be an ongoing activity, on a quarterly basis, in accordance with SAAM.

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Department of Early Learning (DEL)

Agency: 357

Audit Report: 1003401

Finding Number: 001

Finding: The Department of Early Learning did not perform adequate monitoring to ensure background checks are performed for child care providers as required by state law.

Resolution: Licensing staff was retrained and is now completing verifications on 100 percent of the background checks. This verification requirement is included in new employee training, and there are ongoing reminders via supervisor and licensing staff meetings, individual supervision, policy updates, and practice calls. In addition, supervisors review the checklists and compliance agreements and review the Background Check Central Unit application for inconsistencies and errors.

The Department researched the 13 employees identified by the auditors as needing background checks. Background checks were completed for the employees that remained employed at a child care facility.

The automated background check system added a feature for management and licensing staff to track background checks that have been returned to providers due to incomplete or inaccurate information. The system generates a report, which licensing staff uses to track their "to do" list and performance measures. If the requested information is not provided within seven days, licensing staff contacts the child care provider to remind them of the outstanding background checks and to see if they still need to be resubmitted. If the background check is no longer needed, that is documented along with the reason.

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Department of Early Learning (DEL)

Agency: 357

Audit Report: 2009 F

Finding Number: 012

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

Resolution: The Department of Early Learning (DEL) and the Department of Social and Health Services (DSHS) have numerous activities in place to ensure there are adequate internal controls over subsidy payments to child care providers and implemented additional measures as follows:

- DSHS performs an audit for DEL of subsidy payments by comparing subsidy child care provider billings with attendance records. Starting March 2010, DEL required DSHS to expand the audit scope when they identify a child care provider that billed incorrectly. DSHS added three staff to the child care audit to handle the expanded scope. This is an ongoing activity for which DSHS reports their findings to DEL monthly.
- When DSHS identifies child care providers that have a difficult time billing properly, DEL is informed. DEL then notifies the provider that they have technical assistance available through the DSHS provider line, subsidy training provided as a result of the collective bargaining agreement for the family child care home provider, and classes offered through the State Training and Registry System.
- In March 2010, DEL updated its subsidy billing booklet and made it available to child care providers by paper copy and online. This booklet provides guidance to child care providers on proper billing methods. In addition to providing clearer instructions, DEL streamlined some of the calculations, such as absent days, to make it easier for providers to bill properly.

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University of Washington (UW)

Agency: 360

Audit Report: 2009 F

Finding Number: 001

Finding: The University of Washington did not have adequate internal controls to ensure accurate identification of its federal grant awards which resulted in misreporting of its federal grants expenditures.

Resolution: In 2008, the University received a federal grant identified with a funding code of federal domestic assistance (CFDA) number different from the program CFDA number. The University reported the grant under the incorrect CFDA number, and the error was discovered in the 2009 audit.

By March 2010, University Grant and Contract Accounting staff was trained on the difference between the funding CFDA and the program CFDA. All employees have been directed to identify awards with multiple CFDA numbers and to communicate with campus departments and the applicable federal agency to ensure federal requirements are met and information is accurately reported. New employees will receive this training when hired.

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Washington State Historical Society (WHS)

Agency: 390

Audit Report: 1003298

Finding Number: 001

Finding: The Agency lacks adequate internal controls, including monitoring and oversight of its financial operations, to safeguard public resources.

Resolution: The Historical Society is strengthening internal controls in accounts receivable, cash receipts, accounting and payroll system access, and the purchase card system. Through policy and procedures updates and a revenue collection system upgrade, the Historical Society made the following changes:

- Established defined roles and responsibilities of program and fiscal staff for recording and reconciling receivables, billing, receipting of payments, posting transactions to Agency Financial Reporting System (AFRS), and reconciliation. Specific requirements of the updated policy and procedures include fiscal staff produces a monthly accounts receivable (AR) aging report for the fiscal officer's review; the fiscal officer determines collection action, per policy guidelines, and reports to the revenue committee at its monthly meeting; the fiscal officer also reports the AR allowance account status to the committee.
- To ensure segregation of duties, established defined cash receipting roles and responsibilities of program and fiscal staff including reconciliation of the daily log and admission system daily deposit report, weekly review of reconciliations by the fiscal officer, and tracking voided admissions and error corrections on the daily transaction adjustment log.
- Modified access to allow only the fiscal officer and fiscal analyst to release AFRS transactions and modified procedures to ensure all pay increases are supported by adequate documentation.
- Updated purchase card policies to require that all purchases be preapproved by a budget monitor and that a monthly reconciliation and review be performed.

In addition, the payroll officer took the payroll revolving fund reconciliation classes offered by the Office of Financial Management. The fiscal officer reviews any changes in the *State Administrative and Accounting Manual* with the fiscal staff. The fiscal officer reports to the Historical Society's managers on the state of fiscal operations at their monthly planning meeting.

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Audit Report: 1003298

Finding Number: 002

Finding: The Agency did not adequately monitor grants from the Heritage Capital Projects Fund to ensure grantees complied with grant agreements and only allowable costs were reimbursed.

Resolution: The Historical Society is making the necessary changes to its fiscal operations to address the issues raised by the audit. Among the changes are better itemization of project budgets by grantees, project review by an internal project review team, and development of a new invoice voucher format and project progress reporting template.

Specific requirements for the Washington Heritage Grant project include:

- Grantee sends itemized project budget to grant manager as a part of contract development. The itemized project budget must meet the scope of the project stated in the contract.
- Grantee sends the following information as part of project budget submittal:
 - Project manager's name and title, project architect or engineer's name and title, project accountant's name and title, project start date and end date, and estimated cash flow requirement.
 - Evidence that grantee has raised all matching funds. The Historical Society will not sign the grant contract until grantee shows they have met the local match requirement.
- Historical Society project management team reviews the budget and approves grant.
- Historical Society sends contract agreement to grantee with a sample invoice voucher form and application for payment form. The grantee is required to use these forms to request payment.
- Grantee sends the payment request using the Heritage Capital Project Status Report. The report includes an invoice voucher signed by the project manager or project accountant and accompanying application for payment signed by the project architect or engineer.
- Historical Society accounting staff reviews the invoice voucher, supporting documentation, and application for payment for accuracy and completeness prior to processing payment.

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Department of Transportation (DOT)

Agency: 405

Audit Report: 1002910

Finding Number: 001

Finding: The Department of Transportation should strengthen internal controls in place to ensure fuel is safeguarded, used for authorized purposes and purchased in accordance with bid requirements.

Resolution: The Department took the following actions in response to the auditor's recommendations:

The Department is working with the Department of General Administration for the inclusion of the North Central Region (NCR) in the next statewide fuel-purchasing contract. In the interim, the Department awarded a competitively bid fuel contract for the NCR on April 1, 2010. The Department provided refresher training to regional personnel on purchases of goods and services above the current formal sealed bid level of \$49,000. These purchases must now be procured by the professional purchasing staff in the Procurement and Supply offices.

The Transportation Equipment Fund (TEF) Office formalized its processes to review daily variance reports and reconcile discrepancies between the automated fuel system (AFS) data and actual fuel inventory levels. TEF staff reviewed industry standards and best practices of other fuel management programs throughout state government to establish fuel review thresholds. Maintenance staff from headquarters and region offices are documenting and, as needed, following up on the inventory discrepancies noted in the finding.

While the Department has internal controls in place to secure fuel and monitor its use, it is committed to improving those controls. It's important to note that the process of storing, delivering, and dispensing more than 5 million gallons of fuel can result in variances between the system and physical inventory volumes. For example, temperature variations can cause fuel volume fluctuations. This is one of many considerations in tracking fuel inventory. However, the auditor's recommendations are valuable and will help the Department improve its controls in this area. For example, each region has installed locks on all fuel site fill tubes.

The AFS was developed and purchased in the 1980's and, due to underlying programming constraints, modifications to strengthen security measures are not practical. In light of this and system enhancement opportunities, the Department is in the process of replacing the AFS. The new system will provide an updated security environment and enhanced system capabilities. Implementation of the new system is scheduled to begin in late 2010, with full implementation at the regional level to conclude in 2011. As the new system is implemented, policies and procedures will be reviewed and updated to reflect enhanced system security. Until the new system's installation, the Department has taken measures to restrict access by information technology personnel to the current system.

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The Department formalized its AFS program change process to require appropriate levels of testing, documentation, and approval.

The TEF office formalized procedures to review the state fuel card transactions and reconcile them to invoices, to ensure the Department has been properly billed.

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Department of Transportation (DOT)

Agency: 405

Audit Report: 2009 F

Finding Number: 008

Finding: The Department of Transportation does not have internal controls to ensure that the American Recovery and Reinvestment Act Subrecipient Monitoring compliance requirements are identified and adhered to.

Resolution: The Department is awaiting verification that this finding has been resolved.

As soon as the Department became aware of this requirement for subrecipient registration, procedures were modified to ensure compliance. The Department is now notifying subrecipients of the registration requirement and monitoring for their compliance with this requirement.

The Department goes to great lengths to identify and comply with requirements that come with the American Recovery and Reinvestment Act (ARRA) funds, reviewing federal guidance on a regular basis and continually updating its procedures to ensure compliance. The subrecipient registration was added to the federal Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, Compliance Supplement, through Addendum Number 1 on June 30, 2009, the last day of the fiscal year. While this requirement was introduced in another federal document in April 2009, the Department's Federal Highway Administration contact was not aware of this requirement. The Department will continue to stay apprised of federal requirements regarding ARRA funds and work hard to ensure compliance.

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Status of Resolution of Audit Findings

December 2010

Department of Transportation (DOT)

Agency: 405

Audit Report: 2009 F

Finding Number: 009

Finding: The Department of Transportation did not support over \$740,000 in payroll costs in accordance with federal regulations for the Formula Grants for Other Than Urbanized Areas.

Resolution: The Department's current method for allocating direct payroll expenditures was approved by the grantor, the Federal Transit Administration (FTA), so the Department believed its allocation method was in compliance with federal regulations. The Department's Public Transportation Division administers a number of closely related grant programs, and the work performed by some staff supports multiple programs.

The Department is considered an innovative leader by FTA for its grant administration methods. However, the Department is making the necessary changes to follow the auditor's recommendation. The Department developed and submitted a substitute system plan to FTA for their review and approval in June 2010. FTA informed the Department that their review is pending and instructed the Department to continue allocating administrative costs using the current approved method until the new plan is approved. Additionally, FTA has not indicated that any funds allocated are questioned and must be repaid.

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Department of Ecology (ECY)

Agency: 461

Audit Report: 1003751

Finding Number: 001

Finding: The Department of Ecology does not use its asset management system properly, resulting in inaccurate inventory and an increased risk of loss or misappropriation of state resources.

Resolution: In response to this finding, the Department took the following steps:

- Established capital asset policies and procedures which designate an agency inventory officer with asset inventory and tracking oversight responsibility and authority; ensure assets reported as lost, missing, or disposed of are removed from the Capital Asset Management System (CAMS) in a timely manner; establish a physical inventory schedule that meets the two-year physical inventory requirement. These new and updated policies and procedures were approved and implemented in November 2010.
- Conducted a complete physical inventory of assets recorded in CAMS and program unique systems, reconciled all differences, and removed any missing or disposed assets from asset management systems.
- Performed a risk assessment for identifying small and attractive assets. Established inventory policies to reflect the risk assessment results in compliance with the *State Administrative and Accounting Manual* policy on small and attractive assets.

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Department of Ecology (ECY)

Agency: 461

Audit Report: 1003751

Finding Number: 002

Finding: The Department of Ecology is not safeguarding fuel cards or monitoring fuel card use, increasing the risk of loss or misuse of state resources.

Resolution: In response to the finding, the following measures were implemented:

- The Department updated its policy relating to vehicles to require that fuel purchase cards are secured and monitored. The updated policy was approved November 2010.
- For all locations, the Department secures all general fuel purchase cards when not in use. The Department designed security cabinets to secure its general use vehicle binders which contain keys and fuel cards for the regional and primary field office locations. The cabinets are card key controlled which restricts access and provides a record of employee access. The last of the cabinets was installed October 2010.
- The managers of special use vehicles developed a variety of measures to secure key and fuel purchase cards while still meeting their business needs. Measures include locking up binders, educating staff, and increased monitoring of fuel card security and fuel usage.
- The Department's transportation officer now conducts an analytical review of fuel purchased and miles driven for each agency vehicle. The Department's fuel card database allows fuel to be attributed to boats and power tools, and a miles per gallon report is run quarterly to look for discrepancies in fuel used for vehicle purposes. Discrepancies are researched with the driver and the manager. Any misuse identified will be addressed in accordance with Department policy.
- The transportation officer also reconciles all fuel bills with each vehicle's travel log monthly to ensure odometer miles are listed and the cost and quantity of fuel purchased is recorded accurately. Each driver is personally contacted to explain any omission or inaccuracy of data.

In addition, educating drivers on the safeguarding and appropriate use of agency fuel purchase cards continues to be an ongoing activity. This is done by putting materials in the vehicle binders, publishing articles in the Department's newsletter, sending emails, covering the information during defensive driving training, and communicating personally with managers and drivers.

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State Parks and Recreation Commission (PARKS)

Agency: 465

Audit Report: 1003078

Finding Number: 001

Finding: The Washington State Parks and Recreation Commission is not adequately monitoring change orders for its public works projects.

Resolution: State Parks has been reviewing and revising its contracting process for several years and agrees there were some internal control weaknesses. During that review and prior to the start of this audit, State Parks planned an organizational change to address those weaknesses. Effective July 1, 2009, to ensure separation of duties and stronger internal controls, all agency contract functions were combined into one contracts section under Administration, Finance and Technology.

This organizational change provides consistency in contract processing throughout the entire agency. The changes also initiated new procedures that include independent staff verification of available funding for contracts. The contracts section is in the process of revising the agency Contracts Manual and completion is expected by December 2010.

Prior to this audit, an internal review of the funding and change order process on the Cama Beach project was conducted and corrective action was taken. The review results and concerns were provided to the state auditors at the audit entrance conference and subsequently became part of the audit finding.

State Parks has taken additional steps to improve the process of monitoring change orders as detailed below.

- A second organizational change to move regional parks development staff under supervision of the region directors was effective July 1, 2010. This will improve and provide additional accountability for review and monitoring of contracts.
- In addition to required Office of Financial Management contract training, State Parks initiated an ongoing series of mandatory in-house training for region directors, headquarters, and supervisory staff involved in the public works contracts process. This will ensure that all staff is aware of policies and procedures in contract issuance, budgeting, and monitoring.
- Initial training sessions were conducted on contract issuance and contract budgeting. The contract monitoring and management training will be offered in January 2011. Additional training sessions on these topics will be offered as needed.

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State Parks and Recreation Commission (PARKS)

Agency: 465

Audit Report: 1003078

Finding Number: 002

Finding: The Washington State Parks and Recreation Commission is not adequately monitoring concessionaire revenue to ensure all money due to it is collected.

Resolution: Staff drafted proposed revisions to the concession policy for presentation to the Commission in May 2010. The proposed revisions include:

- Incorporation and integration of land leases and concession leases into a unified process, including a tracking system, central invoicing, standardized agreements and fees.
- An update of Commission policies, as needed, to combine land and concession lease policies into a single policy.
- As existing leases expire, transition to an appraised fair market value fee structure rather than the current percentage of gross profits fee.

In June 2010, the Commission adopted the new policy for managing concessions including the new rental fee schedules based on appraised fair market rent. The Commission also contracted with a third-party appraiser to evaluate all major concession agreements and establish market rents.

Existing leases are being transitioned to the new fee structure at renewal.

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Recreation and Conservation Funding Board (RCFB)

Agency: 467

Audit Report: 1003607

Finding Number: 001

Finding: The Recreation and Conservation Office pays grantees without ensuring all services as stated in the grant agreements are received.

Resolution: The Recreation and Conservation Funding Board is in the process of developing significant changes to internal controls over grantees to ensure all services as stated in the grant agreements are received. The plan below is modeled on the new grants administration process used for monitoring salmon grants. Refer to audit report 2009 F, finding number 004, on page 73.

The Board will modify its risk assessment tool used for salmon grants to accommodate all other grants. The risk assessment will categorize each grantee as high, medium, or low risk based on weighted criteria being developed. The Board will complete the risk assessment for all grantees with active grants and will contact each grantee to share the results of the risk assessment, including the level of documentation required for each grantee's billings. These steps will be completed by April 2011, and the invoicing for grantees will change to reflect the new requirements effective June 1, 2011.

In addition, the Board will modify the requirements of future grantee agreements, develop training for grantees, and implement additional monitoring activities as follows:

- New agreements will be written that focus on the overall deliverables of the grant.
- New agreements will require electronic progress reports every six months, at a minimum, and electronic, detailed final reports prior to final payment.
- Site visits by the Board's fiscal staff to review grantee's fiscal records will be implemented. Because high-risk grantees will already be providing full substantiation of reimbursement requests, these visits will focus on the low and medium risk grantees. The purpose of these visits is to review the grantee's records and processes, answer their specific questions, and provide additional training to grantee staff. These visits will also provide verification that the Board's grantee risk assessment approach is effective. The Board will analyze the processes used, track identified issues, and report issues back to the grantee.
- Training for grantees will be developed and available on demand. The Board will also post training materials online.

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Recreation and Conservation Funding Board (RCFB)

Agency: 467

Audit Report: 2009 F

Finding Number: 003

Finding: The Recreation and Conservation Office is not in compliance with federal cash management requirements.

Resolution: The Recreation and Conservation Funding Board developed a new cash advance policy, effective August 14, 2010, that is in compliance with federal cash management requirements. Some of the key changes to the policy are as follows:

- All entities that plan to request an advance of federal funds are now required to sign a cash advance agreement, which details the Board's cash advance policy and the consequences of noncompliance. Cash advance agreements shall be signed by the financial authorizing authority within an organization and renewed every two years.
- Federal funds will only be used for advances that represent 30 days of estimated expenditures. The subrecipient is required to submit a reconciliation for each advance within 30 days after expenditure of the initial advance. The Board will review the reconciliation within 15 days of receipt of the documentation from the subrecipient.
- No more than three advances may be active for a subrecipient at any one time and paperwork for prior advances must be current in order to receive another.

The Board communicated the new cash advance policy to all eligible subrecipients, emphasizing changes and restating the Board's intent to consistently enforce consequences for noncompliance with the policy. The Board has started to receive the cash advance agreements required to implement this change.

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Recreation and Conservation Funding Board (RCFB)

Agency: 467

Audit Report: 2009 F

Finding Number: 004

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

Resolution: Last year, the Recreation and Conservation Funding Board implemented a process to review subrecipient audit reports, when they were required, and improved its final review of grant project files. This year, the Board continued to make significant improvements to its internal controls over subrecipient monitoring including the following:

1. Risk assessment: The Board completed a risk assessment on all subrecipients that have active salmon grants and categorized each subrecipient as high, medium, or low risk. The risk assessment evaluates several risk criteria and assigns a point value to each. The Board contacted each subrecipient to share the results of the risk assessment and the level of documentation required for each subrecipient's payment request, as a result.
2. Invoice review process (change effective April 1, 2010):
 - Prior to payment of each invoice, fiscal staff review the expenditure listing to ensure items are allowable under the grant, costs are within limitations of the grant, and expenditures occurred within the time frame of the grant.
 - After fiscal review, outdoor grant managers review the invoice and approve. Outdoor grant managers oversee projects and ensure timely completion within scope and program.
 - After the grant manager's approval, the fiscal office performs a final review. Based on the outcome of the risk assessment, some subrecipients are required to provide expanded backup. This expanded backup includes copies of time sheets, invoices, and volunteer logs. The fiscal office reviews the documentation and releases payment.
3. Site visits: Effective August 2010, Board staff began to visit at least twelve subrecipients annually. Because high-risk subrecipients are already providing full substantiation of reimbursement requests, these visits focus on the low and medium risk subrecipients. The purpose of these visits is to review the subrecipient's records and processes, answer their specific questions, and provide additional training to subrecipient staff. These visits will also provide verification that the Board's subrecipient risk assessment approach is effective. The Board will analyze the processes used, track identified issues, and report issues back to the subrecipient.
4. Training: Fiscal staff conducts weekly online training sessions on preparation of billing reimbursements. The training allows subrecipients to participate in real time and ask specific questions. Fiscal staff also provides training for subrecipients as requested.

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Puget Sound Partnership (PSP)

Agency: 478

Audit Report: 1003598

Finding Number: 001

Finding: The Puget Sound Partnership circumvented state contracting laws, exceeded its purchasing authority and made unallowable purchases with public funds.

Resolution: In response to this finding, the Partnership took or will take the following actions:

1. Discontinued use of a list of prequalified contractors, effective July 2009. Contracts are now procured on an individual basis, utilizing the request for proposal (RFP) when required by state contracting requirements.
2. Hired an experienced full time fiscal and contracts coordinator with a strong knowledge of state requirements. The Partnership is also in the process of hiring a fiscal and contracts manager.
3. Implemented new procedures requiring all contract proposals requiring competition, including sole source, to be reviewed by the director of Finance and the deputy director for completeness and accuracy prior to publishing any RFPs.
4. Instituted a centralized purchasing review and approval process, including the use of agency purchase cards. To ensure compliance with state procurement requirements, all proposed purchases of goods and services must be reviewed by the director of Finance and/or the deputy director consistent with the Partnership's purchasing policies prior to completing any transaction.
5. Took steps to comply with the Department of Information Services policies and standards including securing delegated purchasing authority for information technology (IT) acquisitions up to \$50,000; completing an information technology security audit; and finalizing the Partnership's IT portfolio. The Partnership also entered into an interagency agreement with the Recreation and Conservation Office to provide additional IT support to meet DIS security and purchasing requirements.
6. Adopted a new contracts policy and drafted revisions to the policies in the areas listed below. These policies are currently awaiting review and approval of the deputy director:
 - IT purchasing policy revised to be in compliance with the *State Administrative and Accounting Manual (SAAM)* and Information Services Board policies.
 - Purchasing and fiscal policies revised to ensure compliance with state requirements. These revisions address specific issues identified in the audit including the use of the state printer and outside legal counsel.
 - "Meeting with coffee and light refreshments" policy revised in accordance with SAAM.
7. Ensured staff involved in contract management took appropriate training classes, including internal Partnership training as well as required Office of Financial Management (OFM) contracts training. Training requirements will be incorporated into employee training plans and documented as needed for new staff.
8. Worked with OFM to ensure compliance with state accounting requirements related to conferences and related allowable expenses.

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9. Requested OFM to engage internal audit staff from the Department of Social and Health Services to complete a review of the Partnership's federal contracts for the audit period. In addition, the federal Environmental Protection Agency will conduct an informal review of the Partnership's procedures to help ensure compliance with federal requirements.
10. Will provide training on new and revised policies, when adopted, to Partnership staff as appropriate.

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Puget Sound Partnership (PSP)

Agency: 478

Audit Report: 1003598

Finding Number: 002

Finding: The Puget Sound Partnership failed to enforce the terms of its agreements with a foundation it created, incurring costs without clear public benefit.

Resolution: In response to this finding, the Partnership took the following actions:

1. Implemented new procedures, effective February 2010, requiring all grant contract proposals to be reviewed by the director of Finance and the deputy director prior to publishing any request for proposals.
2. Adopted a new contracts policy and drafted revisions to purchasing and related fiscal policies to be in compliance with state requirements. These policies are currently awaiting review and approval of the deputy director:
3. Ensured staff involved in contract management took appropriate Office of Financial Management and internal Partnership training. This included training on contract monitoring and invoice review to ensure that deliverables and matching funds are received by grantees prior to the release of funds.

To ensure the value of public education and outreach contract expenditures in the future, the Partnership will include performance metrics options such as surveying public opinion, viewership, or other measures in the contract deliverables.

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Employment Security Department (ESD)

Agency: 540

Audit Report: 1003400

Finding Number: 001

Finding: The Department of Employment Security cannot account for more than \$25,000 worth of gas gift cards.

Resolution: The Department concurs with the auditor's findings and recommendations and has taken the following corrective actions:

- The WorkFirst program stopped purchasing gas gift cards.
- WorkFirst program staff reviewed the WorkFirst internal controls manual to identify ways to strengthen internal controls over program purchases. As a result, the manual was updated to reflect the changes in the gas gift card purchase policy and the changes were discussed during the monthly WorkFirst statewide teleconference. Staff from the three offices cited in this finding were in attendance at these teleconferences.
- Multiple training sessions on WorkFirst policy and program requirements, including their payment processes, were provided to staff at the three offices highlighted in the audit.
- Changes in management and program supervisors occurred at the three offices identified by the auditors. These changes were the direct result of weaknesses in internal control processes identified in this audit.
- New WorkFirst supervisors attended specialized training for new supervisors in November 2009. Training on WorkFirst program activities is ongoing for staff working on this program.

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Employment Security Department (ESD)

Agency: 540

Audit Report: 1003400

Finding Number: 002

Finding: The Employment Security Department is not following its written policies and procedures to maximize collection of dollars owed in state unemployment taxes.

Resolution: The Department has reviewed all of the 28 accounts identified by the state auditors in their audit of noncorporate employer accounts certified as uncollectible.

After preliminary analysis, six of these accounts appear to have collection potential per Department policy. Remaining accounts either had insufficient wages to pursue collection, prior claims against the wages, or the debt had been discharged in bankruptcy.

The Department initiated debt collection action as appropriate on the six accounts, including issuance of pre-garnishment letters or serving of garnishments, and will continue to track all six accounts.

In June 2010, the Department resumed semiannual generation of the cross match report between employer accounts previously written off and wages reported to the Department. Results of this cross match report are distributed to the respective District Tax Office (DTO) with responsibility for those accounts. Each DTO is responsible for reviewing and analyzing the reports and determining potential for collection action as part of their office's overall collection management process.

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Employment Security Department (ESD)

Agency: 540

Audit Report: 1003400

Finding Number: 003

Finding: The Employment Security Department is not following its own policies or state requirements for accounting for and safeguarding Department assets, putting itself at risk for loss of public resources.

Resolution: The Department will ensure that all state and Department policies and procedures governing the management and oversight of inventoriable assets are followed. This will include:

- Providing training to all managers on their responsibilities for asset management including a letter to all current managers reminding them of the requirements and their responsibilities.
- Maintaining all required asset inventory records including those documenting inventory custody; asset tagging; transfers; quarterly, annual, and biennial inventory; and disposal and loss of assets.
- Reinstating the quarterly report of changes in assets, sending the reports to cost center managers for verification, tracking the return of the reports, and following up on missing reports. Delinquent reports will be elevated through the management chain until received.
- Requiring cost center managers to perform an annual inventory of all assets under their control. Office Services will be providing inventory reports to each cost center and will follow up on their completion.
- Conducting an independent biennial inventory under the guidance of Office Services staff. Detailed inventory instructions will be compiled by Office Services and provided to staff responsible for conducting the inventory. Upon completion of this process, the agency inventory officer will reconcile and certify the final inventory. Any assets not located during the inventory process will be reported to the Office of Financial Management and the State Auditor's Office.
- Ensuring that all inventoriable assets identified for surplus are properly controlled and documented as required.
- Tracking and monitoring by Office Services to ensure compliance with state and agency policies and procedures applicable to asset management requirements.

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Employment Security Department (ESD)

Agency: 540

Audit Report: 1003400

Finding Number: 004

Finding: The Employment Security Department's review of job search logs submitted by unemployment insurance claimants is not adequate to ensure eligibility for benefits. The Department does not investigate possibly falsified logs in a timely manner, or at all.

Resolution: This audit provided an opportunity for the Department to examine and assess the flow of job search logs and requirements. To ensure that possibly falsified job search logs are properly addressed, the Department initiated the following:

- As a result of a 90-day pilot, when the job search logs received from WorkSource offices are determined to be "unacceptable," a person trained in research methods who works in the Work Search Verification unit within the Unemployment Insurance Performance Audit (UIPA) unit begins work to contact the claimant and investigate the potential issue.
- When a job search contact is deemed potentially fraudulent, procedures for determining fraud follow WAC 192-100-050. If the case meets the five elements of fraud, the claimant is denied benefits and a fraud overpayment is established.
- If the five elements of fraud are not proven but UIPA finds that the claimant has not provided adequate information to establish a valid job search, UIPA denies the claimant's benefits for that week, as set out in WAC 192-180-030. This denial of benefits occurs when a claimant fails to report for a review of job search logs, fails to produce job search logs for the week being reviewed, or fails to establish that they met the minimum job search requirements established in WAC 192-180-030.
- If the job search log or contacts are not fraudulent and the claimant has not failed to provide the requested information, UIPA clears the issue.

For additional actions taken by the Department related to the review of job search logs, refer to audit report 2009 F, finding number 006, on page 82.

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Employment Security Department (ESD)

Agency: 540

Audit Report: 2009 F

Finding Number: 005

Finding: The Employment Security Department did not comply with U.S. Department of Labor requirements for determining the accuracy of benefit payments.

Resolution: The finding and recommendation for the Benefit Accuracy Measurement (BAM) program prompted the Department to closely examine the detailed procedures for auditing unemployment insurance claims. Thorough review of the BAM investigative procedures helped ignite new ideas for process improvement.

As a result, the BAM team implemented the following process improvements in 2010:

- Improve the record keeping of documented attempts to contact the claimant or employer.
- Create and use a special “attention” stamp on all envelopes of correspondence with verbiage to encourage the claimant and employer to respond.
- Use certified mail in letters of correspondence to both claimant and employer.
- Set time-specific appointments with claimants for interviews.
- Increase the number of attempts to contact employers from two to four.
- Make a more rigorous effort to verify all job search contacts, specifically the online applications.
- Monitor investigator calls for appropriate content and follow up as needed.

Additionally, the BAM team initiated its own internal quality control process where the team meets monthly to review peer cases and give feedback that outlines successes and areas for improvement. The Department has a new BAM supervisor with an adjudication background who is leading this effort and monitoring the quality of cases more closely.

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Employment Security Department (ESD)

Agency: 540

Audit Report: 2009 F

Finding Number: 006

Finding: The Employment Security Department does not adequately review job search logs to ensure unemployment insurance claimants are eligible for benefits.

Resolution: The Department recognizes there has been a shift in methods used to apply for jobs. Employers determine the recruitment and application methods for available positions, and most jobs now require that the applicant apply online and often to a “blind ad posting.”

As a result, the Department revised regulations to address job search contacts, including contacts made through the internet. Revisions related to job search contacts were immediately incorporated into Job Search Review (JSR) program information, online resources, and training materials. Staff is advised to ask the claimant additional clarifying questions regarding their job search contacts to make sure all requirements for the contact are met.

The Department makes every reasonable effort to ensure that job search contact requirements are consistently applied, regardless of the method of contact. The Department is committed to fair and equitable treatment of all claimants.

Staff performing JSR was made aware of and have access to numerous resources that clearly define the program requirements. For example, the Department’s Unemployment Insurance (UI) Division maintains a comprehensive reference website and offers numerous training opportunities for staff.

As a result of the finding, the Department implemented several monitoring procedures. Supervisory reviews of monthly JSR activity are being conducted and technical assistance provided in WorkSource offices. The Department is conducting job search log quality and performance monitoring on a weekly and monthly basis with offices selected based on workload, staffing, and results of previous monitoring conducted by Employment and Career Development Division (ECDD).

The Department’s WorkSource Standards and Integration Division also independently schedules monitoring visits, which include job search log reviews, at WorkSource locations monthly. Weekly random samples of job search logs are submitted to the UI Performance Audit Unit for verification. The UI Performance Audit Unit and ECDD staffs meet monthly to discuss job search log quality, common issues, and process improvements.

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Employment Security Department (ESD)

Agency: 540

Audit Report: 2009 F

Finding Number: 007

Finding: The Employment Security Department's internal controls are inadequate to ensure it complies with subrecipient monitoring requirements of the American Recovery and Reinvestment Act.

Resolution: The American Recovery and Reinvestment Act (ARRA) recovery funds identified in this finding were passed through to Workforce Development Councils (WDC) in accordance with Workforce Investment Act (WIA) formula calculations. All twelve of the WDCs have had long-standing contractual relationships with the Department.

The Department concurs that the Central Contractor Registration (CCR) database was not verified prior to the release of WIA ARRA funds. As noted by the auditor, the Department has verified that all twelve WDC subrecipients are properly registered with the CCR and eligible to receive ARRA funds.

For future ARRA grants, the Department will ensure that this registration is included in the WDC grant agreements authorized by the WorkSource Standards and Integration Division. This requirement will also be included in the WDC annual monitoring conducted by the Department. The fiscal office will verify this registration is current prior to releasing funds to the WDCs. The original grant agreements, including CCR registration information, will be maintained in the Department's contracts office.

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Bates Technical College (BATES)

Agency: 695

Audit Report: 1003593

Finding Number: 001

Finding: Bates Technical College lacks adequate controls to safeguard assets.

Resolution: In response to this finding, the College will take the following actions:

- Establish a board-approved asset management policy.
- Conduct a physical inventory of all assets, reconcile the inventory with capital asset and financial records, and remove obsolete and surplus items from the asset management system.

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State of Washington
Schedule 2 – Fraud Findings by Agency
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AGENCY NUMBER	AGENCY	AUDIT NUMBER	FINDING NUMBER	PAGE
082	Public Disclosure Commission	1002739	001	87
300	Department of Social and Health Services	1003241	001	89
405	Department of Transportation	1003105	001	91
490	Department of Natural Resources	1003441	001	92

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Public Disclosure Commission (PDC)

Agency: 082

Audit Report:	1002739
Finding Number:	001
Finding:	An employee at the Public Disclosure Commission misappropriated at least \$21,467 in Commission assets between 2003 and July 2009.
Fraud Amount:	\$21,467
Recovery to Date:	\$9,776 (includes returned items valued at \$9,376)
Resolution/Status:	<p>The Commission reviewed and updated its internal controls for the agency purchase card, inventory, and purchasing. Specifically, the Commission limited the number of purchasers, instituted a pre-approval process, and increased its oversight and reconciliation of all items ordered and received. Each user of the purchase card is required to sign a copy of the Commission's purchase card procedure, acknowledging that they have read and understand it. The procedure documents the requirements for purchases and lists specific actions that are prohibited.</p> <p>Some of the additional changes implemented by the Commission to improve internal controls are as follows:</p> <ol style="list-style-type: none">1. Agency cash box: reduced amount in the till to \$25, and transferred the difference to the agency petty cash file, which is stored securely.2. Purchase card: The purchase card was physically moved from the confidential secretary's area to a locked cabinet in the administrative officer's office and is stored separate from agency funds. The administrative officer is monitoring and verifying the prior approval of purchases, details of the purchase, the location of the card and the staff responsible for making the purchases. An electronic log was developed to document that these steps are completed and verified, and that the invoice is consistent with what was pre-approved.3. Inventory receipt procedures: The inventory procedures were updated to link the initial acquisition steps to purchase orders, packing slips and actual equipment accepted. Receipt of property is conducted by three staff members to appropriately separate the functions of receiving equipment, reconciling order forms with receipts, logging the inventory and tagging it as Commission property.4. Inventory verification procedures: A verification of the agency's inventory occurs on an annual basis. A different staff member each year prepares the log documenting the model, make, serial number, and agency tag of all agency equipment. The administrative officer then reconciles the lists of equipment against the master property list.5. Locked storage: Recently purchased equipment will be stored in the locked storage closet or cabinet if not immediately assigned to staff.

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6. Field orders: Field orders are limited to include no more than six items, and a complete description of the equipment is required on the document. Field order numbers were added to the inventory spreadsheet and internal budget database.
7. Non-information technology equipment ordering: After prior approval has been granted, ordering will be handled by the confidential secretary; receiving will be handled by the customer service staff member and verified by the administrative officer.
8. Back-up tapes: The Commission safe will be used to store recently made back-up tapes, after which they will be taken off-site to the Key Bank safe deposit box for storage.

In addition to recovering items valued at \$9,376, the Commission filed a claim seeking restitution of \$12,091 and investigation costs of \$656 from the former employee.

Personnel Action Taken: The employee was terminated by the Commission on August 24, 2009.

Criminal Action Taken: The theft was reported to Olympia Police Department. The Thurston County Prosecutor filed charges and received a guilty plea and agreement for full restitution in December 2009. Thurston Superior Court, Case Number: 09-1-01537-0

Amount to be Recovered: \$21,923 (\$21,467 fraud amount less \$200 reduction by the court, due to statute of limitations, plus \$656 investigation costs)

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Status of Resolution of Reported Fraud Findings

December 2010

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report:	1003241
Finding Number:	001
Finding:	Employee misappropriated at least \$13,852 in public funds from the Department between October 1, 2007, and April 23, 2008. Accounting records were falsified in an attempt to conceal these losses.
Fraud Amount:	\$13,852
Recovery to Date:	\$0
Resolution/Status:	<p>When the misappropriation of funds was discovered, the Department contacted the Washington State Patrol (WSP) and the State Auditor's Office (SAO). The WSP initiated an investigation. Additionally, the manager of the office in which this occurred contacted the Department's Internal Audit program and requested a review of internal controls. The Department immediately began implementing the recommendations made by the Internal Audit program. These changes were in line with the recommendations made by SAO in their investigation report. All corrective action was completed by April 2009.</p> <p>In response to issues regarding processing expedited warrants, the Department implemented the following procedures:</p> <ul style="list-style-type: none"> • Social Service Payment System (SSPS) requires that expedited payments are reviewed and signed by a program manager and the SSPS Operations Manager prior to submission for issuance. The Operations Manager only signs in blue ink as directed by the SAO. • The original expedited request form must be mailed to SSPS at the time the fax is sent to SSPS. • Payment registers and warrants are reconciled against processed expedited payment requests by at least two other Customer Support Unit (CSU) staff members (not including the person who created the payment request). • CSU employees put the warrant into the mail under the direct supervision of at least one other person. • The negotiables database automatically logs the staff processing warrants from their system login. <p>In response to issues concerning the handling of negotiables, including undeliverable warrants, the following actions were taken:</p> <ul style="list-style-type: none"> • CSU acquired and is using a safe as well as a locking mail receptacle for storing negotiables. Access is limited to the operations manager, program manager supervisor, CSU supervisor, and CSU leadworker. • Procedures were developed that require the handling of negotiables under direct supervision of the CSU Supervisor, utilization of the safe, and automated identification of staff processing warrants.

Status of Resolution of Reported Fraud Findings

December 2010

- Staff was trained in the negotiable handling process and procedures, and provided input on how best to manage the process. Also, the process was updated in staff desk manuals.
- Two or more CSU staff members are required to open mail and log warrants into a database that automatically identifies the staff processing the warrants from their logon IDs. A third person secures the warrants in a secure cabinet or the safe in the presence of the two warrant processors.
- The warrants remain locked in secure storage until research has been completed and they are ready for disposition.
- A third person retrieves the warrants from secure storage for the CSU staff members who will mail the warrant.
- A fourth person oversees the staff member that logs disposition and mails the warrant.
- A monthly reconciliation of all incoming and outgoing warrants and warrants remaining in secure storage is performed by two program managers, signed and dated by the CSU supervisor, and reviewed and signed by the operations manager prior to being filed. Any discrepancies are accounted for with no exceptions.

Criminal Action Taken: The employee was convicted of theft in the first degree on January 14, 2009, and ordered to pay restitution.

Personnel Action Taken: The employee was terminated from her position by the Department.

Amount to be Recovered: \$17,694 (\$13,852 misappropriation plus \$3,842 investigation costs)

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Status of Resolution of Reported Fraud Findings

December 2010

Department of Transportation (DOT)**Agency: 405**

Audit Report:	1003105
Finding Number:	001
Finding:	Employee misappropriated \$78,763. Employee circumvented internal controls to falsify official time-keeping records and used a state purchase card for personal benefit.
Fraud Amount:	\$78,763
Recovery to Date:	\$0
Resolution/Status:	<p>The Department began its internal investigation into this matter immediately upon learning of alleged misappropriation of funds, and reported the matter to the Washington State Patrol (WSP) and the State Auditor's Office (SAO). The Department's Internal Audit Office coordinated its investigation with WSP, providing the results for action as deemed necessary. SAO agreed with the results of the Department's internal investigation.</p> <p>The Department took the following steps to resolve the finding and improve controls over payroll and purchase card use:</p> <ul style="list-style-type: none"> • Modified the Labor Distribution System so it no longer allows access to a person's own labor records for original entry or updating. • Communicated the issues noted in the report for the Olympic Region (segregation of duties, adequate supervisory oversight, and/or compensating control) to the appropriate senior executives and to all appropriate region and headquarters staff, to help ensure internal control procedures in place for payroll and purchase cards are followed throughout the Department.
Criminal Action Taken:	WSP forwarded this matter to the County Prosecutor. The former employee pled guilty to 3 counts of theft in the first degree and recently started serving a nine-month sentence in the Pierce County jail. In addition, the Department filed a civil action against the former employee for restitution. The Department received a restitution agreement from the former employee for \$91,879, which included restitution of misappropriated funds, investigation costs, and attorney fees.
Personnel Action Taken:	The employee resigned.
Amount to be Recovered:	\$91,879 (includes loss amount, investigation costs, and attorney fees)
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Status of Resolution of Reported Fraud Findings

December 2010

Department of Natural Resources (DNR)

Agency: 490

Audit Report: 1003441

Finding Number: 001

Finding: Employees did not follow state contracting law and Department policies and procedures resulting in overpayments of at least \$57,695 during the period reviewed.

Fraud Amount: \$57,695

Recovery to Date: \$0.00 (Evidence was not sufficient to pursue recoveries.)

Resolution/Status: In September 2008, the Department contacted the State Auditor's Office (SAO) about irregular purchasing activity at the Tumwater maintenance shop. With the approval of SAO, a certified fraud auditor was engaged and an internal investigation was conducted by the Department. The investigation identified improper purchases of at least \$57,695. While there was sufficient evidence to demonstrate that procedures had not been followed, evidence was not sufficient to pursue legal actions or recoveries.

A review of shop purchasing and inventory procedures was conducted by the Department's internal auditor, and corrective actions were completed by the time the audit report was published. The specific SAO recommendations and the Department's responses are as follows:

Ensure duties are segregated between those who request, order and receive supplies. Segregation of duties was addressed in a new agency purchasing procedure as well as new shop specific procedures for ordering and receiving parts inventory. Staff was trained on these new procedures.

Clarify to shop employees what their signature means on invoices or documents. Clarification of the importance of employees' signatures and their meaning is addressed in the new shop ordering and receiving procedures. Staff was trained on these new procedures.

Ensure that each part ordered and listed on an invoice can be traced to a work order. The work order module of the Department's fleet management system is being used for all repair orders. The new shop procedures address how parts are to be accounted for in work orders.

Ensure all equipment and supplies being ordered are necessary, purchased at the best price, included in inventory and accounted for. The parts inventory stockroom was reconfigured to provide for greater physical security of parts inventory, and parts inventory was reviewed for appropriate on-hand quantities. The new agency purchasing procedure provides guidelines for assuring that purchases are either made from state contracts or that procurements follow appropriate guidelines to ensure competition.

Status of Resolution of Reported Fraud Findings

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Monitor shop purchasing activity to ensure compliance with state purchasing laws and Department policy. Training was provided on the new agency and shop specific procedures to ensure compliance with state purchasing laws and Department policy. In addition to management review of purchasing activities, the Department's internal auditor conducted two reviews of purchasing procedures and inventory control at the shop. Those reviews indicated that the Department's corrective action measures have adequately addressed the SAO recommendations.

Criminal Action Taken: Evidence was not sufficient to pursue legal actions.

Personnel Action Taken: In response to the investigation, several personnel actions were taken including three terminations and verbal and written reprimands for other maintenance shop staff.

Amount to be Recovered: Evidence was not sufficient to pursue recoveries.

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Schedule 3 – Special Reports by Agency

December 2010

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Department of General Administration (GA)

Agency: 150

Report Number: 1004031

Investigation Overview: The State Auditor's Office received an assertion that the state's contracted office supply company was overcharging state agencies and local governments. According to their preliminary review, the Department of General Administration, which administers the contract, did not monitor the contract adequately. The auditors examined 12 consecutive weeks of purchases under the contract.

Recommendation: The auditors recommended that the Department:

- Work with the company to recover amounts charged in excess of the contract terms.
- Adequately monitor the contract to ensure it is followed, including checking approved price lists against the monthly use reports, reviewing all items removed from the deeply discounted essentials list and reviewing charges for shipping to ensure they are under the contract.
- Agree on a single crosswalk and monitor to ensure the company consistently applies it.
- Reassess the contract's discount structure or consider whether to rebid the office supply contract, which has been in place since 2006.

Agency Response: Contract monitoring is an important responsibility that the Department takes seriously. The Department appreciates the identification of possible overcharges in the special investigation report. The report relied on assumptions and interpretations that may not have been fully consistent with contract terms and conditions. The investigative process did not allow the contractor to participate. Such allegations are tentative until substantiated in accordance with contract terms and dispute resolution processes.

The Department's contract administration process is currently in progress with an estimated completion date of February 28, 2011. To the extent that any charges exceeding contract terms are substantiated, the Department will work with the contractor to resolve all root causes and ensure appropriate customer refunds. At the conclusion of this investigation, the Department's report will provide a full accounting of the investigative results, the contractor's written response, and all actions taken for an appropriate resolution. The Department will verify contractor refunds of confirmed net overcharges as the contract requires.

In addition, the Department will enhance training to help customers achieve maximum savings through this contract and use its auditing services contractor to help monitor contract compliance, including price validation. The Department re-evaluates the office supplies contract annually, and the rebid process will start in 2011 as originally scheduled.

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Audit Report: 1002985

Overview and Objectives:

The Learning Assistance Program (LAP) is designed to enhance educational support to underachieving students. It is considered to be part of the state's basic education system and, as such, must receive full funding from the state. The funding for the LAP program has increased significantly over the years due to changes in funding formulas and grades covered.

Section 123 of Engrossed Substitute House Bill 1244 included a General Fund-State proviso to the State Auditor's Office (SAO) "solely for staff and related costs to verify the accuracy of reported school district data submitted for state funding purposes; conduct school district program audits of state funded public school programs; establish the specific amount of state funding adjustments whenever audit exceptions occur and the amount is not firmly established in the course of regular public school audits; and to assist the state special education safety net committee when requested."

To address the requirements of the proviso, SAO established a number of objectives for their audit. There was one objective involving practices related to financial transactions: the accuracy of the count of students approved for free and reduced-price lunches. The count serves as a basis for LAP funding.

Conclusion and Recommendation:

Based on audit work performed, SAO concluded that the LAP funding for the 2007-08 school year included up to \$463,000 for students who were ineligible to be counted and recommended that the Legislature should direct the Office of the Superintendent of Public Instruction (SPI) to modify procedures to update the October count to reflect the results of the November verification process.

Agency Response:

The Legislature provided direction to SPI through Section 515 of Engrossed Substitute Senate Bill 6444(2) to make adjustments "as recommended in the report of the state auditor on the learning assistance program dated February, 2010." SPI implemented a system change to make the required adjustments.

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