

STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

2013 Audit Resolution Report

ACCOUNTING DIVISION
DECEMBER 2013



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ACCOUNTING DIVISION
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STATE OF WASHINGTON

AUDIT RESOLUTION REPORT

December 2013

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 under RCWs 43.09.310 and 43.09.340.

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 agencies take corrective actions to address exceptions 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 reported in conjunction with individual agency post audits and the statewide single audit, as well as other special State Auditor's Office (SAO) reports. These reports were issued between October 4, 2012, and October 31, 2013. The audit reports issued during that period include:

- 63 federal compliance findings
- 5 findings on the ProviderOne system
- 2 findings of fraud, and
- 2 recommendations from the audit of state payments to child care providers.

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

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Schedule 1 – Audit Findings by Agency

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2012 F = Statewide Single Audit Report

Department of Commerce (COM)

Agency: 103

Audit Report: 2012 F

Finding Number: 007

Finding: The Department of Commerce does not adequately monitor subrecipients of the HOME Investment Partnership Program to ensure subrecipients use federal grant money for authorized purposes and in compliance with laws, regulations, and grant and contract provisions.

Resolution: In December 2012, the Department judgmentally selected client files from each of the HOME Tenant Based Rental Assistance (TBRA) subrecipients for monitoring review. The Department completed 11 of the subrecipient monitoring reviews; two others are in progress. To conduct the monitoring reviews, the Department requests the following documentation from subrecipients:

- Tenant's signed lease including lease addendum.
- Initial Housing Quality Standards (HQS) inspection report.
- Annual re-inspection report.
- Initial documentation of household income.
- Annual recertification of household income.
- Initial documentation of tenant rent calculation.
- Annual re-calculation of tenant rent.
- If applicable, documentation showing the tenant is eligible for tenant selection preference(s).
- Rental Assistance Contract between the agency and the landlord.
- If the tenant has terminated, the termination documentation.

For the 11 completed monitoring reviews, the Department found all households were eligible for the program.

The Department scheduled the remaining five HOME TBRA subrecipients monitoring reviews through the end of December 2013. The Department will report on the two in progress as well as the five scheduled reviews by the end of April 2014.

HOME TBRA is developing a written monitoring plan. The plan is scheduled to be completed by the end of December 2013.

With respect to unit inspections, the Department reviewed a total of 39 Housing Quality Standards (HQS) inspection reports. All the units reviewed received initial and, where appropriate, annual inspections. One unit did not provide evidence of the state-required carbon monoxide (CO) alarms in the initial review, but has since provided that documentation. Two were not using the HQS inspection form, but were using a modified version. The Department instructed the subrecipients to use the HQS inspection form. The subrecipients provided written confirmation that they understood and agreed to use the HQS inspection form.

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To accomplish future annual monitoring of HQS inspection reports, the Department instructed subrecipients to certify the completion of annual inspections and the annual pass/fail for each tenant. Each subrecipient completes and signs a form that includes tenant names and dates of inspections, or indicates the tenant terminated services before the annual inspection due date.

Certifications were due to the Department by September 30, 2013. The Department will request copies of approximately 20 percent of HQS inspections performed. The Department spoke with a U.S. Department of Housing and Urban Development (HUD) representative who agreed comparison of inspection reports to the certifications provides additional assurance of compliance with regulations. The Department will provide HUD with the results of this comparison.

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Status of Audit Resolution

December 2013

Department of Commerce (COM)

Agency: 103

Audit Report: 2012 F

Finding Number: 008

Finding: The Department of Commerce does not have internal controls to ensure the Department pays out HOME Investment Partnership program income before requesting federal cash draws and interest earned on federal cash advances is returned to the federal government.

Resolution: The Department established procedures and internal controls to ensure program income is used before grant funds. The accounting manager established regularly scheduled draws to occur on or around the 10th and 25th of each month, regardless of the dollar amount.

The fiscal analyst in accounting who manages the U.S. Bank HOME program income account provides the HOME General Purpose Manager, the HOME Tenant Based Rental Assistance (TBRA) Manager, and the Community Services and Housing Division Financial Operations Manager with a monthly account statement. The HOME General Purpose Manager reviews the monthly account statement and receipts the program income (PI) balance amount into the Integrated Disbursement Information System (IDIS). The General Purpose Manager enters the date of the account statement into the comments field on the add receipt page in IDIS, prints a screenshot of the page, attaches it to the PI account statement, and files the documents.

As HOME vouchers are received for general purpose and TBRA, managers review the PI balance in IDIS and use those funds prior to grant funds. The account is brought as close to zero as possible before the federal cash draw is requested. An accounting supervisor reconciles the checking account monthly, and the accounting manager approves the reconciliation.

Related to the \$214 interest earned in the U.S. Bank account, U.S. Department of Housing and Urban Development (HUD) wrote in an August 26, 2013 letter, "Any interest earned on program income in the state's local HOME account pending it's use is program income... The state is not required to remit that interest to HUD."

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Status of Audit Resolution

December 2013

Department of Commerce (COM)

Agency: 103

Audit Report: 2012 F

Finding Number: 009

Finding: The Department of Commerce does not have sufficient internal controls to ensure all of its subrecipients receive audits as required.

Resolution: In response to a similar audit finding in the State of Washington Single Audit report issued in March 2012, the Department enhanced its Contract Management System (CMS) with an audit tracking module. Functionality includes the ability to store audit reports from the state auditors, Certified Public Accounting firms, and federal sources; search by contract or vendor number for audit reports; record audit receipt dates; and track requests for management decision letters.

Additionally, staff can generate CMS reports to identify contractors with federal expenditures of \$500,000 or greater to help identify subrecipients requiring audits. Other reports provide lists of audit due dates and lists of audit findings: Office of Management and Budget (OMB) Circular A-133 Audit Tracking Extract report lists all contractors requiring a federal audit by contractor fiscal year; and the Audit Required Extract report lists contractors who have not submitted by their due date. The Department implemented the enhancements in October 2012. Quarterly, the internal auditor runs reports and follows through with program staff to help ensure federal audits are received timely.

The Department provided training on the use of the audit function in CMS. Additionally, the CMS help desk created a video, 'Audit Information in CMS,' that is accessible to staff at any time.

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Status of Audit Resolution

December 2013

Department of Commerce (COM)

Agency: 103

Audit Report: 2012 F

Finding Number: 025

Finding: The Department of Commerce does not have adequate controls to ensure it draws Low-Income Home Energy Assistance Program federal funds in accordance with the Cash Management Improvement Act Agreement.

Resolution: The Department reviewed its procedures and corrected the timing of the Low Income Home Energy Assistance Program federal draws to coincide with the Cash Management Improvement Act (CMIA) Agreement.

The Department established procedures and internal controls to ensure program income is used before grant funds. The accounting manager established regularly scheduled draws to occur on or around the 10th and 25th of each month, regardless of the dollar amount.

Accounting created a report to record items not in compliance with the CMIA agreement. The Department tracks the time period from a requested draw to the time the monies are received. When an 'overdraw' situation is created by an adjustment or a draw, the Department tracks the time period from the creation of the 'overdraw' to the point when monies can be refunded or expenditures are incurred that cover the overdraw. Training is ongoing.

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Status of Audit Resolution

December 2013

Department of Commerce (COM)

Agency: 103

Audit Report: 2012 F

Finding Number: 026

Finding: The Department of Commerce does not have internal controls to ensure reports required by the Federal Funding Accountability and Transparency Act are filed for the Low-Income Home Energy Assistance Program.

Resolution: The Department concurs with this audit finding. The Department operated with the understanding that U.S. Department of Health and Human Services (HHS) did not require Low Income Home Energy Assistance Program (LIHEAP) to report under the Federal Funding Accountability and Transparency Act (FFATA). When the FFATA reporting requirements were first introduced in 2010, the Department performed a thorough review of all federally funded programs and identified the programs affected by the new requirements. At that time, the Department contacted HHS who provided written assurance that LIHEAP was not required to report under FFATA. On January 31, 2013, the Department received clarification from HHS that 2012 awards were included in this requirement.

The Department trained the appropriate LIHEAP staff on the FFATA requirements and the use of the FFATA Subaward Reporting System (FSRS) database to submit LIHEAP data. The Department finalized procedures to ensure FFATA data is entered into the FSRS database and that LIHEAP complies with reporting requirements. The FFATA reporting is now current.

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Department of Commerce (COM)

Agency: 103

Audit Report: 2012 F

Finding Number: 027

Finding: The Department of Commerce, Community Services and Housing Division, did not comply with period of availability requirements for its Low-Income Home Energy Assistance program.

Resolution: The Department reviewed the federal criteria regarding period of availability with fiscal staff. The period of availability error occurred when adjusting entries were made at the end of the year. The Department conducted training to ensure staff understood to match the period of service to the award's period of availability when expenditures are made or are moved from one fiscal year to another. Supervisors review the work of staff, and management approves when adjustments are made.

The Contracts Management System (CMS) was enhanced to provide pop-up warning messages regarding dates as follows:

- When funding a contract if the coding element in the accounting system has a closing date that is older than the present date.
- When the service dates for an invoice are outside the contract dates.
- When the service end date for an invoice correction or recovery is greater than the coding element end date.
- When the document date on a journal voucher is greater than the coding element end date.

Questioned costs were corrected in the accounting system and returned to the granting agency.

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Office of Financial Management (OFM)

Agency: 105

Audit Report: 2012 F

Finding Number: 001

Finding: The State's internal controls over Medicaid payments processed by ProviderOne are inadequate to ensure those payments are properly processed and recorded.

Resolution: While the state does not fully agree with the finding, it recognizes the significance and the priority of internal controls and takes them very seriously. Upon notification by the auditor that one step in the process to validate that the daily interface from ProviderOne to the state's accounting system was lacking, the Health Care Authority (HCA) immediately instituted the validation step. The validation was performed for the entire period it was missing and the results of that validation indicated that all ProviderOne transactions were properly accounted for in the state's accounting system.

HCA relied on the certification process conducted by the federal Centers for Medicare and Medicaid Services (CMS) to document the sufficiency of ProviderOne internal controls. The CMS certification process was very comprehensive in nature and resulted in the state's ProviderOne being the first in the country to achieve federal certification without a single finding.

The state recognizes the value of, and has added a requirement to the ProviderOne contract for an independent audit of, the system of internal controls at the vendor location. The first report is expected in the spring of 2014.

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State Health Care Authority (HCA)

Agency: 107

Audit Report: 2012 F

Finding Number: 042

Finding: The Health Care Authority does not have adequate controls to ensure Medicaid is the payer of last resort.

Resolution: The Authority disagrees with this finding and maintains that adequate controls are in place to assure that Medicaid is the payer of last resort. The following items demonstrate the priority of the work and items that the Authority has put in place to strengthen third-party liability controls.

- The Office of Program Integrity (OPI) has dedicated 1.8 full-time auditors to reviewing pharmacy third-party liability claims for inappropriate use of override codes. The data retrieval has been improved with a better data query, which has reduced the audit time required. In addition, OPI has implemented audits that identify aberrant patterns and requests providers to perform a self audit of their claims.
- The Authority has also strengthened coordination of benefits controls by contracting with Health Management Systems (HMS) to provide supplemental third-party liability recoveries for the Authority. The Authority is in month 26 of the HMS contract. To date \$9.1 million in supplemental recoveries has been posted.
- The OPI has analyzed other potential changes to the system, including an edit that would require a valid date in the other payer date field if an override code were present on the claim. Since these fields are contained in different segments of the claim transaction, they are not easily configurable, and this system edit is not considered cost effective at this time. However, the OPI will continue to look for ways to enhance third-party liability controls.

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State Health Care Authority (HCA)

Agency: 107

Audit Report: 2012 F

Finding Number: 043

Finding: The Health Care Authority does not have adequate controls to ensure providers meet initial and ongoing eligibility requirements to participate in the Medicaid program.

Resolution: The Authority is now in compliance with this requirement. Regarding licensing, the Provider Enrollment Unit ensures providers have appropriate licenses when first determining eligibility, as well as throughout their enrollment with the Medicaid program. A direct link with the Department of Health (DOH) has been established to automatically update licensing information, which ensures the Provider Enrollment Unit has each provider's most current license information. If a DOH license has expired, ProviderOne ends the taxonomy associated with the provider's file, preventing any further payment to the provider.

As of March 25, 2011, the Patient Protection and Affordable Care Act (ACA) introduced new screening procedures for providers and suppliers. The ACA identifies Durable Medical Equipment (DME) providers as moderate to high-risk business partners who require unscheduled, unannounced site visits. The Authority has finalized written policies and procedures to comply with the ACA. Site visits are now being conducted and new staff has been approved to carry forward this assignment and increased duties in the future.

The Authority ensures that newly enrolled DME providers have a physical location as a prerequisite of enrollment with the Authority.

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State Health Care Authority (HCA)

Agency: 107

Audit Report: 2012 F

Finding Number: 044

Finding: The Health Care Authority did not have adequate controls to ensure violations of Medicaid laws and regulations by providers are identified and referred to the Medicaid Fraud Control Unit (MFCU), risking the loss of public resources.

Resolution: The Authority does not concur with this finding. The Authority maintains that adequate controls are in place to ensure that violations of Medicaid laws and regulations are identified and referred to the Medicaid Fraud Control Unit (MFCU) in a timely manner. The analysis completed by the auditors focused on cases that are entered and tracked through the Authority's Case Tracking System and assigned to Surveillance and Utilization Review (SUR) staff.

The entry of cases into the Case Tracking System should not be considered, by itself, a suspicion of fraud or abuse because all complaints are entered. Rather, the system is used to track a variety of cases with appropriate time frames for follow-up for each type of case. Cases that have sufficient evidence to justify an allegation of fraud require the entry of additional information to indicate that the case has been referred to the MFCU. Cases are tracked until resolved.

Some cases are entered in the case tracking system as placeholders and reminders for staff to follow up with additional review. In addition, there has historically been no consistent criterion for utilization of the drop down labeling in the system so the categories may not be consistent. The Authority complies with the provisions of federal regulations regarding preliminary investigations and full investigations. The Authority complies with all federal reporting requirements related to numbers of investigations and detailed processes for conducting each type. A Case Tracking Report can be generated upon request that will show the preliminary and full investigations.

In short, this finding identifies inconsistencies in the Authority's use of its Case Tracking System rather than any actual deficiency in identification of fraud or referral to MFCU. The auditor's scrutiny assisted the Authority in identifying the need for more consistency in the use of the Case Tracking System. However, it is wrong to conclude that the Authority does not have control of its caseload and does not refer all appropriate cases to MFCU based upon the length of time a case has been open in the Case Tracking System. Processes are in place to prioritize the work of SUR investigators, ensuring that the Authority is addressing those cases with the highest potential for fraud, waste, and abuse and is properly utilizing resources to focus on cases that yield the highest return on investment. In September 2013, the Office of Program Integrity hired a payment review program manager who will help streamline processes and provide consistency in how the cases are tracked in the Case Tracking System.

State of Washington

Status of Audit Resolution

December 2013

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State Health Care Authority (HCA)

Agency: 107

Audit Report: 2012 F

Finding Number: 045

Finding: The Health Care Authority's inadequate internal controls over claims from Federally Qualified Health Centers led to payments of more than \$1.4 million for charges improperly calculated and claimed.

Resolution: The Authority agrees with this finding.

Currently, the internal controls for Federal Qualified Health Centers (FQHC) overpayments and improper billings rely more heavily on post-pay claims review and recoupment rather than denial at the point of claim submission.

The Authority will make the appropriate updates to the system and billing guides for FQHCs so that the system edits will prevent overpayments and improper billings at the point of claim submission. This will include denial of claims without a qualifying encounter service being billed for the same client on the same day, as well as multiple billings for one client for the same day that should be included in one encounter billing.

The Authority will work with its internal audit staff to recoup the improperly paid claims and will work with the U.S. Department of Health and Human Services to determine treatment of questioned costs.

As of October 2013, system modifications have been designed, but need to be input into the system and tested before being moved into production. The Washington Administrative Code and Medicaid Provider Guide (MPG - formerly known as the Billing Instructions) changes have been requested.

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State Health Care Authority (HCA)

Agency: 107

Audit Report: 2012 F

Finding Number: 046

Finding: The Health Care Authority improperly claimed \$48,365.31 in federal reimbursement for the Medicaid program.

Resolution: The Authority agrees with this finding and concurs that 162 claims were erroneously paid after the clients' dates of death.

The Authority has reviewed and recouped all the payments identified by the auditors as paid to deceased persons.

The Authority continues to strengthen procedures to improve the immediate documentation of a client's death. For managed care and fee-for-service payments, ProviderOne does capture and recoup paid claims when notified of a date of death through the Automated Client Eligibility System, the eligibility source system. In addition, the Authority will continue to receive death data from the Department of Health to assist with the proper identification of client death information. The Authority will continue to refine post payment processes to capture this information for timely recoveries.

The Authority has reviewed all payments to ineligible people cited by the auditors and concurs with the auditor's findings. The Authority has corrected any case errors and will arrange repayment of any federal funds received in error by January 2014.

The Authority will strengthen training processes already in place by sending a social security number (SSN) verification reminder memo to Community Services Division staff. The Authority will continue to pursue enhancements to verification procedures that promote SSN accuracy. The Authority anticipates SSN accuracy will improve under health care reform because clients will input their own SSNs and will get instant feedback if an input error is made.

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State Health Care Authority (HCA)**Agency: 107**

Audit Report: 2012 F

Finding Number: 047

Finding: The Health Care Authority's internal controls are insufficient to ensure payment rates for its Healthy Options managed care program are accurate.

Resolution: The Authority continues to disagree with this finding but will take the following actions in an effort to resolve the repeat findings on this issue:

- The Authority will use encounter data submitted from the Managed Care Organizations (MCOs) for the next rate-setting activities. The MCOs will no longer submit encounter data directly to the Authority's actuary.
- With the implementation of a new Medicaid payment system and a new Fraud and Abuse Detection System, Washington Medicaid has launched a Managed Care Program Integrity Initiative. The purpose of the initiative is to assess the quality and completeness of encounter data provided by MCOs and to conduct analyses that identify potential fraud, waste, and abuse. If encounter data problems are identified, the Authority will prepare a report with actionable information for the plans. Subsequent encounter data validation runs will determine progress by the MCOs in remediating the identified issues.
- The Authority is also participating with the auditors in the performance audit of the MCOs.

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State Health Care Authority (HCA)

Agency: 107

Audit Report: 2012 F

Finding Number: 048

Finding: The Health Care Authority did not complete the required automatic data processing (ADP) risk analysis and system security reviews of ProviderOne, the new Medicaid Management Information System, risking the loss of Medicaid program assets and jeopardizing Medicaid program integrity.

Resolution: The Authority partially agrees with this finding. The Authority considers the safeguarding of personally identifiable and protected health information a top priority and has required controls in place. However, the Authority agrees that additional independent review will strengthen the Authority's ability to ensure that the ProviderOne vendor has effective controls in place.

For automatic data processing assets under its direct control, the Authority has implemented security controls consistent with the Washington State Office of the Chief Information Officer (OCIO) Security Standards, federal regulations, the Health Insurance Portability and Accountability Act Security Rules, and other guiding and regulatory documents. Examples of controls include but are not limited to the following:

- Utilization of services provided by Consolidated Technology Services to secure the network perimeter.
- Implementation of user device endpoint protection to guard against malware and other threats.
- Encryption of confidential data where appropriate.
- Development of applications which protect against common exploits.
- Active management of user access controls.
- Implementation of password standards consistent with OCIO requirements.
- Appropriate response to security incidents.

As of September 2013, the ProviderOne vendor provided the Authority with Service Organization Control (SOC) examination reports from subcontractors.

The ProviderOne vendor will complete documentation for SOC controls by December 31, 2013.

The ProviderOne vendor will undergo the SOC examination the first quarter of calendar year 2014 and every two years thereafter.

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State Health Care Authority (HCA)**Agency: 107**

Audit Report: 2012 F

Finding Number: 049

Finding: The Health Care Authority does not comply with the data-sharing requirements of 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: The Authority continues to disagree with this finding.

The Authority maintains that it is in compliance with the Deficit Reduction Act of 2005 and applicable state law. The Authority 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.

The Authority's position on compliance was further corroborated by an independent review conducted by Health Management Systems (HMS) in March 2010. The review stated that HHS's review of the Department of Social and Health Services (the Medicaid Agency at the time) "confirms a strong Medicaid TPL program..." This report also noted areas of industry best practices that the Authority could explore to enhance its cost avoidance and recovery. As a result of this review, the Authority entered into a contract with HMS to strengthen and improve its efforts in the area of TPL recoveries as HMS provides for enhanced data-matching to better identify a client's medical insurance coverage. The contracted activities include conducting electronic data exchanges with health insurers, and verifying and updating the insurance eligibility of Medicaid recipients for billing liable third parties on behalf of the Authority.

Additionally, in 2013 the Authority implemented the Payer Initiated Eligibility Benefit (PIE) Transaction tool developed by the Centers for Medicare & Medicaid Services. PIE was developed as the national standard for payers to share information with Medicaid agencies.

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State Health Care Authority (HCA)

Agency: 107

Audit Report: 2012 F

Finding Number: 050

Finding: The Health Care Authority did not adequately monitor subrecipients to ensure Medicaid Administrative Match expenditures are allowable and subrecipients obtained federal compliance audits.

Resolution: The Authority agrees with the finding and has implemented the following corrective actions:

To improve oversight, the Medicaid Administrative Match program added a fiscal component to its monitoring of school districts and local health jurisdictions. Beginning June 1, 2012, the Authority uses a random sampling process to select time study participants for the time frame being monitored. The Authority compares the actual salaries and benefits of those selected through this process to salaries and benefits claimed for those participants.

The Authority also reviews direct and indirect claimed costs for the same period monitored.

Additionally, effective November 2012, all contract monitoring tools have been updated to include verification of compliance with subrecipient audit requirements as part of the Authority's onsite desk monitoring process. One staff member has been assigned the task of tracking receipt of needed audits from subrecipients, reviewing them, and ensuring audit findings are addressed.

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State Health Care Authority (HCA)

Agency: 107

Audit Report: 2012 F

Finding Number: 051

Finding: The Health Care Authority does not perform the federally required retrospective drug use review of pharmaceutical claims data to identify patterns of fraud or abuse.

Resolution: The Authority continues to disagree with this finding.

The Authority performs ongoing periodic review of pharmaceutical claims data to identify fraud, waste, or abuse, which satisfies federal requirements. The Authority performs claim review and analysis in multiple offices including but not limited to the Office of Program Integrity (OPI) mentioned in the finding. The Authority does not assert that the claims analysis performed by OPI satisfies federal conditions on its own. Analysis performed in OPI, by the Quality Management Team, and the Patient Review and Coordination Program work together to satisfy federal requirements.

The auditors were provided with information in October 2012, detailing three claim review and analysis algorithms performed by OPI during state fiscal year 2012. Two of these three are not mentioned in this finding despite their details having been submitted to the auditors.

Additional analyses were performed by OPI during the same period that were not detailed for the auditors because they did not result in opportunities for recoupment (i.e., additional reviews were performed which looked for but did not find significant fraud, waste, abuse, or billing errors).

In addition to the work of OPI, the agency's Quality Management Team performed 175 claim analyses of individual prescribers in federal fiscal year 2012, and the Patient Review and Coordination program performed 4,249 individual client claim analyses.

The Authority is very interested in working with the auditors to provide additional information or clarification to eliminate this repeat audit finding in the future.

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Status of Audit Resolution

December 2013

State Health Care Authority (HCA)

Agency: 107

Audit Report: 2012 F

Finding Number: 052

Finding: The Health Care Authority cannot be sure it is properly claiming Children's Health Insurance Program (CHIP) funds.

Resolution: The Health Care Authority agrees with the finding and has taken corrective action.

The Authority developed a report using data from the Medicaid Management Information System to identify claims by Recipient Aid Category and Federal Poverty Level based on net income. The report was implemented for state fiscal year 2013 beginning with the quarterly transfer for July-September 2012, which was processed in January 2013.

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State Health Care Authority (HCA)**Agency: 107**

Audit Report: 2012 F

Finding Number: 053

Finding: The Health Care Authority's inadequate internal controls over claims for dental services led to more than \$648,000 in overpayments to providers.

Resolution: The Authority has or will take the following corrective action:

- Fluoride treatment for children. The Authority agrees that the Medicaid billing guide, Washington Administrative Code (WAC) and the ProviderOne system are not aligned. It is the Authority's intent to allow fluoride with applicable age/annual limits, per client, per provider consistent with the Medicaid provider guide. An update to the WAC is in progress. No recovery is necessary.
- Dental Cleanings. The Authority found system issues that have been corrected, and the Authority's Division of Program and Payment Integrity is in the process of recouping overpayments.
- Dental X-rays. The Authority agrees that the billing guide and WAC are not aligned with the ProviderOne payment system. It is the Authority's intent to pay for necessary diagnostic X-rays per client, per provider. The Authority is in the process of updating the WAC and billing guides, and any payments made outside of these limitations will be identified and recouped by the Authority.
- Oral Evaluation Services. The Authority agrees that there were system issues for most of the overpayments. The Authority is in the process of updating the WAC and billing guide to allow for additional evaluations for clients managed by the Department of Social and Health Services' Aging and Disability Services Administration.
- Limited Visual Evaluations and Family Oral Health Education. The Authority paid both services with a miscellaneous code, and was unable to set up automated system limitations. However, the Authority now has new codes with edits for the limited visual evaluation as of January 1, 2013, and has set up system limits for both services. The Authority has submitted requests to the Office of Payment Integrity to identify overpayments and recoup funds.

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State Health Care Authority (HCA)**Agency: 107**

Audit Report: 2012 F

Finding Number: 054

Finding: The Health Care Authority does not have adequate controls in place to verify services billed by providers with Medicaid beneficiaries in accordance with federal laws, risking the loss of Medicaid resources.

Resolution: The Authority does not agree with the finding and disagrees that the Medical Service Verification (MSV) process lacks adequate controls.

Historically, the MSV process has proven to have no value in detecting fraud. The Authority prioritizes its program integrity and surveillance and utilization review resources in areas that have been proven to yield a higher return on investment. For example, the toll free hotline, hot tips and statistical studies have the potential to develop into a significant case and yield higher returns than MSVs. Therefore, the Authority maintains a position that spending resources on MSV processing actually reduces its ability to focus on program integrity activities that increase controls.

Of the 30 MSVs noted in the audit as "lacking follow-up," the Authority maintains that resources dedicated to these MSVs were appropriate given the process and the dollar values at stake:

- Thirteen (including three that were paid at zero and a fourth with 39 cents at risk) were not followed up because the amounts paid did not warrant the purchase of translation services (average of \$68 per MSV).
- Another six (with an average of less than \$12 per MSV) were not followed up because the clients could not be located.
- Of the 11 remaining, 10 MSVs (with an average paid amount of \$28) received no follow-up when, for instance, clients checked every box, checked no boxes, or completed the form when the service in question was provided to another member of the household.

The audit also identified 20 surveys sent to clients that should have been excluded. The Authority notes that the Centers for Medicare and Medicaid Services (CMS) manual suggests that states review "a sample of at least 400 recipients each month." In 2012, the Authority reviewed an average of more than 700 MSVs per month, 75 percent more than suggested. In terms of fraud detection, the Authority believes this exceptional number of MSV reviews more than compensates for the 20 MSV cases that should have been excluded.

The Authority will continue to refine its selection process for MSV reviews and will continue to meet federal MSV requirements. A system change request is in process for refining the universe of claims included so that only categories that meet federal MSV requirements are selected.

State of Washington

Status of Audit Resolution

December 2013

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State Health Care Authority (HCA)

Agency: 107

Audit Report: 2012 F

Finding Number: 055

Finding: The Health Care Authority did not ensure that all individuals who received Medicaid benefits had valid Social Security numbers.

Resolution: The Authority concurs with this finding. The Authority will continue to send monthly "NO SSN" reports to Community Services Division for correction. Many of the 206 clients with no social security number (SSN) identified in the audit have had their Medicaid terminated or they received Medicaid for services for which a SSN is not required, such as labor and delivery or alien emergency medical services.

The Authority's foster care medical team has changed processes to add the SSN for children in adoption support. Of the 14,000 children in adoption support, approximately 90 percent now have a SSN listed in the Automated Client Eligibility System (ACES). Before this change, the SSN had been verified but it was not input in ACES.

The Authority has sent a memo outlining procedures for verifying SSNs in order to ensure that staff involved in the verification process are following the correct SSN verification procedures.

The Authority will continue to pursue enhancements to verification procedures that promote SSN accuracy. The Authority anticipates SSN accuracy will improve under Health Care Reform due to the client inputting their own SSN and getting instant feedback if an input error is made.

The Authority will pay back the federal share for any payments made on ineligible persons by January 2014.

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Status of Audit Resolution

December 2013

State Health Care Authority (HCA)

Agency: 107

Audit Report: 2012 F

Finding Number: 056

Finding: The Health Care Authority did not have adequate controls to ensure the federal share of overpayments to Medicaid providers is refunded to the federal government in a timely manner.

Resolution: As part of the Authority's process for auditing providers to identify overpayments, draft audit reports are issued as a preliminary step. The draft reports are subject to modification based upon provider responses. Accordingly, the Authority did not consider preliminary recovery amounts identified in draft audit reports to be "discovery," and was not sending draft audit reports to Office of Financial Recovery (OFR).

The Office of Program Integrity contacted OFR to let them know the Authority would be adding the date of the draft letter to the account allocation code sheet, effective January 16, 2013. This met with OFR's approval and this action has been completed.

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State Health Care Authority (HCA)**Agency: 107**

Audit Report: 1008984

Finding Number: 001

Finding: The Authority does not have assurance the vendor has effective controls to protect the ProviderOne system from unauthorized changes.

Resolution: The Authority does not concur with the finding statement but agrees that additional independent review will strengthen the Authority's ability to ensure that the vendor has effective controls in place.

The Authority recognizes the significance and the priority of internal controls and takes its responsibility seriously. The Authority has a robust set of change control processes in place that control both internal system changes and vendor changes. The Authority believes that the change control processes in place minimize the likelihood of unauthorized alterations and errors and adequately provide for the analysis, implementation and testing of all changes requested and implemented. The Authority asserts that the change control processes in place meet best practice standards and are effective in the prevention of unauthorized changes to ProviderOne production programs. The processes include control of documentation and authorization of all change requests, impact assessments, change logs, release management, configuration management, and version control.

While robust change control processes are in place, the Authority also recognizes the value of an independent audit of internal system controls. While neither expected nor required by the federal government for any Medicaid payment system, to strengthen the Authority's ability to monitor vendor controls, Washington state has now added a requirement for external examinations in the form of Service Organization Control (SOC) reports to the ProviderOne vendor contract. This will be implemented in phases, and once complete will provide the Authority with additional independent testing of the ProviderOne vendor's control policies and procedures. This audit will assist in validation of effective control processes and/or the identification of opportunities for improvement. Dates for completion of phases are as follows:

- On March 31, 2013, the ProviderOne vendor provided the Authority the required examination reports from subcontractors.
- On July 31, 2013, the ProviderOne vendor completed documentation for the first phase of controls.
- By December 31, 2013, the ProviderOne vendor will complete documentation for the second phase of controls.
- Starting in the first quarter of calendar year 2014 and every two years thereafter the ProviderOne vendor will undergo the required examination.

State of Washington

Status of Audit Resolution

December 2013

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State Health Care Authority (HCA)**Agency: 107**

Audit Report: 1008984

Finding Number: 002

Finding: The Authority does not have assurance the vendor has effective controls to safeguard ProviderOne data files.

Resolution: The Authority does not concur with the finding statement but agrees that additional independent review will strengthen the Authority's ability to ensure that the vendor has effective controls in place to safeguard ProviderOne data files.

The Authority recognizes the necessity of effective data file safeguards. During ProviderOne implementation, the Department of Social and Health Services (the Medicaid Agency at the time) reviewed and approved the vendor's database security procedures, and conducted a physical inspection of the data center to ensure that system software, application and data files met all security standards. In addition, audit trails are maintained and reviewed by the ProviderOne vendor and provide a record of all system and database activity to ensure that the database has not been modified outside of authorized processes. The Authority asserts that the database procedures in place meet best practice standards.

While robust change control processes are in place, the Authority also recognizes the value of an independent audit of internal system controls. While neither expected nor required by the federal government for any Medicaid payment system, to strengthen the Authority's ability to monitor vendor controls, Washington state has now added a requirement for external examinations in the form of Service Organization Control (SOC) reports to the ProviderOne vendor contract. This will be implemented in phases and once complete, will provide the Authority with additional independent assurance of effective vendor controls. Dates for completion of phases are as follows:

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State Health Care Authority (HCA)

Agency: 107

Audit Report: 1008984

Finding Number: 003

Finding: User access privileges were not restricted to ensure separation of incompatible duties.

Resolution: The Authority partially concurs with this finding. While ProviderOne user security profiles were established and thoroughly reviewed prior to implementation, the Authority agrees that assessing the compliance and operating effectiveness of existing controls is necessary on an ongoing basis. The Authority is currently outlining a set of enterprise security principles on which to base decisions related to separation of duties and will follow with development of an internal annual process for review of user security profiles.

It should be noted that the auditors provided the Authority with the same recommendation and associated details at the conclusion of a 2011 ProviderOne review. The Authority reviewed all of the profile combinations that were noted as incompatible and provided the auditors with a list of completed resolutions in the spring of 2012.

The Authority believes that the establishment of appropriate balance between user needs and security requires a careful analysis of the criticality and sensitivity of information resources available and the tasks performed by users. There are some combinations of user security profiles that have been assessed by the Authority as low risk and, due to resource constraints, are impractical to maintain a separation of duties.

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State Health Care Authority (HCA)

Agency: 107

Audit Report: 1008984

Finding Number: 004

Finding: The Authority did not have an adequate process to verify the state's accounting system received all batches of transactions from ProviderOne from January 1 through June 30, 2012.

Resolution: The Authority concurs with the finding. The Authority recognizes the significance and the priority of internal controls and takes them very seriously. The Authority recognizes that a complete and adequate control process requires duplicate business validations of the transfer of transactions from ProviderOne to the state accounting system. While the two-step validation was lacking, the Authority did perform daily validations and had controls in place to ensure the accuracy of the ProviderOne to the state accounting system interface.

In January 2012, the ProviderOne system was enhanced to produce two interface files: one for Department of Social and Health Services (DSHS) transactions and one for the Authority's transactions. This enhancement was necessitated by the merger of DSHS/Medicaid with the Authority. At the time of the system change, DSHS continued their established accounting process that validated the DSHS transactional data in ProviderOne to the state accounting system interface. However, the Authority finance department was not aware of this requirement and, therefore, did not institute a similar process for the Authority transactional data in ProviderOne to the state accounting system interface.

While the accounting validation step was missing, the Authority continued to validate the daily interface at the technical/system level so controls were in place to assure the accuracy of the interface.

Once the Authority realized that the second accounting validation step was not in place and that the auditors did not consider the technical validation processes to be adequate, the Authority immediately instituted the accounting validation step, including the completion of daily reconciliations from January 1, 2012, to present. The results of that reconciliation confirmed the results of the technical process above and verified that all ProviderOne transactions had been properly accounted for in the state accounting system.

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Status of Audit Resolution

December 2013

State Health Care Authority (HCA)

Agency: 107

Audit Report: 1008984

Finding Number: 005

Finding: Disaster recovery procedures have not been tested in more than three years.

Resolution: The Authority concurs with the finding and notes that annual disaster recovery testing is required under the ProviderOne contract and was completed by the ProviderOne vendor prior to the Authority's receipt of this finding. The Authority will continue to take corrective actions to ensure that ongoing annual disaster recovery testing timelines are monitored and met.

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Status of Audit Resolution

December 2013

Military Department (MIL)

Agency: 245

Audit Report: 2012 F

Finding Number: 059

Finding: The Military Department does not have sufficient internal controls to ensure all of its subrecipients receive audits for the Disaster Grants-Public Assistance program when required.

Resolution: The Department concurs with this finding and implemented corrective action through a new policy which was adopted effective July 1, 2013.

The policy requires the Department to have a well executed subaward agreement. A new subaward agreement template has been finalized and is being used for all new awards. Additionally, the policy requires that each unit with responsibility for pass-through funding creates appropriate procedures that reflect the requirements of their programs.

The policy also requires the finance unit to work with Emergency Management Division to ensure subgrantees who meet the threshold stated in federal requirements receive audits. The Department developed a new subgrantee audit certification form on which subgrantees certify whether they are required to have an audit and that they have had an audit if required. The form is being added to this year's (2014) boilerplate language for all subgrantee awards. The Department's contracts office will be tracking receipt of the form and that audits are filed. Funding source program managers will be tracking corrective actions and providing information to the contracts office. The staff from affected units within the Department met to finalize the subrecipient audit review process, including roles and expectations of each work unit.

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Status of Audit Resolution

December 2013

Military Department (MIL)

Agency: 245

Audit Report: 2012 F

Finding Number: 060

Finding: The Military Department did not file reports required by the Federal Funding Accountability and Transparency Act for the Disaster Grants-Public Assistance program.

Resolution: The Department's contracts office attempted to comply with the new Federal Funding Accountability and Transparency Act (FFATA) reporting requirement upon notification of the new reporting requirement in October 2010. The Department assigned a staff member to learn and maintain the new federal reporting system in September 2010. From the very start of the process, the Department encountered problems that prevented data entry in the federal reporting system. The Department was in communication with federal systems administration since the reporting requirement started in October 2010.

The system problem has been corrected. The FFATA reports are being maintained on a monthly basis. A policy and procedure have been developed to ensure that management is monitoring the FFATA reporting process and addressing any problems that may arise.

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Status of Audit Resolution

December 2013

Military Department (MIL)

Agency: 245

Audit Report: 2012 F

Finding Number: 061

Finding: The Military Department did not comply with the Federal Funding Accountability and Transparency Act reporting requirements for the Homeland Security Grant Program.

Resolution: The Department's contracts office attempted to comply with the new Federal Funding Accountability and Transparency Act (FFATA) reporting requirement upon notification of the new reporting requirement in October 2010. The Department assigned a staff member to learn and maintain the new federal reporting system in September 2010. From the very start of the process, the Department encountered problems that prevented data entry in the federal reporting system. The Department was in communication with federal systems administration since the reporting requirement started in October 2010.

The system problem has been corrected. The FFATA reports are being maintained on a monthly basis. A policy and procedure have been developed to ensure that management is monitoring the FFATA reporting process and addressing any problems that may arise.

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Military Department (MIL)

Agency: 245

Audit Report: 2012 F

Finding Number: 062

Finding: The Military Department does not have sufficient internal controls to ensure all of its subrecipients receive audits when required and that all subrecipients take timely and appropriate corrective actions for audit findings issued for the Homeland Security Grant Program.

Resolution: The Department concurs with this finding and implemented corrective action through a new policy which was adopted effective July 1, 2013.

The policy requires the Department to have a well executed subaward agreement. A new subaward agreement template has been finalized and is being used for all new awards. Additionally, the policy requires each unit with responsibility for pass-through funding to create appropriate procedures that reflect the requirements of their programs.

The policy also requires the finance unit to work with the Emergency Management Division to ensure subgrantees who meet the threshold stated in federal requirements receive audits. The Department developed a new subgrantee audit certification form on which subgrantees certify whether they are required to have an audit and that they have had an audit if required. The form is being added to this year's (2014) boilerplate language for all subgrantee awards. The Department's contracts office will be tracking receipt of the form and that audits are filed. Funding source program managers will be tracking corrective actions and providing information to the contracts office. The staff from affected units within the Department met to finalize the subrecipient audit review process, including roles and expectations of each work unit.

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Status of Audit Resolution

December 2013

Military Department (MIL)

Agency: 245

Audit Report: 2012 F

Finding Number: 063

Finding: The Military Department's internal controls over subrecipient monitoring are not working as designed and the Department does not adequately monitor subrecipients of the Homeland Security Grant Program.

Resolution: The Department concurs with the findings in this audit. The Homeland Security Section has resumed monitoring. An increased focus has been placed on the requirements for subrecipient monitoring, and the Department is leveraging its resources by monitoring all open grant agreement contracts during a single monitoring visit when practicable.

In addition, a new policy was adopted effective July 1, 2013. The new policy requires the Department to have a well executed subaward agreement. This has been finalized and is being used for all new awards. Additionally, each section with responsibility for pass-through funding is in the process of creating appropriate procedures that reflect the requirements of their programs.

The new policy also establishes the Program Manager Workgroup for the purpose of creating department-wide processes and efficiencies. The Workgroup is finalizing a charter and will be meeting monthly to address these issues. The program managers have responsibility for addressing process improvement and procedural documents for their respective work units.

Grant managers continue to utilize the SharePoint monitoring tool for documenting desk reviews and on-site visits. Monitoring reports are uploaded and shared department-wide. Desk reviews and on-site monitoring is typically conducted by a minimum of two staff ensuring cross-training and consistent monitoring methods.

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Status of Audit Resolution

December 2013

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2012 F

Finding Number: 023

Finding: The Department of Social and Health Services does not have internal controls to ensure reports required by the Federal Funding Accountability and Transparency Act for the Child Support Enforcement grant are filed.

Resolution: The Department concurs with this finding.

In December 2012, the Department took the following actions:

- Updated the desk manual used by fiscal staff to track federal grant reporting requirements to include Federal Funding Accountability and Transparency Act (FFATA) reporting requirements.
- Trained the fiscal staff responsible for grant reporting via FFATA webinars about reporting requirements.
- Completed the reporting requirements for grants issued in fiscal year 2012 and fiscal year 2013.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2012 F

Finding Number: 024

Finding: The Department of Social and Health Services did not obtain a Data Universal Numbering System (DUNS) number from subrecipients prior to awarding federal dollars under the Child Support Enforcement grant.

Resolution: The Department concurs with this finding.

In December 2012, the Department took the following actions:

- Obtained Data Universal Numbering System (DUNS) numbers from all subrecipients. The DUNS numbers will be included in annual federal reports that require them.
- Trained Department fiscal staff responsible for Federal Funding Accountability and Transparency Act (FFATA) reporting via webinars to learn more about reporting requirements.

On an ongoing basis, fiscal staff will collect DUNS numbers for subrecipients and maintain them in an electronic file.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2012 F

Finding Number: 030

Finding: The Department of Social and Health Services does not have adequate internal controls over client eligibility for the Child Care Development Fund, resulting in the payment of child care services for ineligible clients.

Resolution: The Department partially concurs with this finding. The Department has taken or will take a variety of corrective actions through the course of the year to correct the deficiencies identified during the audit.

In February 2013, the Department:

- Began formal auditing of 1.6 percent of all case actions, 100 percent of all new employee case actions, and 100 percent of all instances where a single staff person has authorized multiple payments in the Social Service Payment System in a month.
- Began utilizing "Find It/Fix It" procedures based on Department policy, which require all staff to fix errors as they are discovered. This policy incorporates a reporting mechanism to identify trends and error prone processes.
- Ensured the Department's Child Care Subsidy Program Handbook is up-to-date and accurately reflects changes in policy, guidance, and procedures.

By March 2013, the Department's policy staff reviewed exceptions identified in the audit. Overpayments were written for inappropriate payments.

By April 2013, the Department hired an additional 50 child care staff responsible for determining client eligibility. Community Services Division continues to recruit and hire new staff, and have worked closely with the Department's Human Resource Division to resolve recruitment issues that had (at one time) delayed hiring. The current staffing level marks a return to the normal, ongoing, and expected attrition rate.

In July 2013, the Department transferred responsibility for Temporary Assistance for Needy Families child care eligibility determinations to WorkFirst Program Specialists. This will eliminate hand off work between Working Connections Child Care staff and WorkFirst staff which will help eliminate delays in approving services.

In July 2013, the Department in conjunction with the Department of Early Learning (DEL) reviewed program policy. The agencies are co-sponsoring the Child Care Subsidy Policy Eligibility Reform Project. The project is meant to streamline how services are delivered.

By March 2014, the Department will:

- Work with DEL to review the Washington Childcare Program to identify technology solutions that enhance accuracy of payments and eligibility determinations.

Status of Audit Resolution

December 2013

- Fully implement episodic auditing (auditing a single action, not the entire case) which allows auditors to focus their review on one portion of the eligibility process at a time. This change in audit approach will allow the Department to focus on error prone cases, while increasing the total percentage of cases audited.

By August 2014, the Department will fully utilize AuditPlus (DSHS program eligibility reviewing tool) to track, trend and analyze audits to identify and improve error-prone elements including pre-authorization requirements for error-prone cases.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2012 F

Finding Number: 032

Finding: The Department of Social and Health Services, Children's Administration, is not ensuring the eligibility of clients receiving Adoption Assistance payments.

Resolution: The Department concurs with this finding.

By December 2012, the Department took the following action to correct the issues identified in the audit:

- Implemented an automated process within FamLink, the Department's child welfare and payment system, to suspend all adoption assistance payments when the child reaches 18 years of age. For payments to continue, the social worker is required to have proper documentation.
- Fiduciary staff reviews documented proof that payment beyond age 18 is appropriate. This process serves as a secondary review prior to the manual approval of payment.

By March 2013, the Department reviewed all 29 exceptions identified during the audit. An overpayment was processed for all exceptions identified as inappropriate payments.

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Status of Audit Resolution

December 2013

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2012 F

Finding Number: 034

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

Resolution: In November 2012, the Department implemented a client services verification survey. The survey was incorporated into the Department's annual quality assurance monitoring cycle. The survey allows the Department to verify directly with clients that they have received the services for which Medicaid is billed. The verification survey is a supplement to provider time sheet audits which are a part of the quality assurance monitoring cycle.

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Department of Social and Health Services (DSHS)**Agency: 300**

Audit Report: 2012 F

Finding Number: 035

Finding: The Department of Social and Health Services, Aging and Disability Services Administration, does not have adequate controls to ensure the accuracy of financial eligibility determinations for clients receiving home and community based services.

Resolution: The Department concurs with this finding.

The Department implemented a corrective action plan when this condition was first noted in the previous (2011) audit; however, the corrective action plan was not fully implemented by the time the current fiscal year (2012) began. The corrective action plan for this current finding essentially concludes the plan that was initiated in the prior year.

In August 2012, the Department required all regions to comply with the auditing policy outlined in the quality assurance policies and procedures. Compliance is measured by Home and Community Services Headquarters staff through reports generated from the Audit 99 system.

The specific review actions are:

- For all staff new to long-term care eligibility, after an initial mentoring period during which staff are assisted with case actions as they occur, 25 to 100 percent of all case actions will be audited based on the learning level of the staff until they become proficient.
- Each region must maintain an average of two audits per month, per worker. These can include full-case audits and focused audits.
- Focused audits will be conducted as deemed appropriate by the region, with emphasis given to compliance during policy changes related to corrective actions taken as a result of previous audit findings. Parameters of special focused audits will be developed based on program size and effect on payment errors. Sample sizes will be statistically valid. Focused audits can include but are not limited to:
 - Applications that include community spouses and any accompanying spousal resource declarations.
 - First annual reviews for cases that include community spouses.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2012 F

Finding Number: 036

Finding: The Department of Social and Health Services does not have an adequate process to identify ineligible Medicaid expenditures for nonqualified aliens, resulting in \$77,352.13 in questioned costs.

Resolution: This finding involved two administrations within the Department: Aging and Disability Services Administration and the Children's Administration. Both administrations concurred with the finding.

Aging and Disability Services Administration (ADSA)

ADSA previously developed procedures and new social service payment codes to ensure billing was done correctly. Due to the timing of when the codes were implemented, some payments were made when they should not have been.

In January 2013, the Department reimbursed the federal portion of the questioned costs that were identified.

In February 2013, the Department confirmed all codes were properly implemented and exceptions identified during the audit were corrected.

Children's Administration (CA)

Only three of the 29 exceptions identified in the audit were the responsibility of the CA. A new code has been established in FamLink and SSPS (Social Services Payment System) systems to pay state only funds for children of non U.S. citizens in CA's care that are receiving behavioral rehabilitative services and are not Medicaid eligible.

The Department reimbursed the federal portion of the questioned costs that were identified.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2012 F

Finding Number: 037

Finding: The Department of Social and Health Services does not have adequate internal controls to ensure daily rates paid to supported living providers for Medicaid clients are accurate and properly authorized.

Resolution: The Department concurs with this finding.

By September 2013, the Department implemented an electronic rate approval process. The process includes several steps that require each individual involved in the rate review to document their review in the electronic system. The review is passed on to subsequent reviewers only when this is done.

By December 2013, the Department will identify overpayments from rate adjustments and repay them to the federal government.

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Status of Audit Resolution

December 2013

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2012 F

Finding Number: 038

Finding: The Department of Social and Health Services, Economic Services Administration, does not have adequate controls in place to ensure all individuals who receive Medicaid benefits are financially eligible.

Resolution: The Department developed and enhanced current desk aids and materials to assist eligibility workers to correctly verify and calculate income when determining eligibility for the Children's Medical program. These were distributed for use by staff in April 2013.

Additionally, the Department conducts the following audits/reviews to monitor eligibility determination:

- Adult and family medical assistance reviews.
- Community service division medical assistance reviews.
- Basic food pre-authorization reviews.
- Quality assurance focused accuracy reviews.
- Quality assurance management evaluations.

Effective October 2013, applications and renewals for pregnant women, children, and families will be processed through the Health Benefits Exchange web portal. Eligibility will be determined through an automated data-match process.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2012 F

Finding Number: 039

Finding: The Department of Social and Health Services does not have adequate internal controls to ensure Medicaid payments to supported living providers are allowable and supported.

Resolution: The Department concurs with this finding.

The corrective actions below were developed to improve the Department's internal controls over Medicaid payments.

In September 2013, the Department started a project to perform payment audits that will verify if services have been provided. This project is currently slated for two years. During this period two audits a month will be completed.

By November 15, 2013, the Department completed annual reviews of cost reports. All overpayments identified were referred to the Office of Financial Recovery.

By December 31, 2013, changes will be made to Developmental Disabilities Administration policies that will include new cost report schedules. These will add greater transparency and accountability to the cost report process by requiring additional detailed information about direct and indirect staffing costs and hours, administrative salaries, rental costs, agency square footage, and travel mileage on behalf of clients.

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Department of Social and Health Services (DSHS)**Agency: 300**

Audit Report: 2012 F

Finding Number: 040

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

Resolution: This finding involved two administrations within the Department of Social and Health Services: the Aging and Disability Services Administration (ADSA) and the Economic Services Administration (ESA). Both administrations concur with the finding. Each administration developed an individual corrective action plan.

Aging and Disability Services Administration

ADSA believes the internal controls in place are sufficient to prevent clients without valid social security numbers (SSN) from receiving Medicaid funded services. New Social Service Payment System codes have been developed to ensure Medicaid funds are not used for clients with invalid SSNs.

In January 2013, ADSA reimbursed the federal grantor for the questioned costs identified in the audit that related to ADSA clients.

ADSA would like to state that this finding is specific to 12 cases out of 60,000 and equal to \$20,000 out of the Long Term Care annual budget of \$1.7 billion dollars. While this finding represents 0.02 percent of the cases and 0.001 percent of the funding, the Department remains committed to pursuing the goal of matching 100 percent of the clients and SSNs.

Economic Services Administration

In February 2013, ESA reviewed the list of exceptions identified in the audit. ESA acknowledged the payments were made in error and is prepared to reimburse the grantor the questioned costs. After the federal grantor reviews the finding, ESA will take the action requested by the grantor.

Barcode (one of ESA's primary systems used to process work) has the ability to generate a message to advise staff of a missing or invalid SSN in the Automated Client Eligibility System (ACES), the Department's case management system. Barcode functionality has been implemented to generate tickets advising workload prioritization staff of an invalid and/or insufficient SSN entry. Tickets are worked within an average of 12 business days.

By July 2014, ESA is anticipating that ACES 3G will be fully implemented. ACES 3G is an updated version of ACES and includes functions that streamline the client interview process allowing for a real time cross match of SSNs with the Social Security Administration's database. If the SSN passes, ACES 3G auto-populates the SSN as federally verified. If the SSN does not pass, the invalid SSN is immediately flagged and the worker is prompted to take action to get a valid SSN.

Less than 10 percent of staff currently have access to ACES 3G.

State of Washington

Status of Audit Resolution

December 2013

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2012 F

Finding Number: 041

Finding: The Department of Social and Health Services, Aging and Disability Services Administration, did not perform background checks for some in-home care individual providers in accordance with state law.

Resolution: The Department concurs with this finding.

The Department took the following actions to ensure that each Area Agency on Aging developed an effective tracking system to ensure that all Individual Providers (IP) for Medicaid clients have current background checks:

- Developed and completed corrective action plans with three local offices where the most significant deficiencies were noted.
- Terminated payments to providers that did not have current background checks.
- Terminated contracts of providers that failed to comply with requests to obtain a current background check.
- Issued a Management Bulletin on August 13, 2013, reminding staff of policies related to rechecking of background checks.

Additionally ongoing monitoring and review is included in the Quality Assurance (QA) review of a statistically valid sample of IP files during each annual QA review cycle. When the activity moves to ProviderOne and the Provider Compensation Subsystem, the system will not issue payment without a valid, unexpired background check.

The Department has contacted the Centers for Medicare and Medicaid Services to address overpayments identified in the audit.

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Status of Audit Resolution

December 2013

Department of Health (DOH)

Agency: 303

Audit Report: 2012 F

Finding Number: 002

Finding: The Department of Health did not obtain subaward information or file reports required by the Federal Funding Accountability and Transparency Act for the Special Supplemental Nutrition Program for Women, Infants, and Children.

Resolution: Effective October 1, 2012, the Department requires all subgrantees to complete a Federal Funding Accountability and Transparency Act (FFATA) data collection form which includes the required subaward information. In addition, the FFATA Subaward Reporting System (FSRS) is reviewed monthly for current and new grant awards available to report on for the Department. Available and reportable subaward information is entered monthly by grants staff into the FSRS. The grants supervisor reviews and submits the reports monthly to FSRS and retains a system print out for audit verification.

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Status of Audit Resolution

December 2013

Department of Health (DOH)

Agency: 303

Audit Report: 2012 F

Finding Number: 003

Finding: The Department of Health does not adequately monitor subrecipients of the Special Supplemental Nutrition Program for Women, Infants, and Children.

Resolution: The Department will conduct an internal review of its subrecipient monitoring processes to determine an appropriate level of activity to address the risks and ensure federal requirements are met. This may include development of a risk model to help inform the type and frequency of monitoring for each subrecipient. The Department will develop agency-level policies and training addressing subrecipient monitoring.

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Status of Audit Resolution

December 2013

Department of Health (DOH)

Agency: 303

Audit Report: 2012 F

Finding Number: 004

Finding: The Department of Health did not obtain a Data Universal Numbering System (DUNS) number from subrecipients prior to awarding federal dollars under the Special Supplemental Nutrition Program for Women, Infants, and Children.

Resolution: Prior to awarding federal dollars, the Department now requires all subgrantees to complete a Federal Funding Accountability and Transparency Act data collection form which includes the required subaward information, including the Data Universal Numbering System number.

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Status of Audit Resolution

December 2013

Department of Health (DOH)

Agency: 303

Audit Report: 2012 F

Finding Number: 005

Finding: The Department of Health does not have sufficient internal controls to ensure all of its subrecipients receive audits when required.

Resolution: Beginning in December 2012, the Department initiated additional telephone contact with subgrantees who did not provide a response to the original post card inquiry and/or who did not provide a copy of their single audit to the Department and/or the federal Single Audit Clearinghouse. These subgrantees are called (sometimes weekly) until a response is received. As of September 2013, the Department has achieved 100 percent audit determination compliance.

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Status of Audit Resolution

December 2013

Department of Health (DOH)

Agency: 303

Audit Report: 2012 F

Finding Number: 013

Finding: The Department of Health did not file reports required by the Federal Funding Accountability and Transparency Act for the Drinking Water Program.

Resolution: The Federal Funding Accountability and Transparency Act (FFATA) reporting for the award identified in the finding is now complete. Clarification has also been received from the federal Environmental Protection Agency (EPA) regarding how to report FFATA on future grants. The Department's Drinking Water Program will ensure this is completed annually at the time of contract execution.

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Status of Audit Resolution

December 2013

Department of Health (DOH)

Agency: 303

Audit Report: 2012 F

Finding Number: 019

Finding: The Department of Health paid unreasonable indirect cost rates to a subrecipient of the Public Health Emergency Preparedness grant.

Resolution: The subrecipient in question did not have an indirect rate but rather a cost allocation plan. The Department reviewed the cost allocation plan and worked with the subrecipient to make some adjustments. In addition, as of June 2013, the amount paid for indirect costs to this subrecipient are capped at the lower of actual costs or an effective rate of 40 percent of direct expenditures. It was the auditor's opinion that the effective rate for the months tested was unreasonable, however, the charges themselves were not unallowable. The Department will work with grantors to determine what, if any, costs are to be repaid.

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Department of Health (DOH)

Agency: 303

Audit Report: 2012 F

Finding Number: 020

Finding: The Department of Health does not adequately monitor subrecipients of the Public Health Emergency Preparedness and National Bioterrorism Hospital Preparedness programs.

Resolution: Effective January 2012, the Department requires all contractors to submit backup documentation for all invoices. The programs review the invoice and backup documentation for allowability, reasonableness of cost, and fulfillment of contract deliverables. If questions come up regarding the invoice or backup documentation, the program follows up with the contractor and/or consults with the Department's internal auditor or other staff as necessary.

The Department had a third party resume subrecipient fiscal monitoring effective September 2012. A Department employee works with programs to track and resolve fiscal monitoring issues that may arise. The program consults with the contractor to resolve issues and develop a corrective action plan. The Department has followed up on the contractors with questioned costs and has received pay back from those contractors on the unallowable costs identified. In the future, the Department will track issues identified in fiscal monitoring reports and follow up with contractors to resolve those issues, establish corrective action plans, and collect unallowable costs, if necessary, on a more timely basis.

As of October 2012, the Department requires all grant information, including Catalog of Federal Domestic Assistance (CFDA) number, CFDA title, federal grant award number, federal grant award name and federal agency name, be included in all subrecipient contracts. This information is included in the statement of work templates which are used for all subrecipient contracts.

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Status of Audit Resolution

December 2013

Department of Health (DOH)

Agency: 303

Audit Report: 2012 F

Finding Number: 021

Finding: The Department of Health does not have sufficient internal controls to ensure it meets federal level of effort requirements for the Public Health Emergency Preparedness and National Bioterrorism Hospital Preparedness programs.

Resolution: The Department conferred with the federal grantors on this matter and obtained a clear understanding of how level of effort should be determined. Neither the Department nor the auditors had a correct interpretation. Once the Department fully understood the requirements, it put systems in place to monitor level of effort.

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Department of Health (DOH)

Agency: 303

Audit Report: 2012 F

Finding Number: 033

Finding: The Department of Health did not survey all hospitals and ambulatory surgical centers in accordance with the frequency stipulated by state and federal laws, which could increase the risk of Medicaid clients receiving substandard care.

Resolution: In June 2013, the Department hired a new hospital surveyor to help "right size" survey staff. In July the Department appointed a survey team manager who is now responsible for scheduling and managing performance of the hospital survey staff. The successful candidate was a current team member so the Department is now recruiting to replace the vacancy caused by the promotion. The Department expects to have that vacancy filled by December 15, 2013.

As of July 1, 2013, the survey team had completed 99 percent of Ambulatory Surgical Centers (ASC) surveys required in this federal fiscal year. The Department completed all ASC surveys that were required by the end of the September 2013.

The Department is now using the new survey processes and early results are very encouraging. The Department was able to accomplish five surveys in the month of August which has never been done before. The Department is on track to eliminate, or significantly reduce, the backlog of hospital surveys that are overdue by June 2014. The Department is also waiting for the new statement of work from the Centers for Medicare and Medicaid Services which may have an impact on the survey schedules. The Department received notice of two validation surveys that were to be completed in October 2013. These surveys were delayed due to the federal shutdown and will be rescheduled for the near future. This delay allowed the Department to do more state survey work.

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Status of Audit Resolution

December 2013

Department of Health (DOH)

Agency: 303

Audit Report: 2012 F

Finding Number: 057

Finding: The Department of Health did not maintain federally required documentation for \$140,468 in payroll costs charged to the National Bioterrorism Hospital Preparedness Program.

Resolution: Since July 2012, employees have been using positive time and attendance record keeping which reflects actual time worked in accordance with federal requirements. The Department will address the issue of the questioned costs with its federal grantor.

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Status of Audit Resolution

December 2013

Department of Health (DOH)

Agency: 303

Audit Report: 2012 F

Finding Number: 058

Finding: The Department of Health did not obtain a Data Universal Numbering System (DUNS) number from subrecipients prior to awarding federal dollars under the HIV Care Formula Grant Program.

Resolution: The Department agrees with the finding and, upon notification of the issue, immediately collected Data Universal Numbering System (DUNS) numbers from all current subrecipients. In December 2012, the Department clarified the requirement with staff that the DUNS number will be collected for all subcontractors by using the Federal Funding Accountability and Transparency Act form. Management will not approve a contract for routing for approval if this form is not attached.

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Department of Services for the Blind (DSB)

Agency: 315

Audit Report: 2012 F

Finding Number: 014

Finding: The Department of Services for the Blind did not determine eligibility for all Vocational Rehabilitation program applicants within the allowed period of time.

Resolution: The Department agrees with the audit finding and recommendation. While individual situations may create a need to delay an eligibility past the 60 day timeline, case file documentation should be clear about the reason for a delay, and ensure that the applicant is in agreement for the delay in accordance with the auditor's recommendation. Training was provided at the Vocational Rehabilitation (VR) Counselor meeting on October 10, 2012, and at subsequent regional team meetings, to ensure that the awareness of the timeline, the need to meet the timeline, and the need to clearly document reasons for delay of eligibility beyond the 60-day timeline is understood by counselors and supported by their fellow counselors, support staff, and supervisors.

A system for monthly review of timelines for eligibility is in place. Team leaders review overdue eligibility cases to ensure documentation is in place that describes clearly the reasons for delay. A method for checking status of eligibilities before they are overdue exists in the system, and training for accessing that tool was provided VR counselors on October 10, 2012. The tool requires multiple steps; in a future planned upgrade of the case management system this tool will be in a more prominent "dashboard" feature, allowing more streamlined, easy access to the data.

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Department of Services for the Blind (DSB)

Agency: 315

Audit Report: 2012 F

Finding Number: 015

Finding: The Department of Services for the Blind did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements for its federal Vocational Rehabilitation program.

Resolution: The Department agrees with the audit finding and recommendation. As a corrective action, the Department revised its contract general terms and conditions document in April 2012. The general terms and conditions now include appropriate certification language for contractor signatures. Additionally, the Department initiated a monthly process, effective August 2012, to review expenditures and identify any vendor that has been paid in excess of \$25,000 over the prior 12 months. These vendors are checked against the federal System for Award Management to verify that vendors have not been suspended or debarred.

When the Department learned of the finding, immediate action was taken to train principle contract developers with the need to include suspension and debarment language. The Department now includes business staff in training functions sponsored by the U.S. Department of Education's Region 10 Technical Assistance & Continuing Education Northwest and sent four staff to the U.S. Department of Education Rehabilitation Services Administration National Fiscal Conference in August 2013.

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Department of Services for the Blind (DSB)

Agency: 315

Audit Report: 2012 F

Finding Number: 016

Finding: The Department of Services for the Blind did not comply with federal requirements for reporting Vocational Rehabilitation program expenditures.

Resolution: The Department agrees with the audit finding and recommendation. The Department is now current on Vocational Rehabilitation federal cost reports.

The Department contacted the U.S. Department of Education Rehabilitation Services Administration (RSA) staff to correct prior semiannual cost reports by grant award. The corrections included separation of indirect costs from direct allocated expenditures and correctly reflected the federal portion of the indirect costs.

The Department developed an internal checklist for preparing and reviewing of the federal cost reports. The checklist requires interaction from three separate staff members to ensure proper reviews prior to submission of the reports.

The Department will take advantage of any training opportunities made available through RSA and the U.S. Department of Education's Region 10 Technical Assistance & Continuing Education (TACE) center. TACE now includes fiscal staff in their quarterly meetings.

The Department contacted RSA for potential actions in response to the audit findings for reporting anomalies on the fiscal year 2011 combined annual vocational rehabilitation cost report (RSA-2). The fiscal year 2011 RSA-2 had already been published and was not reopened for adjustment. The fiscal year 2012 cost report included the identified segregation of costs between reporting elements.

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Department of Services for the Blind (DSB)

Agency: 315

Audit Report: 2012 F

Finding Number: 017

Finding: The Department of Services for the Blind charged indirect costs related to the Vocational Rehabilitation program to its federal grant without an approved indirect cost rate.

Resolution: The Department agrees with the audit finding and recommendation.

Department staff did not fully understand the indirect cost recovery rules for the U.S. Department of Education. The Department submitted an indirect cost rate proposal to the Department of Education on February 26, 2013, and requested a negotiated settlement for questioned costs.

The Department has added the annual indirect cost proposal process to the agency calendar.

The Department of Education Rehabilitation Services Administration has been notified about this finding. The Department is in communication with the Department of Education and is awaiting approval of the proposed indirect cost recovery rate.

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Status of Audit Resolution

December 2013

Superintendent of Public Instruction (SPI)

Agency: 350

Audit Report: 2012 F

Finding Number: 018

Finding: The Office of Superintendent of Public Instruction's internal controls over subrecipient monitoring are not adequate to ensure only proper and allowable costs are charged to the School Improvement Grants program.

Resolution: The increased fiscal monitoring for the School Improvement Grant was determined a priority for the Office in the spring of 2012. A detailed fiscal monitoring form was developed in the summer of 2012 for use during the 2012-2013 school year subrecipient monitoring on-site visits. Additionally, the School Improvement Division formally joined the larger comprehensive consolidated program review process (CPR). The CPR process is the basis for monitoring all but one of the U.S. Department of Education grants received by the Office.

As of February 2013, the school improvement team is out in the field performing subrecipient monitoring of the School Improvement Grant program, with a significant focus on compliance with fiscal requirements.

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Department of Early Learning (DEL)

Agency: 357

Audit Report: 2012 F

Finding Number: 028

Finding: The Department of Early Learning does not have adequate internal controls over direct payments to child care providers.

Resolution: The Department contracted with an independent consultant to review the eligibility system and make recommendations for improvement. The Department and the Department of Social and Health Services (DSHS) developed an action plan to implement the recommendations.

As of September 2013, the following actions have been taken:

- Improved eligibility worker training to better understand the Department's mission.
- Simplified policies that would benefit families and DSHS staff.

The Department continues to coordinate with DSHS to make system improvements so that eligibility workers are able to accurately determine eligibility. System improvements include recommended policy changes to allow more flexibility in verifications, improved case management, updated procedure manuals, and more clarity in rules.

The Department has also hired five more auditors (in addition to the five hired in January 2012) to specifically audit child care subsidy payments by comparing subsidy child care provider billings with attendance records. Around 500 cases are audited per month. For state fiscal year 2012, over \$8.0 million dollars of payments have been audited so far, and \$786,000 of overpayments identified. A desk manual for the audit team has been developed.

The Department audit team works with DSHS auditors, DSHS Office of Fraud and Accountability (OFA), and Health Care Authority to ensure that any audit activities being performed by each are nonduplicative or disruptive to the other agencies' work. All potential fraud activities are referred by the Department to OFA.

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Department of Early Learning (DEL)

Agency: 357

Audit Report: 2012 F

Finding Number: 029

Finding: The Department of Early Learning did not maintain federally required documentation for \$21,328.61 in payroll costs charged to the Child Care Development Fund.

Resolution: A previous audit performed in February 2012 had already identified an issue with the recording of payroll certifications to support grant costs. The Department implemented a new more formal, closely reviewed process at that time for collecting payroll certifications. The incident cited in this audit occurred prior to these changes. The payroll costs charged to the Child Care Development Fund (CCDF) were valid, as the employee was working half-time on CCDF related activities during this time period. However, the certifications were not completed accurately. The Department is confident the new payroll certification policy and procedure will ensure that all employee salaries and benefits are accurate and supported with the proper documentation.

The Department has notified the appropriate federal regional staff, and is waiting for their response to this finding.

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University of Washington (UW)

Agency: 360

Audit Report: 2012 F

Finding Number: 022

Finding: The University of Washington does not have monitoring controls to ensure subrecipients receiving less than \$500,000 from the University obtain audits when required.

Resolution: The University's Office of Sponsored Programs has been enhancing its existing controls to ensure all subrecipients receive audits when required by reviewing all subrecipient entities with current activity to determine that audit or financial information has been provided and reviewed. This includes all entities regardless of the amount of federal expenditures and type of entity. The University has enhanced its process for reviewing these entities by adding a subrecipient certification form to collect audit and financial information prior to subcontract issuance as well as a detailed financial questionnaire for those entities not subject to federal audit requirements. The University expects to have this review complete and processes in place by February 2014.

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Department of Transportation (DOT)

Agency: 405

Audit Report: 2012 F

Finding Number: 012

Finding: The Department of Transportation did not have sufficient internal controls to ensure reports required by the Federal Funding Accountability and Transparency Act are filed.

Resolution: The Department appreciates the auditor's work regarding the Statewide Single Audit. As originally reported, the "technical difficulties" encountered in filing the required Federal Funding Accountability and Transparency Act (FFATA) reports resulted when the Department made its initial attempts to file the FFATA reports in fiscal year 2012 and discovered that the grantor, the Federal Transit Administration (FTA), had not yet entered the award information in its computer system to allow the Department to enter subaward data and file the reports. In early 2013, the FTA input grant award information into the computer system; however, initially it did not appear that all award information was input.

As of April 2013, it appeared that the information required had been input; however, it had not yet been determined when subaward data must be input and for what FFATA reporting periods. The Department recently received clarification from the FTA on system availability to determine what award data must be input, and which reporting periods must be filed. The Department is now working with the FTA to file the necessary reports.

The Department continues to strengthen internal controls and will continue to work with the FTA until the required FFATA subaward data can be input and the reports can be filed.

Additionally, in response to the auditor's recommendations:

- The Public Transportation Division continues to implement new procedures to ensure FFATA reporting is filed timely.
- Procedures for FFATA reporting are in the final stages of development and will include appropriate training for employees. Procedures are targeted for completion by December 31, 2013.
- FFATA reporting has been assigned to one individual, with review and monitoring by another staff member and management.

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Recreation and Conservation Funding Board (RCFB)

Agency: 467

Audit Report: 2012 F

Finding Number: 006

Finding: The Recreation and Conservation Office did not file reports required by the Federal Funding Accountability and Transparency Act for the Pacific Coast Salmon Recovery Program.

Resolution: Since March 2013, the Recreation and Conservation Office (RCO) completes the Federal Funding Accountability and Transparency Act reports on a monthly basis. These reports encompass all applicable federal programs. The lead financial analyst takes the lead on reporting the awards each month. If technical difficulties in reporting the costs should arise, RCO documents the questions, communications and resolution of the issues. The Chief Financial Officer reviews the results of the reporting monthly to confirm the reports are complete and accurate.

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Status of Audit Resolution

December 2013

Employment Security Department (ESD)

Agency: 540

Audit Report: 2012 F

Finding Number: 010

Finding: The Employment Security Department did not attempt to collect \$440,925 overpaid to claimants for Federal Additional Compensation Unemployment Insurance.

Resolution: On September 7, 2012, the Department completed the necessary computer programming to bill, collect, and account for Federal Additional Compensation (FAC) overpayments. Billing statements were subsequently mailed to claimants who had outstanding FAC overpayment balances. As of November 13, 2012, the Department successfully collected \$2 million in FAC overpayments.

Department efforts will continue as permitted by state and federal law to collect outstanding FAC overpayment balances.

The U.S. Department of Labor has evaluated the finding and the Department's corrective actions and issued their final determination dated August 20, 2013, that questioned costs identified in this finding were not subject to repayment.

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Employment Security Department (ESD)

Agency: 540

Audit Report: 2012 F

Finding Number: 011

Finding: The Employment Security Department does not have controls to ensure compliance with U.S. Department of Labor requirements for determining the accuracy of Unemployment Insurance benefit payments.

Resolution: The Department has continued to work on improving Benefits Accuracy Measurement (BAM) program processes to ensure complete, accurate, and timely investigations are conducted.

The Department has completed the following actions:

- Updated the BAM procedures manual as of July 2012. Continue to revise the manual as needed to remain compliant with U.S. Department of Labor (USDOL) requirements.
- Standardized the number of contacts attempts required for compliant BAM claim investigations.
- Provided additional investigative and adjudicative training to staff.
- Increased communication among staff, other department units, and with USDOL to improve quality and consistency of case investigations.
- Created standardized forms for use in improving accuracy and quality of investigations.
- Implemented a toll-free phone number to increase claimant and employer response rates.
- Increased number of contact attempts to verify work search.

The Department will continue to make improvements in BAM investigative processes during the next audit period including increasing the number of files reviewed by supervisory staff.

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Edmonds Community College (EDC)

Agency: 610

Audit Report: 2012 F

Finding Number: 031

Finding: Edmonds Community College did not comply with time and effort requirements for its Head Start Program.

Resolution: The College requires hourly employees to complete time sheets and classified employees to enter time in a tracking system. However, the College does not believe exempt employees working 100 percent on the Head Start Program are required to certify time worked. That said, payroll detail was extracted to create a certification form for fiscal year 2012, which included a statement verifying that the dollar figures reported were an accurate and appropriate representation of the exempt employees' Head Start effort. The certification was then signed by the employees, supervisors, and the Head Start Executive Director. The same procedure was followed for fiscal year 2013. Head Start is in the process of contracting with the vendor VeriTime for a web-based time and accountability system, which will allow all employees (both classified & exempt) to verify their time/effort in one system.

The College contacted the U.S. Department of Health and Human Services (HHS), Region X, and has been advised of the official audit finding repayment procedure. The finding was reported to HHS (the granting agency). Region X personnel will be notified when a determination is made and if any repayment is required. Region X will then communicate directly with the College.

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State of Washington
Schedule 2 – Audit Reports by Topic
December 2013

TOPIC	REPORT NUMBER	PAGE
Audit of State Payments to Child Care Providers	1008493	81

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Audit of State Payments to Child Care Providers

Audit Report: 1008493

Objective Number: 001

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

Summary: The auditor's estimate of overpayments paid to providers by the Working Connections program for child care subsidies in state fiscal year 2011 was \$74.0 million. Additionally, the auditors estimated providers were paid an additional \$35.0 million based on questionable documentation.

In addition to the estimates, the audit identified actual overpayments of more than \$1.6 million, and \$2.9 million in questionable payments for 153 providers that were analyzed.

Recommendation: Based on the estimates that the Working Connections program overpaid providers more than \$74.0 million in state fiscal year 2011, and paid an additional \$35.0 million with questionable supporting documentation, the auditors recommended that the Departments of Early Learning (DEL) and Social and Health Services (DSHS):

- Continue to improve the internal controls that detect and prevent provider overpayments, and
- Monitor exempt providers for compliance with program rules. This could include on-site visits to ensure the children are present and reconciling paid invoices to attendance records.

Additionally, the auditors recommended that DEL and DSHS pursue collection of the \$1.6 million of actual overpayments identified, and for the providers paid more than \$2.9 million based on questionable documentation, investigate whether the providers were overpaid or violated program rules.

Agency Response: Both DEL and the DSHS have firm policies that every overpayment for child care that is identified is followed up on and an overpayment is written. The provider is entitled to due process to appeal the overpayment.

To address overpayments caused by erroneous eligibility determinations, DEL contracted with an independent consultant to review the eligibility system and make recommendations for improvement. Both DEL and DSHS developed an action plan to implement the recommendations, including:

- In the spring of 2013, DEL improved eligibility worker training to better align with DEL's mission.
- DEL is in the process of simplifying policies to benefit families and DSHS staff.
- By March 2014, system improvements are expected to be complete that will ensure eligibility workers are able to accurately determine eligibility. System improvements include recommended policy changes to allow more flexibility in verifications, improved case management, updated procedure manuals, and more clarity in rules.

Status of Statewide Accountability Reports

December 2013

In addition, under the terms of the collective bargaining agreement with Service Employees International Union 925, DEL contracts with a third party to provide training on subsidy billing to licensed family home and license exempt providers on a regular basis.

DEL is leading a project to develop an automated time, attendance and billing system which will reduce the potential for payment errors. This system is planned for implementation by July 2015.

DEL initiated a subsidy audit team beginning in January 2011, which originally consisted of four auditors and an audit lead; and was expanded in January 2013 to nine auditors and an audit supervisor. This unit selects random high risk time and attendance records and reconciles them to actual payments. These audits include exempt providers.

DEL also performs the federally required Improper Payment Act audit every three years, the next report is due June 30, 2014.

With respect to the overpayments, DEL wrote all the overpayments (99 in total) as identified by the auditors. These overpayments were approximately \$1.6 million. DEL is currently in the process of reconciling overpayments as initially identified.

DSHS reviewed all of the questionable payments identified by the auditors. Overpayments were issued for those cases in which the child care provider could not provide any documentation at all. These overpayments totaled approximately \$400,000. Overpayments were not issued for the remaining amount because the Department is of the opinion any action taken would not be defensible in an administrative hearing. The documentation indicated to some degree that services were provided.

As of October 2013, the original figure of \$400,000 in overpayments was reduced to \$396,023 after administrative hearings. This amount was further reduced to \$210,850 to reflect those overpayments which were still in dispute, unserved or written off. Of that amount, \$11,477 has been collected to date.

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Audit of State Payments to Child Care Providers

Audit Report: 1008493

Objective Number: 004

Objective: Report on the state's effort to collect overpayments that were identified by our 2011 child care audit.

Summary: In the first child care audit, which focused on fiscal year 2010 program activities, more than \$2.6 million in overpayments were identified.

Of the \$2.6 million in overpayments identified, a single provider accounted for more than \$2.0 million. The Department of Social and Health Services (DSHS) referred this case to local prosecutors. Of the remaining \$600,000, the Department of Early Learning (DEL) and DSHS sought reimbursement for \$336,560. As of June 1, 2012, \$6,103 had been collected.

Recommendation: The auditors recommended that DEL and DSHS continue to devote resources to identify and pursue child care providers who are overpaid and/or who willfully defraud the program.

Agency Response: DEL has hired five more auditors (in addition to the five hired in January 2012) to specifically audit child care subsidy payments by comparing child care provider billings with attendance records. Approximately 500 cases are audited each month. For state fiscal year 2012, over \$8.0 million of payments have been audited so far, and \$786,000 of overpayments identified. A desk manual for the audit team has been developed. The DEL audit team works with DSHS auditors as well as staff from the DSHS Office of Fraud and Accountability and the Health Care Authority to ensure that any audit activities being performed by each are not duplicative or disruptive to the other agencies' work. All potential fraud activities are referred by DEL to the Office of Fraud and Accountability in DSHS.

For the single provider who accounted for more than \$2.0 million of the overpayments, the case was presented to local prosecutors for prosecution of false reporting of a burglary, because the provider reported that all the records were stolen. Both the county and city prosecutors declined to prosecute. Since there was no conviction for the false reporting, DEL did not pursue collection for any overpayment.

As of October 2013, the \$336,560 original collection figure was reduced to \$244,187 after administrative hearings. Additionally, some of the \$244,187 is not collectable yet because it is disputed or written off due to Chapter 7 bankruptcy filings. This leaves an estimated \$168,096 in collectible overpayments. Of that amount, \$19,010 has been collected.

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State of Washington

Status of Statewide Accountability Reports

December 2013

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Schedule 3 – Fraud Findings by Agency

December 2013

AGENCY NUMBER	AGENCY	AUDIT NUMBER	FINDING NUMBER	PAGE
360	University of Washington	1010577	001	87
461	Department of Ecology	1010182	001	89

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Status of Resolution of Reported Fraud Findings

December 2013

University of Washington (UW)**Agency: 360**

Audit Report:	1010577
Finding Number:	001
Finding:	Internal controls at the University were not adequate to safeguard public resources.
Fraud Amount:	\$74,358
Recovery to Date:	\$23,358
Resolution/Status:	<p>In Tanzania, additional controls have been added and confirmed by Headquarters staff. Tanzania staff now perform independent reconciliations of travel advances, receipted cash, and posted expenses to ensure monitoring procedures are in place to safeguard public resources. Standard Operating Procedures have been reviewed and included in the Global Operating Manual, provided to all offices. New staff have been hired and trained in accordance with these procedures. Additionally, standard procedures call for Headquarters staff to perform an annual in-country review, and monthly desk reviews of information sent from the country office including a checklist of items such as reviewing bank reconciliations and financial statements. Additionally, an in-country review was completed by the University's internal audit department in October 2013 which resulted in additional segregation of duties. Restitution of the misappropriated funds of \$18,358 was obtained.</p> <p>In Namibia, additional controls have been added to the wire transfer process to include "locking" of vendor wire information and segregation of duties. Specifically, wire information is entered by one person then reviewed and locked by a second person. The vendor wire information is filed in a vendor wire information notebook. Each time a wire is sent it is compared to the information kept in the notebook. In February 2013, Headquarters staff conducted a follow-up visit to review and confirm that the new controls are in place. The University is actively seeking full restitution of \$57,211 (\$56,000 plus \$1,211 investigation costs) as part of the ongoing legal process in Namibia.</p> <p>The University acknowledges that state law does require the University to obtain State Auditor and Attorney General approval for restitution agreements. However there are cases, especially in overseas operations, where it may be judicious for the University to negotiate an agreement before employment is terminated while those involved can still be contacted.</p> <p>Additionally, the University will work with the State Auditor and Attorney General's office to create a process to expedite matters when dealing with employee termination and loss collection in international locations.</p>
Personnel Action Taken:	All staff involved in both Tanzania and Namibia cases were dismissed from employment.

Status of Resolution of Reported Fraud Findings

December 2013

Criminal Action Taken: The Namibian case was referred to the legal system directly after discovery. Criminal proceedings are on-going. In Tanzania, in lieu of criminal action restitution was obtained.

Amount to be Recovered: \$76,571 (includes \$2,213 audit costs)

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Status of Resolution of Reported Fraud Findings

December 2013

Department of Ecology (ECY)

Agency: 461

Audit Report:	1010182
Finding Number:	001
Finding:	Internal controls at the Department were not adequate to safeguard public resources.
Fraud Amount:	\$14,664
Recovery to Date:	\$ 0
Resolution/Status:	<p>Upon the discovery of the potential loss, Ecology:</p> <ul style="list-style-type: none"> • Immediately cancelled all merchant cards and closed store accounts. The Washington Conservation Corps (WCC) was the only agency program with merchant card and store account privileges in the agency. The remaining Ecology programs do not have merchant cards or access to store accounts. • Issued Washington state purchase cards directly to approved Washington Conservation Corps (WCC) supervisors. Issuance of the cards is centralized and controlled by the ecology fiscal office. Before credit cards are issued, the custodians must attest that they have fully read agency and state policies regarding authorized use. This attestation occurs on an annual basis. Senior purchasing and accounts payable manager monitor agency activity to ensure merchant cards or store accounts are not opened without agency knowledge. • Strengthened our controls over the review process of purchases made by all credit card custodians to ensure adequate oversight. Itemized credit card receipts are required for all purchases and must be approved by management. Purchases are reviewed by senior purchasing staff and accounts payable management for accuracy and payment. <p>As recommended in the state auditor report, by December 31, 2013, Ecology will work with the Attorney General to verify its options in recovering the remaining misappropriated funds that will not be recovered as restitution in the criminal prosecution process. Options include civil action and/or utilizing the services of contracted collection agency. As of the date of this plan, no restitution payments have been received by the agency.</p>
Personnel Action Taken:	The Secretary Supervisor was placed on home assignment March 21, 2011 and resigned on May 6, 2011.
Criminal Action Taken:	The Department filed a report with Washington State Patrol, which investigated this case. The Thurston County Prosecuting Attorney's Office has also been notified of this case. On May 8, 2013, an Alford Plea Hearing was held and a felony judgment and sentence were entered.

Status of Resolution of Reported Fraud Findings

December 2013

Amount to be Recovered: Restitution was set at \$2,500.

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