

STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

# 2014 Audit Resolution Report

ACCOUNTING DIVISION  
DECEMBER 2014



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**STATE OF WASHINGTON**  
**OFFICE OF FINANCIAL MANAGEMENT**

# **2014**

# **Audit Resolution Report**

**ACCOUNTING DIVISION**  
**DECEMBER 2014**



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STATE OF WASHINGTON

# AUDIT RESOLUTION REPORT

December 2014

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**THIS REPORT SUMMARIZES** the status of corrective actions taken by state agencies, in conjunction with the Office of Financial Management (OFM), to resolve exceptions to specific expenditures or financial transactions reported in audits performed 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 31<sup>st</sup> the status of audit resolution to the appropriate committees of the legislature, the state auditor, and the attorney general. The director of financial management shall include in the audit resolution report actions taken as a result of an audit including, but not limited to, types of personnel actions, costs and types of litigation, and value of recouped goods or services."

This report summarizes the status of resolution of audit exceptions 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 November 1, 2013, and October 31, 2014.

The audit reports issued during that period include:

- 45 federal compliance findings
- 6 non-federal findings
- 1 finding of fraud

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

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**Schedule 1 – Audit Findings by Agency**

December 2014

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**Schedule 1 – Audit Findings by Agency**

December 2014

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2013 F = Statewide Single Audit Report

2013 I = 2011-2013 Independent Audit Report

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State of Washington

Agencies: 105, 107, 179, 300

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**Audit Report:** 2013 F

**Finding Number:** 001

**Finding:** State's internal controls over payroll payments processed by Human Resources Management System and Medicaid payments processed by ProviderOne are inadequate to ensure those payments are properly processed and recorded.

**Resolution:** **Human Resource Management System (HRMS) Controls**  
The Department of Enterprise Services and the Office of Financial Management (OFM) in partnership with the Personnel Payroll Association (PPA) Executive Committee are currently analyzing options to incorporate additional controls in HRMS to help prevent state employees from receiving unreasonable payroll payments due to incorrect input. The state's analysis has or will include the following:

As of June 30, 2014:

- Evaluated the current preventative control that halts processing of an individual's gross pay if it is over \$25,000, to determine if the threshold should be reduced. OFM met with a cross section of agencies on May 29, 2014, to evaluate the current preventative control. The decision was to leave the \$25,000 threshold in place. Agencies have the ability to use existing HRMS reports to check for payments that exceed more restrictive dollar limits determined by the agency.

By June 30, 2015:

- Evaluate the addition of HRMS system warnings to control input of data to prevent payments to individuals that exceed a reasonable amount. Potential controls include restricting the number of hours allowed to be entered in the system based on the employees scheduled hours (or not to exceed 24 hours in one day), warnings when hours are being entered that do not meet certain criteria, and warnings for excessive hourly rates.
- Analyze existing exception reports to determine if additional warnings should be included.

#### **HRMS System Security**

The Department of Enterprise Services modified an internal control process which provided for additional segregation of duties. This change ensures that no individual has access to make changes in programs and promote them into production without review or approval from a second individual. This modification was completed on December 1, 2013.

#### **HRMS Disaster Recovery**

In October 2013, the Department of Enterprise Services upgraded and virtualized the HRMS platform. This upgrade made the environment more robust, scalable, supportable, and easier to recover in an event of a disaster.

The Department of Enterprise Services is in the process of implementing and testing a Disaster Recovery and Business Resumption plan commensurate with the upgrade to a virtualized environment. Staff training on procedures to follow in case of an emergency is also planned.

**Department of Social and Health Service Payroll Processing Controls**

The Department has developed and implemented several corrective actions in response to this finding.

In April 2013, the Department implemented the use of a threshold report that is used to identify payroll payments exceeding \$5,000 on a single payday. This allows staff to screen for and prevent inappropriate payroll payments from being made.

In November 2013, the Department took several corrective actions to better monitor and process payroll payments including:

- Expanding Leave Tracker (the Department's time and leave reporting tool) to Department facilities.
- Posting instructions to the Department's Financial Services Administration website to clarify the use of the Preemptive Payroll Journal (S4259) which can assist staff in determining the accuracy of payroll.
- Providing training to staff in time and attendance procedures and Leave Tracker.
- Using Lean management tools to document and improve payroll processes.

**ProviderOne:**

The Health Care Authority disagrees with this finding. The Authority does not agree that ProviderOne security reviews are lacking or that lack of controls and monitoring in the contract introduce a significant system security review deficiency. While neither expected nor required by the federal government for any Medicaid payment system, to strengthen the Authority's ability to monitor vendor controls, the Authority added a requirement for external audit to the ProviderOne vendor contract in January 2013. This includes security reviews of servers and production databases to provide additional assurance that effective controls are in place. Under the new requirement, the ProviderOne vendor is required to undergo biennial Service Organization Control (SOC) examinations and obtain reports from subcontractors. The satisfaction of this SOC examination requirement occurred in multiple phases.

The following milestones of this SOC examination were completed and the ProviderOne vendor has met all contractual obligations:

- On March 31, 2013, the ProviderOne vendor provided the Authority the required examination reports from subcontractors.
- On December 31, 2013, the ProviderOne vendor completed documentation for the controls and delivered results to the Authority.
- The final phase of this audit was completed in the first quarter of 2014.

The Authority has ensured and continues to ensure that the appropriate safeguards and effective controls are in place to protect Medicaid program integrity and data security.

**Status of Audit Resolution**

December 2014

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**Status of Audit Resolution**

December 2014

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**Office of the State Auditor (SAO)**

**Agency: 095**

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**Audit Report:** 2011-2013 Independent Audit Report

**Finding Number:** 001

**Finding:** The working capital reserves in the Auditing Services Revolving Account (Account 483) at June 30, 2012 and 2013, were in excess of the maximum amount permitted by RCW 43.09.416 which limits the amount of such working capital to 5 percent of the Account's biennial appropriation.

**Resolution:** While the Office agrees with the facts of the finding, the Office realizes that a 5 percent working capital is not reasonable. Due to the timing of receipts and expenditures during the year, trying to keep below 5 percent could result in the Account having a negative cash balance.

The Office will be advancing legislative changes to RCW 43.09 during the 2015 session.

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**Status of Audit Resolution**

December 2014

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**Department of Commerce (COM)**

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**Agency: 103**

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**Audit Report:** 2013 F**Finding Number:** 003**Finding:** The Department of Commerce does not have sufficient internal controls to ensure all of its subrecipients receive audits as required.**Resolution:** The Department concurs with the finding. In response to a similar audit finding in the State of Washington Single Audit report issued in March 2012, the Department enhanced the functionality of the Contract Management System to provide a report of those entities expending \$500,000 or more in federal funds, the entity's fiscal year end date, and the due date of the federal audit.

During fiscal year 2013, the Department began a process of identifying and contacting grantees that did not meet the threshold for federal audit requirements. The Department will continue to enhance the process of identifying those recipients who received less than \$500,000 from the Department and may have received federal funding from other sources. This will ensure the Department identifies and obtains the required audit reports.

During fiscal year 2014, the Department convened a problem solving team to devise an effective procedure for querying contractors to determine the total federal expenditures. Procedures have been drafted and are in the process of being fully adopted. These procedures set forth the responsibilities of staff to ensure the Department has a copy of required audits on file and a tracking system to track who responds (and in what manner) to requests for missing audits. On a quarterly basis (six months after the end of each quarter), the Department analyzes the results using established targets. These results are reported at an agency quarterly target review.

Additionally, the Department will review existing policies and procedures to more clearly articulate the responsibilities of the internal auditor and program managers for these processes. The Department will communicate the results of the review through all levels of the Department. Corrective action will include reviewing current policies and procedures, establishing roles and responsibilities, and stating time frames.

Updates to policies and procedures will include production of a quarterly report for divisions to use to identify federal audit reports that are due. The reports will enable the Department to proactively remind entities of their audit report due dates. The policy will provide guidance when audit reports are delinquent. Training related to policy changes will be provided and attendance will be tracked to ensure impacted employees have received the training. Testing of the implementation will be conducted. The Department will obtain the missing audit reports identified in the finding.

The internal auditor will report to executive management quarterly on the progress to obtain missing federal audit reports, and provide data on audit reports currently received or due, training attendance, and improvements made to existing processes.

State of Washington

## Status of Audit Resolution

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**Department of Commerce (COM)**

**Agency: 103**

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**Audit Report:** 2013 F

**Finding Number:** 004

**Finding:** The Department of Commerce does not have sufficient internal controls to ensure HOME Investment Partnership program income is used before requesting federal cash draws.

**Resolution:** The Department concurs with the finding. The Department did not record program income in the Integrated Disbursement and Information System (IDIS) in 2013 because staff new to the program were unable to navigate IDIS and were unaware of the requirement to input program income information. The reconciliation did not identify the missing IDIS information; it only included the bank and account balances.

The process to reconcile the bank balance to IDIS was reviewed to strengthen the internal controls. The Department has refined its methodology for ensuring program income is spent before federal funds are drawn. The methodology addresses the use of program income for both project and administrative costs.

In addition, the HOME program has updated the procedures manual to:

- Reference the regulations related to HOME program income.
- Provide detailed navigation steps for IDIS.
- Assign specific staff responsibilities.
- Include instructions for establishing discrete accounting codes for federal and program income funds, to include separate codes for Department administration, grantee administration, and project expenses.

The accounting department has updated the procedures manual to:

- Reference the regulations for use of HOME program income.
- Outline the steps required before federal dollars are drawn, including requirements for entering the program income into IDIS prior to drawing funds.
- Assign specific staff responsibilities, including supervisory review.
- Identify the timing of notification to program management of program income balances.

Oversight of corrective action includes:

- A monthly report of program income balance, interest earned, and uses of the balances is provided to the program manager of the HOME program.
- A monthly review by the accounting supervisor of the reconciliation.
- Testing by the internal auditor of the corrective action implemented to ensure it effectively addresses federal draw requirements.

The Department determined the interest on the program income account was \$96. The Department will ensure the interest earned on the program income remains below \$100 in the future by maintaining a minimal balance in the program income bank account.

As of September 30, 2014, testing of the updated process was completed by the internal auditor.

State of Washington

## Status of Audit Resolution

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**State Health Care Authority (HCA)**

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**Agency: 107****Audit Report:** 2013 F**Finding Number:** 020**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 is in compliance with the Deficit Reduction Act of 2005 and associated state law. The Authority meets this standard by making data available to all insurers to use for third party liability reporting and by matching data directly with those insurers most likely to provide third party coverage to Medicaid recipients.

Although the Authority maintains its compliance with the Deficit Reduction Act, it has also taken steps to enhance data sharing to ensure that it continues to have a strong third party liability program.

The Authority implemented the Payer-Initiated Eligibility/Benefit (PIE) Transaction tool in July 2013 and subsequently communicated with major insurers in Washington state requesting their participation in implementation of the PIE Transaction tool and electronic sharing of third party liability data. Although the Authority has successfully implemented the PIE Transaction tool and will continue to encourage carrier adoption, it is important to note that the Authority has no authority to compel carriers to participate in use of the PIE Transaction tool for electronic data exchange. The Authority's successful implementation is viewed by the federal Centers for Medicare and Medicaid Services as a model implementation and best practice.

In addition, since February 2011, the Authority has contracted with Health Management Systems Inc. to provide enhanced data matching and identification of a client's primary 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.

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## Status of Audit Resolution

December 2014

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**State Health Care Authority (HCA)**

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**Agency: 107**

**Audit Report:** 2013 F

**Finding Number:** 021

**Finding:** The Health Care Authority did not have adequate controls in place to ensure all critical access hospitals were paid accurately.

**Resolution:** The Authority partially disagrees with this finding. The Authority follows its current Washington Administrative Code (WAC) as it relates to the requirement for Critical Access Hospitals (CAH) to submit 'as filed' and 'final settled' versions of their Medicare cost report to the Authority. WAC 182-550-2598 (11) states:

"The department performs finalized cost settlements using the same methodology as outlined in subsection (10) of this section, except that the department uses the hospital's "final settled" Medicare cost report instead of the initial "as filed" Medicare cost report for the HFY being cost settled. The "final settled" Medicare cost report received from the Medicare fiscal intermediary must be submitted by the CAH to the department by the sixtieth day of the hospital's receipt of that Medicare cost report."

The Authority now uses the Center for Medicare and Medicaid Services Healthcare Cost Report Information System database to obtain final cost report data for these hospitals. The Authority is currently performing the final settlements on the outstanding cost reports identified in the finding.

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**Status of Audit Resolution**

December 2014

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**State Health Care Authority (HCA)**

**Agency: 107**

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**Audit Report:** 2013 F

**Finding Number:** 022

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

**Resolution:** The Authority concurs that there were instances of missing social security numbers due to staff errors. The Authority has updated the training provided to staff whose primary duties include processing Medicaid applications. This training includes procedures to follow when an applicant's social security number is invalid.

The Authority has reviewed all cases identified in the finding and re-determined eligibility. When the U.S. Department of Health and Human Services (HHS) contacts the Authority about questioned costs, the Authority will work with HHS to resolve them.

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**State Health Care Authority (HCA)**

**Agency: 107**

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**Audit Report:** 2013 F

**Finding Number:** 023

**Finding:** The Health Care Authority does not have adequate controls to ensure inpatient high outlier payments to hospitals are accurate.

**Resolution:** The Authority partially disagrees with this finding. The Authority follows its current Washington Administrative Codes (WACs) correctly in calculating outlier costs. It removed "noncovered charges" as they are defined in the Washington Administrative Code (WAC):

- WAC 182-550-3700 (14) "... The estimated costs of the claim are calculated by multiplying the total submitted charges, minus the noncovered charges on the claim, by the hospital's ratio of costs-to-charges (RCC) rate..."
- WAC 182-550-1050 "..... 'Noncovered charges' means billed charges submitted to the department by a provider on a claim that are indicated by the provider on the claim as noncovered."

The WACs do not address denied charges. The auditor excluded both noncovered and denied charges in the high outlier payments calculation.

The Authority has taken the following steps to address this finding:

- Effective July 1, 2014, the Authority changed the WAC and payment system to align with the auditor's calculation methodology. Denied charges are no longer included in the part of the outlier calculation related to costs.
- The Authority has reallocated the inpatient program workload in order to allow additional capacity for monitoring system and rate changes. All changes are then reviewed by Authority staff for accuracy.

The Authority initiated action to recoup and repay incorrect payments identified by the auditor that were paid with the outdated high outlier calculation. For the other claims, as stated above, the current WAC does not allow the Authority to remove charges, other than those that the WAC defines as "noncovered charges" when the Authority calculates costs for outlier payments.

When the U.S. Department of Health and Human Services (HHS) contacts the Authority about questioned costs, the Authority will work with HHS to resolve them.

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**State Health Care Authority (HCA)**

**Agency: 107**

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**Audit Report:** 2013 F

**Finding Number:** 024

**Finding:** The Health Care Authority's internal controls are insufficient to ensure payment rates for its Healthy Options managed care program are accurate, resulting in over \$95,000 in potential overpayments on premium rates paid to the managed care organizations.

**Resolution:** The Authority does not concur with this finding.

The Authority disagrees with the methodologies used to identify questioned costs in this audit finding for three reasons.

First, questioned costs were identified in a performance audit which is intended to improve management of the program. No evidence is presented to support that the payments in question directly impact the managed care rates as the auditor claims. As a result, the Authority is unable to confirm the questioned costs.

Second, the audit finding states that items identified as "errors" were "not paid in compliance with standard medical coding practices or were not properly supported with appropriate documentation." This is not necessarily an overpayment; it only shows that documentation should be stronger and practices need to be standardized.

Finally, the audit finding uses an actuarial analysis to assert that "for every \$1 in overpayments made by the two audited Managed Care Organizations (MCOs) to their providers in 2010, the state potentially paid an additional \$1.26 in premiums to all MCOs in fiscal year 2013." While this analysis can be used to identify performance improvements possible in the managed care program, the analysis clearly states there is only a potential for overpayment. No identification of an actual overpayment is made. In addition, the actuarial analysis is not based on the sample of payments in question.

In the background section of the finding, it is noted that this repeat finding questions the accuracy of encounter data and cites the lack of review of data provided to the actuary and used to set rates.

The Authority agrees that additional oversight and controls of MCOs will strengthen the state's ability to adequately manage the MCO contracts.

Organizational and contract changes that increase oversight were implemented and include:

- In the fall of 2013, establishment of an Encounter Data Quality Control Unit for validation of encounter data.
- Addition of an encounter data reconciliation process into the 2015 MCO contracts. This process validates submitted encounter data against MCO cost reports and includes withhold provisions and return of funds if MCOs are unable to adequately reconcile to cost reports.

State of Washington

## Status of Audit Resolution

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## Status of Audit Resolution

December 2014

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**State Health Care Authority (HCA)**

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**Agency: 107**

**Audit Report:** 2013 F

**Finding Number:** 025

**Finding:** The Health Care Authority did not invoice Medicaid drug rebates to drug manufacturers in accordance with the time frame stipulated by state and federal laws.

**Resolution:** The Authority agrees with the finding. The Authority strives to ensure that drug rebate invoices reflect correct utilization and unit rebate amounts. As such, system modifications and unanticipated data patches were required to be implemented which caused the invoice delays.

The Authority has taken the following steps to improve timely invoicing for drug rebates:

- Re-evaluated and streamlined the invoicing workflow established during the ProviderOne implementation.
- Reviewed responsibilities and timeline requirements for each element of the invoicing process.
- Elevated drug rebate system modifications to a higher priority.

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**State Health Care Authority (HCA)**

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**Agency: 107**

**Audit Report:** 2013 F

**Finding Number:** 026

**Finding:** The Health Care Authority's inadequate internal controls over claims from Federally Qualified Health Centers led to more than \$226,279.66 in improper payments to providers.

**Resolution:** The Authority agrees with the finding.

The Authority has performed the following activities to address this finding:

- Completed the update of both the Washington Administrative Code (WAC) and provider billing guide to clearly define allowable encounters; and
- Updated ProviderOne system logic to align with the WAC and billing guide and ensure that system edits are in place to prevent overpayments and improper billings at the point of claim submission. These system edits are scheduled to go live in February 2015.

In addition, the Authority has notified the Federally Qualified Health Centers of the larger improper payments. Once the deadline for appeals has passed, the Authority will finish the recoupment process. When the U.S. Department of Health and Human Services (HHS) contacts the Authority to discuss repayment of questioned costs, the Authority will work with HHS to resolve them.

Many of the improper payments are small amounts ranging from less than \$100.00 to four cents. The Authority is considering options for streamlining repayments for these amounts and plans to complete the process by June 2015.

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**State Health Care Authority (HCA)**

**Agency: 107**

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**Audit Report:** 2013 F

**Finding Number:** 027

**Finding:** The Health Care Authority's inadequate internal controls over claims for dental services led to more than \$584,511.96 in overpayments to providers.

**Resolution:** The Authority agrees with the finding. The Authority has taken the following steps to address the audit finding:

- Fluoride treatment for children: The Authority agrees that the billing guide, Washington Administrative Code (WAC), and ProviderOne were not aligned. The Authority's intent is to allow fluoride with limits per client, per provider based on the client's age and client type. The Authority revised the WAC effective April 29, 2014.
- Dental Cleanings: The previous fiscal year's audit identified system issues that have been corrected and the Authority's Office of Payment Integrity is recouping overpayments.
- Oral Evaluations: The previous fiscal year's audit found that the Authority's billing guide and WAC were not aligned with ProviderOne and the Authority's intended policy to allow periodic oral evaluations three times per year for clients of the Developmental Disabilities Administration to coincide with cleanings. The Authority revised the WAC effective April 29, 2014, and the Medicaid Billing Guide was updated to reflect the changes effective May 1, 2014.
- Orthodontic Services: Although Authority rules limit services to once in a lifetime, the rules also permit exceptions to this limit through the Authority's prior authorization process based on early periodic screening, diagnosis and treatment, and exception to rule. The Authority reviewed the seven claims identified in this audit and found that in each case the provider requested prior authorization and the Authority granted authorization based on medical necessity.
- Oral Hygiene Instructions: The Authority identified a system issue which has been corrected.

When the U.S. Department of Health and Human Services (HHS) contacts the Authority about questioned costs, the Authority will work with HHS to resolve them.

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**State Health Care Authority (HCA)**

**Agency: 107**

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**Audit Report:** 2013 F

**Finding Number:** 028

**Finding:** The Health Care Authority did not complete the required 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 disagrees with this finding. The Authority does not agree that ProviderOne security reviews are lacking or that lack of controls and monitoring in the contract introduce a significant system security review deficiency. While neither expected nor required by the federal government for any Medicaid payment system, to strengthen the Authority's ability to monitor vendor controls, the Authority added a requirement for external audit to the ProviderOne vendor contract in January 2013. This includes security reviews of servers and production databases to provide additional assurance that effective controls are in place. Under the new requirement, the ProviderOne vendor is required to undergo biennial Service Organization Control (SOC) examinations and obtain reports from subcontractors. The satisfaction of this SOC examination requirement occurred in multiple phases.

The following milestones of this SOC examination were completed and the ProviderOne vendor has met all contractual obligations:

- On March 31, 2013, the ProviderOne vendor provided the Authority the required examination reports from subcontractors.
- On December 31, 2013, the ProviderOne vendor completed documentation for the controls and delivered results to the Authority.
- The final phase of this audit was completed in the first quarter of 2014.

The Authority has ensured and continues to ensure that the appropriate safeguards and effective controls are in place to protect Medicaid program integrity and data security.

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**State Health Care Authority (HCA)**

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**Agency: 107**

**Audit Report:** 2013 F

**Finding Number:** 029

**Finding:** The Health Care Authority improperly claimed \$73,788.62 in federal reimbursement for unallowable services provided to undocumented aliens and services that were not rendered to deceased Medicaid clients.

**Resolution:** The Authority concurs that it made improper reimbursement for Medicaid clients where later research and analysis showed the clients were deceased. The Authority has adequate controls in place to identify deceased clients as soon as possible following the date of death. Specifically, the Authority receives death records from the Department of Health as soon as they are available to identify deceased Medicaid clients. Payments to deceased clients have been significantly reduced.

The Authority also concurs that it made payments on behalf of non-qualified aliens for non-emergency related services. These payments were generated because of manual coding errors. The Authority includes information about proper coding in training documents and has provided training to staff on proper coding of services provided to non-qualified aliens.

When the U.S. Department of Health and Human Services (HHS) contacts the Authority about questioned costs, the Authority will work with HHS to resolve them.

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**State Health Care Authority (HCA)**

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**Agency: 107****Audit Report:** 2013 F**Finding Number:** 030**Finding:** The Health Care Authority did not have adequate controls in place to ensure violations of Medicaid laws and regulations by providers are identified, investigated and referred to the Medicaid Fraud Control Unit, 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, including all fraud related cases, are identified and referred to the Medicaid Fraud Control Unit (MFCU) in a timely manner.

All referrals received by the Office of Program Integrity (OPI) are initially scrutinized for materiality, severity, and credibility before they are entered into the case tracking application; those deemed most substantive are reviewed immediately, and all fraud related cases are referred to MFCU.

OPI staff has historically entered all referrals into the case tracking tool including both fraud and non-fraud related client complaints, as well as medical service verification cases, even though they reflect cases of historically low risk and low value. The number and age of cases tracked are therefore not accurate measures of how OPI manages referrals or processes allegations of fraud and it is wrong to conclude that the Authority does not have control of its caseload and does not refer all appropriate cases to the MFCU in a timely manner. Processes are in place to prioritize the work of surveillance and utilization review section investigators, ensuring that the Authority is addressing those cases with the highest potential for fraud, waste, and abuse, and properly utilizing resources to focus on cases that yield the highest return on investment.

While disagreeing with the finding, the Authority concurs with several recommendations in the audit. The OPI has increased supervisory oversight and control of staff activities, and plans to replace the current tracking system and revise applicable policies and procedures by June 2015.

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## Status of Audit Resolution

December 2014

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

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**Audit Report:** 2013 F

**Finding Number:** 031

**Finding:** The Health Care Authority did not have adequate controls in place to ensure services billed by providers were rendered to Medicaid beneficiaries, risking the loss of Medicaid resources.

**Resolution:** The Authority does not concur with this finding and asserts that adequate controls are in place to ensure Medicaid services billed by providers were rendered to Medicaid clients.

The Authority maintains that it is in compliance with federal requirements which state "the agency must have a method for verifying with beneficiaries whether services billed by providers were received." The Authority does have such a method in place, and improvements to that process were not completed during fiscal year 2013, but have now been completed.

Although fraud might be detected by issuing random verification forms, experience has proven that limited staff resources are better utilized when the targets for oversight are strategically selected. Using informed allegations, as well as sophisticated analytical tools (behavior modeling, algorithms, comparisons and trends, spike reports, etc.) the Office of Program Integrity has identified millions in overpayments. By contrast, the Medicaid Services Verification (MSV) process has proven to have no value in detecting fraud, and the Authority maintains that resources spent on MSV processing actually reduces its ability to focus on program integrity activities that increase controls.

While disagreeing with the finding, the Authority concurs with several recommendations in the audit. The change request that refines the service selection process and includes the beneficiary on the form has been approved and implemented. In addition, the Office of Program Integrity has revised policies and procedures and increased documentation, supervisory oversight, and control of staff activities.

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**Status of Audit Resolution**

December 2014

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**State Health Care Authority (HCA)**

**Agency: 107**

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**Audit Report:** 2013 F

**Finding Number:** 032

**Finding:** The Health Care Authority does not have adequate internal controls to ensure Medicaid drug rebate amounts are accurately reported in CMS 64 report.

**Resolution:** The Authority agrees with this finding.

The formatting and formulas on the report used to prepare the Medicaid Drug Rebate Schedule (CMS-64.9R) have been reviewed and corrected. The CMS-64.9R was completed and reported correctly for the December 2013 quarter.

Should the Center for Medicare and Medicaid Services (CMS) contact the Authority to address the errors on the previously reported CMS-64.9R forms, the Authority will work with CMS to resolve the issues.

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## Status of Audit Resolution

December 2014

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**Military Department (MIL)**

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**Agency: 245**

**Audit Report:** 2013 F

**Finding Number:** 043

**Finding:** The Military Department does not have adequate internal controls to ensure all subrecipients of Homeland Security Grant Program funds receive audits when required and take timely and appropriate corrective action for any audit findings issued.

**Resolution:** The Department's finance office is maintaining reports, one being a master list of subgrantees based on open subgrants by calendar year, on a perpetual basis. The master list is updated monthly or as audits are released indicating if a subgrantee has received a federal audit or not. The finance office is reviewing the subgrantee audit reports and determining if there are findings specific to the Department's federal grants. The reports are posted to a network share drive and a SharePoint site for viewing by Emergency Management Division (EMD) program staff. Copies of specific findings and audit numbers are provided to the EMD. The appropriate EMD program staff work with the subgrantee to attain a corrective action plan for the findings and provide the required management decision letter.

EMD program staff have developed an internal tracking mechanism that is validated with the finance office records. Federal audit requirements have been incorporated into monitoring protocols assuring oversight.

Finance office and EMD staff have been notified about the reporting process including recent changes.

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**Status of Audit Resolution**

December 2014

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**Military Department (MIL)**

**Agency: 245**

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**Audit Report:** 2013 F

**Finding Number:** 044

**Finding:** The Military Department did not have internal controls over earmarking requirements to ensure administrative and management costs were accurately monitored for the Homeland Security grant.

**Resolution:** The Department's Homeland Security Section (HLSS) has established a monthly process to update and review financial information. Financial reports are continually updated and validated with state accounting system records. Files are retained in a PDF format so a permanent record of each monthly review is maintained. A monthly meeting is conducted, which includes the HLSS supervisor, grant managers, coordinators, and assistants to communicate financial information and resolve discrepancies. Discrepancies are noted on financial tracking tools. When a grant is closed, the financial data is reviewed against invoices and state accounting system records.

The process was documented in an internal operating procedure. This process is for all grants managed by HLSS. These procedures have been communicated to employees.

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## Status of Audit Resolution

December 2014

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**Military Department (MIL)**

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**Agency: 245**

**Audit Report:** 2013 F

**Finding Number:** 045

**Finding:** The Military Department did not have adequate internal controls over subrecipient monitoring and did not adequately monitor subrecipients of the Homeland Security Grant Program.

**Resolution:** The Department's Homeland Security Section (HLSS) has developed a new monitoring report and process for organizing and tracking subgrantee monitoring visits to ensure all subgrantees are adequately monitored. All subgrantees are scheduled for biennial monitoring site visits unless issues have surfaced such that annual visits are recommended. The monitoring program manager is responsible for organizing and tracking site visits by quarter throughout the year. For calendar year 2014, as of November 2014, 54 site visits were planned, 33 were completed and 21 were underway. It is expected that all site visits will be completed by year-end.

A spreadsheet showing the details of the expenditures is submitted with invoices by the subgrantees which is reviewed by the Department to ensure only allowable costs are being reimbursed. Monitoring teams request comprehensive backup documentation for sample invoices prior to the monitoring visit. Monitoring teams review the entire submitted backup prior to the scheduled visit and note any issues for further discussion during the scheduled visit. Equipment purchased with grant funding is noted and examined during the site visit.

Following the site visit, the monitoring team finalizes a Monitoring Report and the subgrantee documents its response. Issues requiring corrective action are scheduled for follow-up review. The completed report is signed by the monitoring team, monitoring program manager, and section supervisor. The fully executed Monitoring Report is posted on SharePoint and emailed to the subgrantee.

The above process has been documented in an HLSS Standard Operating Procedure and communicated to all program staff through written guidance and ongoing training.

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

**Agency: 300**

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**Audit Report:** 2013 F

**Finding Number:** 017

**Finding:** The Department of Social and Health Services does not have adequate internal controls over client eligibility for the Child Care Development Fund.

**Resolution:** The Department of Social and Health Services (the Department) and the Department of Early Learning (DEL) have taken and completed the following actions:

The Department implemented the following monitoring protocols to establish an appropriate separation of duties between staff who determine eligibility and staff who authorize payments:

- Regional staff review an integrity report quarterly, which identifies cases where the same staff member has authorized four or more payments in a 15 month period without authorization activity from other staff. To date, the report has not identified any cases resulting in a finding of improper authorization activities.
- A separation of duties protocol has been instituted that does not allow a staff member who activates a license-exempt provider to make any payment authorizations for that provider. This electronic process reduces the potential for fraudulent payment authorizations.

On November 20, 2014, DEL issued a Request for Proposals for a legislatively mandated time and attendance/payment system (AP) and a new authorization interface (AI). The proposals are due on January 20, 2015. The AI will be a new authorization and eligibility determination system with the intent of streamlining the eligibility process. The goals of the new AI and AP systems are to reduce errors and fraud, and increase accuracy of payment authorization and billing by providers for services they provided. The new systems will reduce errors by decreasing the manual steps currently required.

The Department is continuing to perform the following child care authorization audits:

- 1.6 percent of open authorizations are audited monthly.
- 100 percent of exceptional payment authorizations are audited to ensure they are reviewed and approved by a supervisor before payments are made. An example of an exceptional payment is when a child requires, and is authorized for, more than 230 hours of care per month due to extenuating circumstances such as a parent with multiple approved activities (school and work, etc.).
- 100 percent of preauthorization and post authorization work for all new child care workers are audited.
- Data is provided monthly by the Health Care Authority which identifies error prone cases to audit for eligibility and areas where policy clarification, training, or systems support can increase accuracy.

DEL established a specialized child care audit team January 1, 2012. The audit team is tasked with reviewing time and attendance records and provider payments. DEL hired five additional auditors in January 2013, increasing the audit team to nine members. The DEL audit team has increased the population of authorized payments reviewed for payment and billing accuracy.

## Status of Audit Resolution

December 2014

The Department and DEL will implement the following child care program reform initiatives\* by April 2015:

- The Working Connections Automated Program screens, which is part of the eligibility system, will be updated so they are more user friendly and provide more accuracy in the eligibility determination process.
- The Department will simplify and streamline child care verification requirements at the time of application, through certification period, and at recertification. The Department will update the Child Care Subsidy Program Handbook and will notify Community Services Division staff regarding the changes.

*\*These child care program reform initiatives are part of the Aclara Reform Project. The Aclara Reform Project is cosponsored by the Department and DEL in response to an external child care program review requested by the Legislature and performed by the Aclara Group.*

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

**Agency: 300**

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**Audit Report:** 2013 F

**Finding Number:** 018

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

**Resolution:** During the course of this audit, the Department implemented corrective actions to prevent inappropriate payments. These actions were:

- Implemented an automated process within FamLink, the Department's child welfare and payment system, to hold all payments at the age of 18. Social workers must have proper documentation in place prior to the continuation of payments.
- Required fiduciary staff to review documentation that supports the need to continue payments for children beyond the age of 18. This is a secondary review that is done prior to the manual approval of an adoption assistance payment.

In February 2014, the Department resolved the exceptions identified in the audit. The federal share of the questioned costs was returned to the grantor.

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

**Agency: 300**

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**Audit Report:** 2013 F

**Finding Number:** 033

**Finding:** The Department of Social and Health Services, Aging and Disability Services Administration, did not respond to nursing home complaints in a timely manner, which could leave Medicaid clients residing in nursing homes vulnerable to serious injury or harm.

**Resolution:** The Department initiated corrective actions on this finding during the course of the audit. The following actions were taken to strengthen the Department's internal controls surrounding responses to nursing home complaints:

- A Lean process improvement was completed in December 2013. This helped identify workflow issues that contributed to the unit's inability to process intakes within the required time frames.
- In December 2013, the Complaint Resolution Unit (CRU) implemented the following workflow changes:
  - All intake workers participated in significant training to improve the quality of their initial and final work product. This relieved a workflow chokepoint by allowing the supervisors to target their quality review and support activities. It also greatly reduced rework of intakes.
  - The CRU changed from a general queue of pending intakes to assignment of intakes to individual workers. Workers are held accountable for timely completion of their assigned intakes and their queue is reviewed twice a day by a supervisor.
  - Triage nurses were better utilized by changing their role from quality review of each intake to that of targeted technical assistance available to workers and supervisors. Targeted technical assistance focused on more complex and difficult complaints. This is possible because of the additional training to the workers and the realignment of supervisors' duties.

By February 2014, the Department eliminated the backlog of pending intakes by temporarily assigning field unit managers the task of working on the backlog of intakes.

Since the Department has resolved the backlog and improved workflow, the on-site surveys are being conducted in a timely manner.

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## Status of Audit Resolution

December 2014

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

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**Agency: 300**

**Audit Report:** 2013 F

**Finding Number:** 034

**Finding:** The Department of Social and Health Services, Aging and Disability Services Administration, did not adequately monitor supported living service providers to ensure all staff with contact to Developmentally Disabled clients have a proper background check and are authorized to have access to vulnerable supported living clients.

**Resolution:** In December 2013, the Department completed its meetings with residential providers across the state. Information and training was provided at these meetings on the updated background check policy. The updated policy included clearer language on background check standards.

In March 2014, the Department held a provider leadership meeting and discussed background check rules and policies.

Starting in March 2014 and ending in December 2014, the Department held regional quarterly provider meetings. In the course of these meetings, the Department trained providers and provided information on current background check policies.

As of April 2014, the Department took action on the exceptions identified in the audit. Staff identified as having a disqualified background check were immediately removed from having any access to the Department's clients served by that provider. The supported living administrator or designee provided verification of this action to the Department.

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**Status of Audit Resolution**

December 2014

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

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**Agency: 300****Audit Report:** 2013 F**Finding Number:** 035**Finding:** The Department of Social and Health Services, Developmental Disabilities Administration made overpayments to providers totaling \$236,892.73.**Resolution:** The Department disagrees with this finding.

The Department has a cost settlement reconciliation process that corrects and adjusts supported living payments. The auditor's review was completed on a state fiscal year, July 1 through June 30, while the Department's Developmental Disabilities Administration's (DDA) review is conducted annually on a calendar year. In effect, this overstated any overpayment; half the year audited by the auditor had yet to be reconciled by the Department. Had the reconciliation for calendar year 2013 occurred within the audit cycle, the Department would have corrected most, if not all, of the overpayments identified. All overpayments identified in the audit have been forwarded to the Department's Office of Financial Recovery (OFR) for collection, consistent with DDA practices. At the end of one year, the federal grantor is reimbursed if OFR is unable to collect the overpayment. Also, if the U.S. Department of Health and Human Services contacts the Department, appropriate action is taken.

The Department is confident its settlement process identifies nearly all overpayments; however, the Department is not satisfied until the overpayments are immaterial. To meet this end, the DDA added staff to the reconciliation process in February 2014. Also, if the budget allows, the Department plans to add additional staff for cost report reconciliation as a quality assurance measure. Finally, the Department plans on automating the reconciliation process with additional edits within the ProviderOne system that will prevent duplicate payments. The implementation of these edits has been delayed until at least January 1, 2015.

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## Status of Audit Resolution

December 2014

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

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**Agency: 300**

**Audit Report:** 2013 F

**Finding Number:** 036

**Finding:** The Department of Social and Health Services, Developmental Disabilities Administration did not have adequate control to ensure Medicaid payments to supported living service providers are allowable and supported, resulting in unallowable payments of \$133,128.

**Resolution:** The Department does not concur with this finding. However, the Department developed a corrective action plan to help make its current processes more efficient.

Supported living service providers are required to submit cost reports each April. The Department reconciles the hours and Instruction Support Service (ISS) dollars authorized against hours and ISS dollars provided. All cost reports were reconciled in July 2014. The overpayments that resulted from the cost report reconciliation process have been processed by the Office of Financial Recovery. Any federal funds due have been refunded to the federal government.

As of September 2014, the Department audited 20 percent of supported living providers. The audits reconciled employee hours against specific service hours authorized for each client residence operated by the provider. The Department now has a process in place to continue auditing providers on an ongoing basis.

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**Status of Audit Resolution**

December 2014

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

**Agency: 300**

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**Audit Report:** 2013 F

**Finding Number:** 037

**Finding:** The Department of Social and Health Services, Aging and Long-Term Support Administration, did not adequately monitor adult family home providers to ensure all caregivers and resident managers who are employed directly or by contract have proper background checks.

**Resolution:** Effective April 2014, the Department began reviewing background checks for 100 percent of the employees employed by the provider at the time of the provider's regularly scheduled on-site inspection.

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## Status of Audit Resolution

December 2014

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

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**Agency: 300**

**Audit Report:** 2013 F

**Finding Number:** 038

**Finding:** The Department of Social and Health Services, Developmental Disabilities Administration did not have adequate internal controls to ensure cost of care adjustments paid to supported living service providers are allowable and supported, resulting in unallowable payments of \$604,661.

**Resolution:** The Department has developed several corrective actions in response to this finding.

In April 2014, the Department:

- Updated the cost of care adjustment form. It now includes the updated guidelines for processing actual cost of care adjustments.
- Informed staff and providers about the updated guidelines.

In June 2014, the Department:

- Trained the residential resource managers on the updated guidelines for processing cost of care adjustments.
- Reviewed updated information with contracted providers at the regional quarterly provider meetings.

In October 2014, the updated cost of care adjustment form was implemented.

The Department is of the opinion the cost of care adjustments paid to supported living providers were accurate. Should the U.S. Department of Health and Human Services (HHS) contact the Department about questioned costs, the Department will work with HHS to resolve them.

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**Status of Audit Resolution**

December 2014

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

**Agency: 300**

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**Audit Report:** 2013 F

**Finding Number:** 039

**Finding:** The Department of Social and Health Services, Developmental Disabilities Administration, did not consistently pay supported living providers at authorized daily rates.

**Resolution:** In February 2014, the Department reviewed the three exceptions identified in the audit. Two overpayments were written and submitted to the Office of Financial Recovery for further collection actions. After reviewing the third exception, the Department determined an overpayment did not exist.

The Department is in the process of changing the current payment system from the Social Service Payment System to ProviderOne (P1). The P1 payment system will have edits that will only allow non-duplicated approved rates to be paid. This will alleviate payment errors caused by duplicate authorizations. It is anticipated this will be implemented by January 2015 when phase two of ProviderOne is implemented.

By January 2015, the Department is anticipating initiating development of an automated system that will transfer electronically approved rates to the rate file. This will also allow for electronic transfer to P1 for payments.

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

**Agency: 300**

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**Audit Report:** 2013 F

**Finding Number:** 040

**Finding:** The Department of Social and Health Services, Aging and Long-Term Support 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, although the contracts for the majority of disqualified individual providers (39 of 48) were terminated by the Department's Aging and Long-Term Support Administration (ALTSA) prior to the audit.

Corrective action plans were developed and implemented as a result of the fiscal year 2012 audit; however, the fiscal year 2013 audit does not capture the results of the corrective actions taken by the Department due to the timing of the audit.

As a result of the fiscal year 2013 audit and to continue the corrective actions developed following the fiscal year 2012 audit, the Department has taken or will take the following actions:

- In April 2014, the Department:
  - Reviewed and took action on the corrective action plans developed by field offices where significant deficiencies existed.
  - Developed training materials to distribute to field offices to ensure staff understand how to interpret the different types of determination letters produced by the Background Check Central Unit (BCCU).
- In May 2014, the Department terminated payments to providers who did not have current qualifying background checks.
- In September 2014, the Department distributed a management bulletin that discusses background check policies.
- In November 2014, the Department contacted the U.S. Department of Health and Human Services regarding questioned costs identified in this audit.
- In December 2014, the Department terminated contracts of providers who failed to comply with requests to have current background checks completed.
- By February 2015, the Department's Home and Community Services Division will have completed its work with BCCU on process improvements on the background check process. Policies and procedures will be updated accordingly and communicated with the field offices.

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

**Agency: 300**

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**Audit Report:** 2013 F

**Finding Number:** 041

**Finding:** The Department of Social and Health Services improperly claimed \$691,869.10 in federal reimbursement for the Medicaid program.

**Resolution:** This finding involved three administrations within the Department: the Aging and Long Term Support Administration, the Children's Administration, and the Economic Services Administration. The three administrations concurred with the findings. Each took corrective action.

Aging and Long Term Support Administration (AL TSA)

- In October 2013, AL TSA updated account coding in ProviderOne to properly reflect service provided to nonqualified aliens to ensure charges are not paid for with Medicaid funds.
- In January 2014, AL TSA:
  - Returned questionable costs to the federal grantor.
  - Implemented a monthly report review process that identifies potentially unsupported payments, which are payments made after the client's date of death. Reports are reviewed monthly by staff who take action on identified invalid payments.
- By March 2014, all questioned costs were resolved and, as appropriate, moved to state funding.

Children's Administration (CA)

- In August 2013, CA established and implemented an account code for nonqualified aliens who receive services to ensure charges are not paid for with Medicaid funds.
- In February 2014, CA corrected the exceptions identified in the audit and returned the federal share of the questioned costs to the grantor.

Economic Services Administration (ESA)

- In February 2014, ESA reviewed the four exceptions identified during the audit and corrected the inappropriate payments. Also, staff was informed by memo about the requirements for processing cases that involve nonqualified aliens to ensure that Medicaid services provided are restricted to emergency services.
- ESA's share of the questioned costs from this finding was \$203.79. When U.S. Department of Health and Human Services contacts ESA about these costs, ESA will respond accordingly.

State of Washington

## Status of Audit Resolution

December 2014

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

**Agency: 300**

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**Audit Report:** 2013 F

**Finding Number:** 042

**Finding:** The Department of Social and Health Services, Aging and Long Term Services Administration, did not ensure that unallowable payroll costs charged to the Money Follows the Person Rebalancing Demonstration were refunded to the federal government in a timely manner.

**Resolution:** The Department concurs with this finding. An Information Technology position was incorrectly coded to the Money Follows the Person Rebalancing Demonstration grant. The Department discovered and corrected the error in the system in March 2013.

In January 2014, the Department developed new policies and procedures to ensure only staff allowed to work on the grant are correctly charged to the grant. The incorrect payroll expenditures were returned to the grantor.

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**Status of Audit Resolution**

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**Department of Health (DOH)**

**Agency: 303**

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**Audit Report:** 2013 F

**Finding Number:** 012

**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 consulted with federal grantors on this matter to get a clear understanding of how level of effort should be determined. After this consultation, the Department identified the proper amount for level of effort for the 2013-2014 grant budget year and submitted that to federal grantors.

A level of effort tracking system was developed and put into place in July 2013, which identifies level of effort funding sources and documents expenditures during the course of the grant budget year.

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**Status of Audit Resolution**

December 2014

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**Department of Health (DOH)**

**Agency: 303**

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**Audit Report:** 2013 F

**Finding Number:** 013

**Finding:** The Department of Health does not have sufficient internal controls over, and did not comply with, the Federal Funding Accountability and Transparency Act reporting requirements for the Public Health Emergency Preparedness and National Bioterrorism Hospital Preparedness Programs.

**Resolution:** The Department collected the Federal Funding Accountability and Transparency Act (FFATA) information and attempted to report this information; however, the grant award was not added to the FFATA Subaward Reporting System (FSRS) by the grantor. The Department of Health does not have access to add missing awards.

Per the auditor's recommendations, the Department revised its procedures and will email the federal grantor when awards reportable under the FFATA are not available to report on in the FSRS. This change was effective January 1, 2014.

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**Status of Audit Resolution**

December 2014

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**Department of Health (DOH)**

**Agency: 303**

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**Audit Report:** 2013 F

**Finding Number:** 019

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

**Resolution:** In an effort to meet federal requirements, the Department implemented a new process for performing state hospital and home health surveys and completed staff training on this process. This will help shorten the time and reduce the number of staff needed to complete the surveys.

Under the new process with fully trained staff, the Department anticipates that all surveys will be performed as required.

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**Department of Services for the Blind (DSB)**

**Agency: 315**

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**Audit Report:** 2013 F

**Finding Number:** 011

**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 finding. Upon receipt of the initial finding in 2012, the Department submitted an indirect cost rate proposal to the U.S. Department of Education on February 26, 2013, and requested a negotiated settlement for questioned costs. On April 22, 2014, the Department received and signed the approved agreement. The U.S. Department of Education Rehabilitation Services Administration has been notified about this finding and has no further action against the Department.

Going forward, the Department will include submission of the indirect cost rate on its operations calendar to ensure the rate is approved annually and the correct rate is used.

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**Status of Audit Resolution**

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**Superintendent of Public Instruction (SPI)**

**Agency: 350**

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**Audit Report:** 2013 F

**Finding Number:** 009

**Finding:** The Office of the Superintendent of Public Instruction does not have sufficient internal controls to ensure reports required by the Federal Funding Accountability and Transparency Act for the Migrant Education and Title IIA Improving Teacher Quality programs are filed.

**Resolution:** The Office concurs that some subawards were not reported through the Federal Funding Accountability and Transparency Act Subaward Reporting System. Beginning in March 2014, a review is conducted after subawards are submitted and any corrections are made before the monthly reporting due date. The review entails a spot check of subawards to ensure accurate and complete reporting. Documentation of the review is retained for audit purposes.

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**Status of Audit Resolution**

December 2014

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**Superintendent of Public Instruction (SPI)**

**Agency: 350**

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**Audit Report:** 2013 F

**Finding Number:** 010

**Finding:** The Office of the Superintendent of Public Instruction does not have sufficient controls over, and was not compliant with, the requirements for determining subawards for each school district's share of Migrant Education funding.

**Resolution:** The Office agrees there was an error in the allocation of subawards for both regular and summer programs. The average error for each subaward was \$670 for the summer program and \$1,653 for the regular program.

Allocations of subawards were reviewed by the director of federal fiscal policy/grant management. The review entailed an analysis of allocations to ensure they are accurately calculated and comply with federal regulations.

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**State School for the Blind (SFB)**

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**Agency: 351****Audit Report:** 1012028**Finding Number:** 001**Finding:** The Washington State School for the Blind lacks internal controls to adequately monitor and account for its local funds.**Resolution:** In response to the finding, the School has improved internal controls over its local funds.

Adequate documentation to support disbursements from the Betterment Fund checking account is now retained. The School is minimizing the issuance of checks for cash as a last resort and only when another method is not available to meet student learning objectives. When that occurs, staff is required to fill out a request form with proper signature authorization. A pending file is created for those payments and is reconciled monthly to ensure proper documentation and reconciliation occurs. The School is now reconciling the Betterment Fund checking account monthly.

As of April 2014, all work experience time sheets are signed by a supervisor or designee. Business office personnel collect and retain all properly signed time sheets as source documentation. The time sheets are entered into the work experience master summary worksheet which is signed by the supervisor and initialed by business office personnel verifying time sheets have been reviewed prior to issuing payment.

The School now requires staff to record time in accordance with federal requirements. All employees who work 100 percent of their time on the federal program are required to sign and submit semi-annual certifications. Employees who work on multiple programs are required to complete and sign time sheets on a semi-monthly basis and submit them to their supervisors. The supervisors, who have first hand knowledge of the work performed, review and sign the semi-annual certifications and the time sheets. Monthly, estimated time charged to the grant is adjusted for actual time worked based on the employees signed time sheets.

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## Status of Audit Resolution

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**Department of Early Learning (DEL)**

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**Agency: 357**

**Audit Report:** 2013 F

**Finding Number:** 015

**Finding:** The Department of Early Learning does not have sufficient internal controls to ensure reports required by the Federal Funding Accountability and Transparency Act for the Child Care Development Fund program are filed.

**Resolution:** The Department believes it accurately reports subrecipient awards under the Child Care Mandatory and Matching Funds of the Child Care Development Fund.

However, the Department is unable to comply with the requirement to report subrecipient awards under the Child Care and Development Block Fund (CCDF) Grant because the Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System (FSRS) does not allow recipients to report this particular data (i.e. the system functionality simply doesn't exist). The Department's understanding is that this is a national problem not just limited to Washington state. The Department has requested further clarification on reporting requirements by contacting FSRS support desk personnel, its CCDF federal liaison, and the Office of Management and Budget (OMB). At this time, the Department is still unable to report subrecipient information in FSRS for the CCDF Grant awards. As soon as the functionality to report awards under the CCDF Grant exists within FSRS or the Department is provided with another means to report, the Department will do so.

The Department has developed a coding structure to aid in reconciliation at year-end to ensure accuracy of FFATA reports. The Department has established internal policies and procedures to ensure compliance with the FFATA reporting requirements. These policies and procedures include internal controls over proper reporting, accuracy of the data, and dual reviews of all reports before submission.

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**Department of Early Learning (DEL)**

**Agency: 357**

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**Audit Report:** 2013 F

**Finding Number:** 016

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

**Resolution:** The Department of Early Learning (the Department) and the Department of Social and Health Services (DSHS) continue to make consistent progress in actively auditing and recovering overpayments.

In January 2012, the Working Connection Child Care (WCCC) subsidy audit team was created to meet federal internal control requirements of the WCCC subsidy program. The team started with four Quality Assurance (QA) specialists and one lead worker. In December 2013, the team hired three new QA specialists. From February 2014 through May 2014, the Department had two QA specialists dedicated to the Federal Improper Payment Audit.

Prior to the start of this audit, the DSHS Office of Financial Recovery (OFR), the DSHS Office of Fraud and Accountability (OFA), and the Department agreed to implement improved overpayment processes which focus on using an existing but underutilized vendor overpayment system. As of December 2014, the Department has completed all planned audits for audit months earlier than January 2014. Audit months January-September 2014 are in progress and will be completed by March 2015. Beginning in March 2015, the Department will select cases for audit based on a risk factor of cases older than 120 days where a provider has back billed.

Starting in July 2014, the Department collaborated with DSHS on an interagency and interdivision Lean Six Sigma process improvement effort to address the high rate of overpayments the Department is currently experiencing. The effort includes mapping multiple related work processes to identify variables that may contribute to overpayments and identifying improvements that can be made to these processes that could help lower the rate of overpayments. As of December 2014, the Department is 80 percent finished with creating Lean process maps for all subsidy audit work processes and identifying areas for improvement.

In 2012, the Washington State Legislature required the Department in coordination with DSHS to contract with an independent consultant to evaluate and recommend the optimum system for the eligibility determination process. The evaluation was required to include an analysis of lean management processes that, if adopted, could improve the cost effectiveness and delivery of eligibility determination.

The Department contracted with the Aclara Group to provide an evaluation of the Child Care Subsidy Programs (CCSP) and develop recommendations for business process improvements. Aclara's final report was completed on October 31, 2012. The report identified 29 recommendations for improvement that span policy, business processes, and information technology supports. The Department is taking a structured project approach to address the report recommendations. The proposed project structure fosters a close

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partnership between the Department and DSHS to streamline and simplify CCSP policies and processes. The Department and DSHS formed 14 interagency workgroups to analyze these recommendations and implement those that would improve the program. As of December 2014, several recommendations have been implemented.

In November 2014, the Department and DSHS formed a WCCC reframe workgroup designed to address the recent reauthorization of the Child Care Development Fund grant. Part of the scope of this work is to conduct a comprehensive analysis of billing and other child care provider requirements that have the potential to cause confusion or otherwise increase the risk of improper billing. The workgroup is slated to complete its work by the spring of 2015.

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**University of Washington (UW)**

**Agency: 360**

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**Audit Report:** 2013 F

**Finding Number:** 002

**Finding:** The University of Washington did not have sufficient internal controls to ensure reports required by the Federal Funding Accountability and Transparency Act (FFATA) are filed for the Research and Development cluster.

**Resolution:** The University has processes in place to review each subaward executed to determine whether Federal Funding Accountability and Transparency Act (FFATA) is applicable and, therefore, required to be submitted in the FFATA Subaward Reporting System (FSRS).

Starting in December 2012, the University updated its FSRS reporting process to include maintaining an electronic copy of each report filed. The University added a monthly review of all new subawards executed each month to ensure subawards are being reported in the FSRS system, if applicable. In addition, the University added a secondary review of draft FSRS reports each month before submitting the reports to ensure all information has been entered accurately.

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**University of Washington (UW)**

**Agency: 360**

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**Audit Report:** 2013 F

**Finding Number:** 014

**Finding:** The University of Washington does not have monitoring controls to ensure subrecipients expending \$500,000 or more in total federal dollars obtain an audit.

**Resolution:** During fiscal year 2013, the University monitored subrecipients and took steps to enhance monitoring controls. In addition to the monitoring controls that were already in place, the University:

- Updated the audit notification language in subcontracts regarding subrecipient audit requirements.
- Conducted a review of all fiscal year 2013 active and current subcontracts to ensure the University had obtained and reviewed subrecipient audits, as required.
- Enhanced the University's tracking and process documentation related to subrecipient monitoring including documentation of dates audit reports were obtained and reviewed.
- Implemented a Subrecipient Financial Questionnaire used at initiation of each subcontract to assist in determining the audit status of each entity as well as to operate as a risk assessment tool.
- Developed a master listing of all subrecipients and related audit information; and developed a Subrecipient Entity Review Form to document information related to the subrecipient's audit report and review.

Starting in fiscal year 2014, the University developed a Subrecipient Annual Certification Form to be sent to and certified by each subrecipient entity annually to update the audit status of the entity.

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**Washington State Historical Society (WHS)**

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**Agency: 390**

**Audit Report:** 1012566

**Finding Number:** 001

**Finding:** The Agency lacks adequate controls to safeguard and account for its capitalized and small-and-attractive assets.

**Resolution:** The Historical Society took the following corrective action to ensure adequate controls are in place to safeguard and account for assets:

- As of July 15, 2014, all Historical Society inventory coordinators were trained on the capital asset tracking system.
- As of November 30, 2014, segregation of duties between purchasing and approving is required for all purchases.
- By January 31, 2015, the Historical Society policy on Capital and Small & Attractive assets will be finalized.
- By February 27, 2015:
  - Historical Society staff will be trained on the inventory policy and procedures.
  - A Historical Society-wide physical inventory will be completed.
  - Completed physical inventory will be reviewed and certified by Historical Society management.
- By March 1, 2015, an internal control team will be created. The team will meet semiannually to conduct a risk assessment on capital assets, review inventory records, and schedule a biennial physical inventory.
- By March 15, 2015, all capital asset data will be entered into the capital asset tracking system.
- Beginning March 1, 2015:
  - All inventoriable items will be logged into a receiving log file at receiving station by receiving staff and inventory tags will be issued by the Historical Society inventory officer and attached to the items. Fiscal staff will enter inventory data in the capital asset tracking system.
  - On a quarterly basis Historical Society fiscal staff will reconcile the capital asset tracking system to the state's accounting system and make necessary adjustments.

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**Washington State Historical Society (WHS)**

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**Agency: 390**

**Audit Report:** 1012566

**Finding Number:** 002

**Finding:** The Agency lacks adequate internal controls over disbursements of local funds, including purchase card and procurement expenditures.

**Resolution:** The Historical Society took the following corrective action to ensure adequate controls are in place over disbursements:

- As of April 2014, the Historical Society began development of new contract templates to be used for all future procurements. Most contract templates will be completed by January 2015.
- As of May 2014, the Purchase Card Policy & Procedures were updated in accordance with state regulations to include clarifying purchase limitations, monitoring controls, and purchase processes.
- As of October 2014, fiscal staff compares the contract files to invoices prior to processing payments to ensure contract limits are not exceeded.
- As of December 2014, all purchases including purchases made by managers have to be pre-approved. A purchaser cannot approve his/her own purchases. Exceptions are logged into a log file to report to the Historical Society management team.
- By January 2015, the Historical Society policies and procedures related to contracts will be revised.
- By February 2015, a Historical Society-wide state procurement and contracts workshop will be conducted to ensure staff are trained on the revised policies and procedures.
- By March 1, 2015, an internal control team will be created and will conduct a risk assessment on the Historical Society procurement practices.

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**Department of Ecology (ECY)**

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**Agency: 461****Audit Report:** 2013 F**Finding Number:** 007**Finding:** The Department of Ecology did not comply with the Federal Funding Accountability and Transparency Act reporting requirements for the Performance Partnership Grant program.**Resolution:** The Department concurs with the finding. To address the weaknesses noted in the finding, the Department has:

- Conducted training on Federal Funding Accountability and Transparency Act (FFATA) reporting requirements.
- Clarified written procedures to ensure FFATA reports are reviewed for accuracy by an appropriate manager and submitted timely.
- Corrected improper subawards reported in the FFATA Subaward Reporting System.
- Communicated updated procedure and conducted training to the team assigned the responsibility of reporting FFATA data.

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## Status of Audit Resolution

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Department of Ecology (ECY)

Agency: 461

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**Audit Report:** 2013 F

**Finding Number:** 008

**Finding:** The Department of Ecology improperly claimed \$53,971.49 in federal reimbursement for the Performance Partnership Grant program.

**Resolution:** The Department concurs with the finding. The Department has established Department-wide procedures to ensure managers, supervisors, and staff have guidance on how to properly charge work and leave time to federal grant programs. In May 2014, these procedures were communicated to supervisors and staff. Each management team affected by the finding conducted staff training and made corrections to the fiscal year 2014 documents to ensure compliance.

In October 2014, the Department received approval from the Environmental Protection Agency to accept allowable state charges incurred during the grant period to offset the federal questioned costs. No federal funds were required to be repaid.

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## Status of Audit Resolution

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**State Parks and Recreation Commission (PARKS)**

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**Agency: 465**

**Audit Report:** 1012773

**Finding Number:** 001

**Finding:** The Commission lacks adequate controls to safeguard and account for fuel card purchases.

**Resolution:** Even before this audit report was issued on October 9, 2014, the Commission started an assessment to determine what monitoring processes and procedures to put in place to have appropriate internal controls surrounding fuel purchases and mileage reporting. The assessment will include a review of needed written policies and procedures, and monitoring and reconciliation procedures.

The Commission is contacting other agencies that previously received an audit finding related to their fuel card controls to ask for a copy of their fuel card policies. The Commission has also contacted the Department of Enterprise Services to get information about the vehicle mileage tracking software they use.

A group has been formed and meetings scheduled to complete the assessment and plan for better controls. Training needs and communication strategies will also be assessed. The Commission will complete the assessment and begin implementation no later than January 2015.

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## Status of Audit Resolution

December 2014

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**State Parks and Recreation Commission (PARKS)**

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**Agency: 465**

**Audit Report:** 1012773

**Finding Number:** 002

**Finding:** The Commission lacks adequate internal controls over cash receipting, which increases the risk that undetected errors or losses could occur.

**Resolution:** Even before this audit report was issued on October 9, 2014, the Commission started an assessment of the control environment for cash receipting, including controls over the Discover Pass. The assessment will include a review of written policies and procedures, forms, and monitoring and reconciliation processes. Training needs will also be assessed as well as communication strategies.

In the interim, the Commission started to review park deposits at a more detail level to ensure they are made within the deposit guidelines and began conducting reviews of financial activity in individual parks on a limited basis. To strengthen the internal controls for the long-term, the Commission has drafted a Lean charter and put together a team to review the Commission's receipt reconciliation process.

The Commission also requested funding for an internal audit position in its 2015-2017 operating budget request. The Commission will complete the assessment and begin to implement additional strategies to improve controls, considering both available resources and risk, no later than January 2015.

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## Status of Audit Resolution

December 2014

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**Employment Security Department (ESD)**

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**Agency: 540**

**Audit Report:** 2013 F

**Finding Number:** 005

**Finding:** The Employment Security Department did not attempt to collect \$881,375 overpaid to claimants for Federal Additional Compensation unemployment and insurance.

**Resolution:** On September 7, 2012, the Department completed the necessary computer programming to bill, collect, and account for Federal Additional Compensation (FAC) overpayments. While the questioned costs are no longer collectible under state law, billing statements were mailed to claimants who had outstanding FAC overpayment balances. As of December 1, 2014, the Department successfully collected \$5,294,645 in FAC overpayments and currently has \$5,580,852 outstanding. Department collection efforts will continue as permitted by state and federal law.

During fiscal year 2013, outstanding questioned costs of \$440,925 for fiscal year 2012 were reviewed as part of the U.S. Department of Labor (USDOL) audit resolution process. Although the costs were not allowed, the federal grantor waived collection. The Department has addressed the fiscal year 2013 questioned costs with the USDOL and is waiting for the final response.

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**Status of Audit Resolution**

December 2014

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**Employment Security Department (ESD)**

**Agency: 540**

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**Audit Report:** 2013 F

**Finding Number:** 006

**Finding:** The Employment Security Department did not comply with the Federal Funding Accountability and Transparency Act reporting requirements for the Workforce Investment Act program.

**Resolution:** The Department developed internal controls including policies and procedures for ensuring subawards are properly reported on the Federal Funding Accountability Transparency Act Subaward Reporting System (FSRS). These controls include review and reconciliation of entries to the federal grant documents for accuracy. As of March 7, 2014, the Department was able to access the FSRS and start maintaining subaward information.

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**Schedule 2 – Fraud Findings by Agency**

December 2014

<b>AGENCY NUMBER</b>	<b>AGENCY</b>	<b>AUDIT NUMBER</b>	<b>FINDING NUMBER</b>	<b>PAGE</b>
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**Liquor Control Board (LCB)**

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**Agency: 195**

<b>Audit Report:</b>	1012411
<b>Finding Number:</b>	001
<b>Finding:</b>	<p>The Board initiated an investigation and determined abuse of payroll and leave benefits had occurred at the Board between August 2012 and May 2013, which led to a loss of approximately \$32,500. Four Information Technology Specialists misused state resources by claiming pay for time not worked. Two of the employees were in supervisory positions.</p>
<b>Fraud Amount:</b>	\$32,500
<b>Recovery to Date:</b>	\$0
<b>Resolution/Status:</b>	<p>The following was the action taken:</p> <p>The Board developed a new telecommuting policy effective November 12, 2013. This new policy sets criteria necessary for an employee to be eligible for telecommuting and the supervision required for employees who are approved to telecommute.</p> <p>The Board believes existing internal controls ensure that the leave is entered for employees who are out of the office.</p> <p>On March 1, 2014, the Board changed its leave reporting tool from an agency internal mainframe system to the state's Employee Self Service leave tool which requires more time accountability between the employee and the supervisor.</p>
<b>Personnel Action Taken:</b>	Terminations, demotions and reduction in pay.
<b>Criminal Action Taken:</b>	This case was referred to the Thurston County Prosecuting Attorney's Office.
<b>Amount to be recovered:</b>	\$37,395 (includes \$4,895 audit costs)
<b>Agency Contact:</b>	Claris Nnanabu Liquor Control Board PO Box 43088 Olympia, WA 98504 (360) 664-1642 <a href="mailto:claris.nnanabu@lcb.wa.gov">claris.nnanabu@lcb.wa.gov</a>

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