



Washington State Auditor Troy Kelley

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

March 18, 2013

The Honorable Jay Inslee
Governor, State of Washington

Dear Governor Inslee:

Compliance

We have audited the compliance of the State of Washington with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the State's major federal programs for the year ended June 30, 2012. The State's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State's compliance with those requirements.

As described in Findings 12-05, 12-18, 12-19, 12-20, 12-21, and 12-57, in the accompanying Schedule of Findings and Questioned Costs, the State did not comply with requirements regarding Subrecipient Monitoring, Allowable Costs/Cost Principles, and Level of Effort that are applicable to the National Bioterrorism Hospital Preparedness, Public Health Emergency Preparedness, and School Improvement Grants Cluster programs. Compliance with such requirements is necessary, in our opinion, for the State to comply with requirements applicable to the programs.

In our opinion, except for the noncompliance described in the preceding paragraphs, the State complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The results of our auditing procedures also disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 12-2, 12-3, 12-4, 12-6, 12-7, 12-8, 12-10, 12-11, 12-12, 12-13, 12-14, 12-15, 12-16, 12-17, 12-22, 12-23, 12-24, 12-25, 12-26, 12-27, 12-28, 12-29, 12-30, 12-31, 12-32, 12-36, 12-37, 12-39, 12-40, 12-41, 12-45, 12-46, 12-53, 12-55, 12-58, 12-60, 12-61, 12-62, 12-63.

Internal Control Over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 12-2, 12-3, 12-4, 12-9, 12-11, 12-12, 12-13, 12-18, 12-20, 12-21, 12-22, 12-23, 12-24, 12-28, 12-30, 12-32, 12-47, 12-58, 12-60, 12-61, 12-62, 12-63 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 12-5, 12-7, 12-8, 12-15, 12-16, 12-17, 12-25, 12-26, 12-31, 12-33, 12-34, 12-35, 12-37, 12-38, 12-39, 12-42, 12-43, 12-44, 12-45, 12-48, 12-49, 12-50, 12-51, 12-52, 12-53, 12-54, 12-56, 12-59 to be significant deficiencies.

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the State's responses and, accordingly, we express no opinion on them.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the State of Washington as of and for the year ended June 30, 2012, and have issued our report thereon dated November 15, 2012, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the State of Washington's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the reports of other auditors, the schedule of expenditures of federal awards is fairly stated, in all material respects in relation to the basic financial statements as a whole.

This report is intended for the information and use of the State's management and federal awarding agencies. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR

March 18, 2013, except for the Schedule of Expenditures of Federal Awards, as to which the date is November 15, 2012

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