

STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

2011 Audit Resolution Report

STATEWIDE ACCOUNTING
DECEMBER 2011



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OFFICE OF FINANCIAL MANAGEMENT

2011

Audit Resolution Report

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Table of Contents

Audit Resolution Report	1
Schedule 1 – Audit Findings by Agency	3
Status of Resolution of Audit Findings	
Department of Commerce.....	5
Office of Financial Management	18
State Health Care Authority	19
Department of General Administration	35
Department of Social and Health Services	36
Department of Health	70
Department of Corrections	74
Department of Services for the Blind	75
Department of Early Learning	76
Central Washington University	77
The Evergreen State College	80
Department of Transportation	81
Department of Ecology	84
Recreation and Conservation Funding Board	85
Employment Security Department	86
Schedule 2 – Audit Reports by Topic	91
Status of Statewide Accountability Reports	
State of Washington State Grants	93
Audit of State Payments to Child Care Providers	95
Schedule 3 – Fraud Findings by Agency	97
Status of Resolution of Reported Fraud Findings	
University of Washington	99
Schedule 4 – Special Reports by Agency	101
Status of Special Reports	
Department of Commerce	103

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STATE OF WASHINGTON

AUDIT RESOLUTION REPORT

December 2011

THIS REPORT SUMMARIZES the status of corrective actions taken by state agencies, in conjunction with the Office of Financial Management (OFM), to resolve exceptions to specific expenditures or financial transactions reported in audits performed by the State Auditor's Office (SAO).

Washington State laws require post audits of every state agency. As part of the audit process, exceptions to specific expenditures or financial transactions become a matter of public record. OFM is required to ensure that agencies take corrective actions to address exceptions and to annually report on the status of these audit resolutions.

This annual report is required by RCW 43.88.160 which states, "The director of financial management shall annually report by December 31st the status of audit resolution to the appropriate committees of the legislature, the state auditor, and the attorney general. The director of financial management shall include in the audit resolution report actions taken as a result of an audit including, but not limited to, types of personnel actions, costs and types of litigation, and value of recouped goods or services."

This report summarizes the status of resolution of audit exceptions reported in conjunction with regularly scheduled individual agency post audits, the statewide single audit as well as other special SAO reports. These reports were issued between November 1, 2010, and October 31, 2011. The audit reports issued during that period include 68 exceptions, one of which relates to fraud. Also included in separate sections of this report are SAO recommendations and agency responses resulting from one agency special report and two statewide reports focused on specific topics.

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 2011

AGENCY NUMBER	AGENCY	AUDIT NUMBER	FINDING NUMBER	PAGE
103	Department of Commerce	2010 F.....	005	5
103	Department of Commerce	2010 F.....	016	6
103	Department of Commerce	2010 F.....	017	8
103	Department of Commerce	2010 F.....	018	9
103	Department of Commerce	2010 F.....	019	10
103	Department of Commerce	2010 F.....	020	11
103	Department of Commerce	2010 F.....	021	12
103	Department of Commerce	2010 F.....	027	14
103	Department of Commerce	2010 F.....	029	15
103	Department of Commerce	2010 F.....	030	17
105	Office of Financial Management	2010 F.....	001	18
107	State Health Care Authority	2010 F.....	033	19
107	State Health Care Authority	2010 F.....	034	20
107	State Health Care Authority	2010 F.....	035	21
107	State Health Care Authority	2010 F.....	037	22
107	State Health Care Authority	2010 F.....	038	23
107	State Health Care Authority	2010 F.....	040	25
107	State Health Care Authority	2010 F.....	043	26
107	State Health Care Authority	2010 F.....	044	27
107	State Health Care Authority	2010 F.....	047	28
107	State Health Care Authority	2010 F.....	048	29
107	State Health Care Authority	2010 F.....	050	30
107	State Health Care Authority	2010 F.....	051	31
107	State Health Care Authority	2010 F.....	052	32
107	State Health Care Authority	2010 F.....	053	33
107	State Health Care Authority	2010 F.....	055	34
150	Department of General Administration	1004959.....	001	35
300	Department of Social and Health Services	1004476.....	001	36
300	Department of Social and Health Services	1005061.....	001	37
300	Department of Social and Health Services	1005061.....	002	38
300	Department of Social and Health Services	1005061.....	003	40
300	Department of Social and Health Services	2010 F.....	002	42
300	Department of Social and Health Services	2010 F.....	003	43
300	Department of Social and Health Services	2010 F.....	006	44
300	Department of Social and Health Services	2010 F.....	007	45
300	Department of Social and Health Services	2010 F.....	023	46
300	Department of Social and Health Services	2010 F.....	024	47
300	Department of Social and Health Services	2010 F.....	028	48
300	Department of Social and Health Services	2010 F.....	031	49
300	Department of Social and Health Services	2010 F.....	032	50
300	Department of Social and Health Services	2010 F.....	035	51
300	Department of Social and Health Services	2010 F.....	036	52
300	Department of Social and Health Services	2010 F.....	037	54
300	Department of Social and Health Services	2010 F.....	039	56
300	Department of Social and Health Services	2010 F.....	041	57
300	Department of Social and Health Services	2010 F.....	042	58
300	Department of Social and Health Services	2010 F.....	043	60

Schedule 1 – Audit Findings by Agency

December 2011

AGENCY NUMBER	AGENCY	AUDIT NUMBER	FINDING NUMBER	PAGE
300	Department of Social and Health Services	2010 F	045	62
300	Department of Social and Health Services	2010 F	046	64
300	Department of Social and Health Services	2010 F	049	65
300	Department of Social and Health Services	2010 F	050	66
300	Department of Social and Health Services	2010 F	054	68
300	Department of Social and Health Services	2010 F	057	69
303	Department of Health	2010 F	015	70
303	Department of Health	2010 F	025	71
303	Department of Health	2010 F	026	72
303	Department of Health	2010 F	056	73
310	Department of Corrections	1004550	001	74
315	Department of Services for the Blind	2010 F	022	75
357	Department of Early Learning	2010 F	031	76
375	Central Washington University	1005589	001	77
375	Central Washington University	1005589	002	79
376	The Evergreen State College	1006173	001	80
405	Department of Transportation	2010 F	011	81
405	Department of Transportation	2010 F	012	82
405	Department of Transportation	2010 F	013	83
461	Department of Ecology	2010 F	014	84
467	Recreation and Conservation Funding Board	2010 F	004	85
540	Employment Security Department	1005008	001	86
540	Employment Security Department	2010 F	008	88
540	Employment Security Department	2010 F	009	89
540	Employment Security Department	2010 F	010	90

2010 F = Statewide Single Audit Report

Department of Commerce (COM)

Agency: 103

Audit Report: 2010 F

Finding Number: 005

Finding: The Department of Commerce, Local Government and Infrastructure Division, does not have controls to ensure it complies with reporting requirements for the Community Development Block Grant program.

Resolution: The Department concurs with the finding. This occurred because instructions for the Section 3 report from the federal granting agency, the Department of Housing and Urban Development (HUD), were not clear. In June 2010, HUD provided updated instructions clarifying that only the Community Development Program (CDP) portion of funding awarded to Section 3 businesses should be reported. As one of the CDP federal grantee programs, the Community Development Block Grant (CDBG) program Section 3 reporting should have been separated as directed.

The Department implemented the following actions to ensure the accuracy of the 2010 Section 3 report due on March 31, 2011, and all future reports:

1. The Department is monitoring grant recipients' contractor/subcontractor semiannual reports to ensure only the CDBG portion of funds awarded to Section 3 businesses is reported. The contractor/subcontractor reports are submitted to HUD on a semiannual basis and are compiled and reported on the Section 3 report. Contractor/subcontractor reports that include other funding will be corrected to include only the CDBG portion of funding before submitting to HUD and before being included in the annual Section 3 report.
2. The Department is providing technical assistance to current grant recipients to ensure they are reporting only the CDBG portion of awards to Section 3 businesses hiring and/or training Section 3 persons.
3. The Department updated the 2011 CDBG Management Handbook to provide clear instructions for completing the contractor/subcontractor reports, documenting hiring and/or training of Section 3 persons. Department staff provided training to the 2011 CDBG grant recipients at CDBG Management Handbook workshops on the reporting requirements in May and June 2011.

On an ongoing basis, Department staff responsible for compiling the data will review it for completeness and accuracy and work with grant recipients to resolve any discrepancies. Department management will review and approve Section 3 reports before submittal to HUD and provide an explanation when any outcomes of hiring and/or training Section 3 persons are not documented in the annual Performance Evaluation Report.

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Department of Commerce (COM)

Agency: 103

Audit Report: 2010 F

Finding Number: 016

Finding: The Energy Office of the Department of Commerce does not have controls to ensure it complies with Davis-Bacon (prevailing wage) requirements.

Resolution: The Department concurs with the finding. When the original grants and loans were awarded, the Energy Office had many discussions with the U.S. Department of Energy (DOE) about the Davis-Bacon requirements. Preliminary guidance from DOE indicated project costs could be split and Davis-Bacon would not be applied if construction funding was not included in the American Recovery and Reinvestment Act award. Some of the projects undertaken are quite large and the federal contribution is a small portion of total funding. DOE reviewed each grant or loan and made determinations on which tasks required Davis-Bacon compliance. Later guidance from DOE indicated that Davis-Bacon would apply whenever construction was part of the project, even when construction was not funded by federal dollars.

The specific incident cited in the finding occurred because of a misunderstanding between the Energy Office program manager and the grant recipient regarding what constituted the start of construction. The program manager notified the grant recipient as early as November 2009 that Davis-Bacon requirements applied and that certified payrolls for construction projects must be collected.

On September 13, 2010, the Department's Contracts Administration Unit (CAU) staff reviewed the invoices in question for Davis-Bacon compliance. Prior to approval of the invoice noted in the incident, the program manager asked if construction had begun. The grant recipient indicated that construction began after a ground-breaking event in July 2009. During the review, staff discovered the invoice for work done through June 30, 2010, included site preparation work that had been reimbursed without monitoring for Davis-Bacon compliance. The Department immediately requested certified payrolls and found a \$1.41 underpayment. This took place before the next reimbursement payment was made and the underpayment was resolved on January 1, 2011.

To ensure greater control over compliance with the Davis-Bacon requirements, the Department implemented changes to its invoice review and payment procedures. The function of invoice review and verification was transferred to CAU. The Department's CAU staff have years of experience in processing requests for reimbursement that include Davis-Bacon requirements. Experienced CAU staff members now review payment requests, collect and verify certified weekly payroll information, and process the payments.

In addition, the Energy Office is now utilizing agencywide expertise including consultation with the Community Services and Housing Division staff members who regularly work with Davis-Bacon requirements. In this way, the Department can ensure a consistent understanding of Davis-Bacon requirements throughout the agency and ensure ongoing compliance.

State of Washington

Status of Resolution of Audit Findings

December 2011

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Department of Commerce (COM)

Agency: 103

Audit Report: 2010 F

Finding Number: 017

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

Resolution: The Department concurs with the finding. The Department's Energy Office submits quarterly financial reports to the U.S. Department of Energy (DOE) electronic system with data received from Department's accounting staff.

Communications between program staff and accounting staff were not sufficient at that time to ensure the accounting staff was aware of a new project number for fiscal year 2011 where expenditures were accumulated. As a result, accounting staff did not include charges accumulated against the new project number in the July to September 2009 quarterly report to DOE. In addition, the report was not adequately verified by the State Energy Office to make sure all expenditures were accurately reflected. As a result, \$45,279 was not reported.

The expenditures were included in the October-December 2009 quarterly report. In 2009, no mechanism existed to revise a report once it had been submitted. Corrections had to be made in the subsequent report. With the Energy Office's new reporting program, future corrections can be made to the impacted quarter with approval from DOE.

The Department assessed its internal controls and implemented measures to ensure compliance with reporting requirements through clearly defined expectations and access to the appropriate information. Department accounting staff updated the federal reporting procedures in September 2010, adding steps to ensure all quarterly federal expenditure activity is reported. These procedures have been followed since the procedure update.

Additional controls implemented include:

- Comparing federal expenditures by project code with federal report project listing.
- Supervisor review of all financial status reports or federal financial reports prior to review by Energy Office staff.
- Communication and review with Energy Office staff prior to submitting reports.

The Department further plans to implement periodic monitoring by personnel not performing the tasks to ensure the above activities are taking place.

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Status of Resolution of Audit Findings

December 2011

Department of Commerce (COM)

Agency: 103

Audit Report: 2010 F

Finding Number: 018

Finding: The Energy Office at the Department of Commerce did not adequately monitor grantees and loan recipients and paid for unallowable costs under the State Energy Program.

Resolution: The Department concurs with the finding. The Department authorized and paid a grant recipient's invoice for undocumented expenses. This occurred due to an inexperienced program staff member's mistake in the invoice verification and approval process.

To ensure greater control over invoice monitoring, the Department has increased desk top monitoring. On September 1, 2010, monitoring of invoice payments on American Recovery and Reinvestment Act energy contracts was transferred to the Department's Contracts Administration Unit (CAU). CAU has experienced staff dedicated to reviewing all grant recipient requests for payments and the supporting documentation before payments are approved.

On September 20, 2010, CAU staff reviewed the grant recipient's contract file and identified \$13,691 in questionable costs. Department staff contacted the grant recipient and requested clarification of costs and additional supporting documentation. As a result, CAU determined \$6,894 was supported by the documentation and therefore allowable. CAU also determined that the remaining \$6,797 was unallowable. The grant recipient was notified that these costs were unallowable and the amount was deducted from the next invoice. The Department has received satisfactory documentation from this grant recipient for all other invoices to date. In addition, the Department is working with U.S. Department of Energy to satisfy any questions regarding the questioned costs.

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Status of Resolution of Audit Findings

December 2011

Department of Commerce (COM)

Agency: 103

Audit Report: 2010 F

Finding Number: 019

Finding: The Department of Commerce, Community Services and Housing Division, does not have controls to ensure it complies with subrecipient monitoring requirements for the Weatherization Assistance for Low-Income Persons program.

Resolution: The Department concurs with the finding and has taken corrective action. After learning of the oversight, the Department checked the national Central Contractor Registration (CCR) system, completing and documenting the check on January 10, 2011. The Department contacted three contractors to correct issues of noncompliance.

In the future, an assigned staff member will review the CCR system at the end of each quarter (March, June, September, December) for each contractor, noting any comments regarding missing information and documenting the information and date in a spreadsheet.

If the CCR indicates that information is missing or outdated for any contractor, the staff member assigned as liaison with the contractor will contact the contractor, requesting they go to the CCR system to review and update the entry within one week of notification. The assigned staff member will perform a follow-up check on the CCR system to verify that the contractor has updated or corrected their information and note the date of contact and correction in the CCR tracking spreadsheet. This was implemented beginning March 31, 2011.

The Department will include the CCR check and documentation in contracting action items or in the steps taken by the Housing Improvement and Preservation unit when creating new contracts or grants and amending existing contracts or grants.

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Status of Resolution of Audit Findings

December 2011

Department of Commerce (COM)

Agency: 103

Audit Report: 2010 F

Finding Number: 020

Finding: The Department of Commerce, Community Services and Housing Division, does not have controls to ensure it complies with suspension and debarment requirements for the Weatherization Assistance for Low-Income Persons program.

Resolution: The Department concurs with the finding. In order to ensure compliance, the Department designated one position, the unit contracts manager, to be responsible for ensuring that all appropriate terms are addressed in contracts, including suspension and debarment, before moving any contract forward for signatures. This is part of the contract compliance checklist. The contracts manager or other designee will check the Excluded Parties List System (EPLS) when entering into a contractual agreement with a new vendor, including documenting the EPLS confirmation of vendor standing by making a print-screen and placing it in the contract file. The contracts manager will train unit members and new employees on contracting requirements and procedures. These measures were in place and operational on March 1, 2011.

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Department of Commerce (COM)

Agency: 103

Audit Report: 2010 F

Finding Number: 021

Finding: The Department of Commerce, Community Services and Housing Division, did not comply with subrecipient monitoring requirements for the Weatherization Assistance for Low-Income Persons program.

Resolution: The Department concurs with the finding and has taken steps to correct and improve monitoring and inspection protocol, checklists, consistency and training. The failure to complete comprehensive monitoring in 2009 was a reflection of a number of events, including preparing to receive a tenfold increase in weatherization funding, delays in hiring and training new staff for technical positions due to a hiring freeze, the collapse of a community action agency, and providing direct weatherization service for the first time to meet state American Recovery and Reinvestment Act weatherization production goals. While these are legitimate reasons that disrupted local agency monitoring plans, the Department acknowledges that program monitoring requirements were not fully satisfied.

The Department has always worked to refine and improve monitoring and inspection protocol. Historically, Washington has been among a handful of states asked to share and present its monitoring and inspection policies and tools as best practices. In April 2010, the Department implemented the first PDF-based monitoring tool and database. It was revised in July 2010. After testing and reviewing the results, Department staff determined the tool was not sufficient for comprehensive program monitoring. In October 2010, the Department implemented a revised performance assessment tool, as part of a completely revised monitoring assessment packet, which included fiscal review questions and a new monitoring report template.

The lead weatherization monitoring team met in January 2011 and outlined additional revisions to the program assessment tool that consolidated fiscal and administrative monitoring into five key areas. An assigned lead weatherization monitor is working closely with the fiscal monitor to redesign the Weatherization Program fiscal/administrative monitoring checklist. It will be more effective, comprehensive, and coordinated with other fiscal monitoring activities. Two additional sections of the tool were revised to evaluate the technical and program management systems of a local agency.

For July-December 2010, 15 of the 25 weatherization delivery agencies received comprehensive monitoring, including completion of the fiscal tool checklist. By July 2011, the weatherization monitoring fiscal tool was completed for the remaining 10 agencies.

Over the course of the audit, the Department responded seriously and quickly to observations and concerns expressed by the auditors. The Department acted immediately in October 2010, for example, when it learned that the file checklist was not applied consistently. Questions were changed to eliminate simple "yes" or "no" responses, monitors were coached and questions rewritten to probe deeper and to ask for documentation and verification. Additional weatherization monitor training was provided during regularly scheduled lead monitor meetings throughout the first quarter of 2011. These trainings focused on fiscal/administrative monitoring, proper use of revised

Status of Resolution of Audit Findings

December 2011

evaluation tools, and the application of U.S. Department of Energy (DOE) monitoring guidelines.

The Department convened statewide refresher training in May 2011 for all inspectors, including local agencies and Department personnel. The purpose was to reaffirm inspection expectations, consistency and accountability for immediate implementation and long-term application.

The findings attributed to King County Housing Authority (KCHA) for serving clients after their income eligibility period expired were addressed immediately. A letter was issued to KCHA to formally disallow costs totaling \$38,694 and seek a refund unless supporting documentation can be provided to verify eligibility.

The Department issued notification on January 13, 2011, to all local agency executive directors, chief financial officers and program managers regarding the observations and concerns received from the state auditor, DOE and DOE's Inspector General. The Department encouraged all parties to compare current practices to concerns registered and make immediate corrections if warranted.

The Department updated its inspection checklist to include checking income eligibility documentation, rather than limiting the review to only the in-office monitoring. Training on how to review eligibility and properly document the results was provided to all lead monitors and inspectors in February 2011. The Department is determining how to manage this element for large multi-family buildings when there isn't individual income verification documented.

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Status of Resolution of Audit Findings

December 2011

Department of Commerce (COM)

Agency: 103

Audit Report: 2010 F

Finding Number: 027

Finding: The Department of Commerce does not ensure the Temporary Assistance for Needy Families funding it provides to subrecipients is reported and audited in accordance with federal regulations.

Resolution: The Department partially concurs with the finding. The Department agrees that not all subrecipients submitted audit reports as required and it did not catch the oversight. Terms and conditions of contracts with the subrecipients identify the requirement that organizations receiving in excess of \$500,000 in federal funds must undergo a federal audit. Through the monthly invoice verification process, the required documentation and on-site monitoring conducted for each subrecipient, the Department is satisfied that program funds expended during this period were appropriate and correct

In the future, based on direction from the funding source, the Department will consider the WorkFirst contractors as vendors, thus negating the requirements for federal audit reports.

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Status of Resolution of Audit Findings

December 2011

Department of Commerce (COM)

Agency: 103

Audit Report: 2010 F

Finding Number: 029

Finding: The Department of Commerce, Community Services and Housing Division, did not comply with subrecipient monitoring requirements for the Community Services Block Grant program.

Resolution: The Department concurs with the finding. When a staff member assumed program management responsibilities for the Community Services Block Grant in July 2009, she noted that two subrecipients had not received on-site monitoring within the required three-year period. In the summer and fall of 2009, the upcoming monitoring schedule was updated, but since the schedule was already set for 2009, the two subrecipients were not added to the schedule. With only two employees monitoring approximately 10 subrecipients per year, and the addition of American Recovery and Reinvestment Act (ARRA) funding awards in the spring of 2009, it was difficult to add the two subrecipients to the monitoring schedule for 2009. The entire grant process – from application to award, from tracking expenditures to assessing risk, from additional fiscal monitoring to state and federal reporting – had to be ramped up under significantly constrained staffing conditions. Monitoring visits are typically scheduled March or April through October to avoid hazardous driving conditions in the winter and because the annual application and reporting processes consume most of staff's time from October through March.

Both subrecipients were contacted on March 11, 2010, when the 2010 monitoring schedule was being prepared for that year. Monitor dates were arranged for May and November 2010. Monitoring visits were completed as scheduled.

At present, the monitoring schedule has been adjusted so that 10 subrecipients will be monitored on-site each year, to ensure that all 30 subrecipients are monitored on-site every three years. Any additional on-site monitor visits triggered by a risk assessment, request by the subrecipient, or poor performance will be added to the normal three-year rotation schedule.

In addition to on-site monitoring, other monitoring activities are performed by Department staff that yield information about the performance of the subrecipients:

- The annual application process includes review of their annual plan, community needs assessment, strategic planning documents, and budget.
- Monthly review and processing of requests for reimbursement yields a picture of their spend-down of the grant and adherence to expenditures based on their stated plan.
- Periodic phone calls include technical assistance.
- Desk monitoring includes review of fiscal documents for ARRA grants mailed by grant subrecipients.

State of Washington

Status of Resolution of Audit Findings

December 2011

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Status of Resolution of Audit Findings

December 2011

Department of Commerce (COM)

Agency: 103

Audit Report: 2010 F

Finding Number: 030

Finding: The Department of Commerce, Community Services and Housing Division, did not comply with period of availability requirements for the Community Services Block Grant program.

Resolution: The Department concurs with the finding. The Department did not properly review costs transferred from one grant year to another grant year to ensure costs were within the proper period of availability. Fiscal staff did not clarify nor consult with program staff when program staff requested cost transfers between grant years. Fiscal staff reviewing the work of newly hired staff did not properly verify backup documentation for the transfer. As a result, \$55,593 transferred was not properly identified within the period of availability.

In January 2011, fiscal and program staff reviewed and corrected the original \$55,593 costs transferred between grant years. Appropriate costs within the period of availability were identified and transferred.

The Department concurs with the auditor's recommendation that fiscal staff consult with program staff when transferring costs between grant years. The Department has assessed its internal controls and implemented measures to ensure proper review of cost transfers through clearly defined expectations and responsibilities. Program and fiscal staff have updated the transfer/correction request form to include identification of specific items to transfer and fiscal staff provided training to program staff. Fiscal has also reiterated document review and approval expectations with supervisors and lead workers.

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Audit Report: 2010 F

Finding Number: 001

Finding: The State's internal controls are inadequate to ensure the Schedule of Expenditures of Federal Awards is accurately prepared, placing the state at risk of incomplete and inaccurate reporting to the federal government. This could affect the amount of federal funding the state receives in the future.

Resolution: The Office of Financial Management (OFM) concurs that internal controls related to the preparation of the Schedule of Expenditures of Federal Awards (SEFA) need to be strengthened. OFM corrected the fiscal year 2010 SEFA prior to submitting it to the federal government, by the deadline of March 31, 2011, and releasing it to the public.

To address the weaknesses noted in the finding, OFM has taken or will take the following actions:

- Oversight and Reconciliation: OFM assigned staff to independently review preparation of the fiscal year 2011 SEFA and its reconciliation to the Agency Financial Reporting System, and to follow up on any questioned areas. The SEFA was analyzed for exceptions and deviations noted in the prior year to enhance accuracy and completeness. System integrity and reconciliation checklists were also reviewed.
- Systems: OFM modified various system table update processes. These changes strengthen controls over the tables, which determine important elements of SEFA reporting. OFM changed upload and input steps to strengthen controls over the system-derived Catalog of Federal Domestic Assistance numbers, titles, and clusters that are reported on the SEFA.
- Guidance: OFM focused on the reporting errors noted in this finding during the fiscal year-end training provided to state agencies in June 2011. Additionally, OFM included an article on proper SEFA reporting in its Connection newsletter and discussed SEFA reporting issues with specific agencies during year-end meetings.
- Process Improvement: Each year, OFM will analyze SEFA reporting issues that came up the previous year as well as changes in federal assistance programs and reporting requirements for opportunities to further strengthen controls over SEFA reporting.

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Status of Resolution of Audit Findings

December 2011

State Health Care Authority (HCA)

Agency: 107

Audit Report: 2010 F

Finding Number: 033

Finding: The Department of Social and Health Services spent approximately \$2.7 million of federal Children Health Insurance Program (CHIP) money on unallowable administrative activities.

Resolution: This finding involved the Medicaid Purchasing Administration (MPA) which was previously an administration within the Department of Social and Health Services. Effective July 1, 2011, MPA was transferred to the State Health Care Authority. MPA concurs with this finding.

In February 2011, MPA established communication with program, fiscal and budget staff to ensure the operation, maintenance and fiscal review of the CHIP program includes all appropriate parties.

MPA developed internal financial procedures and monthly fiscal reports to monitor the CHIP expenditures to ensure the Administration does not exceed the administrative cap.

MPA implemented a process for the full recovery of the CHIP funds from the local health jurisdictions and recovered all the funds by July 2011. MPA coordinated repayment of the federal portion with the Centers for Medicare and Medicaid Services.

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Status of Resolution of Audit Findings

December 2011

State Health Care Authority (HCA)

Agency: 107

Audit Report: 2010 F

Finding Number: 034

Finding: The Department of Social and Health Services does not have adequate procedures to ensure compliance with earmarking requirements for the Children's Health Insurance Program.

Resolution: This finding involved the Medicaid Purchasing Administration (MPA) which was previously an administration within the Department of Social and Health Services. Effective July 1, 2011, MPA was transferred to the State Health Care Authority. MPA concurs with this finding.

MPA has taken the following actions to correct the deficiencies identified in the audit:

- In March 2011, MPA implemented processes and procedures to monitor, on a monthly basis, all Children's Health Insurance Program (CHIP) expenditures to ensure the Administration does not exceed the CHIP administrative cap.
- Monthly CHIP expenditure reports will be maintained tracking all CHIP expenditures for fiscal review. MPA recovered the CHIP administrative funds submitted to the local health jurisdictions in July 2011.
- MPA has coordinated with the Centers for Medicare and Medicaid Services to repay the federal portion.

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Status of Resolution of Audit Findings

December 2011

State Health Care Authority (HCA)

Agency: 107

Audit Report: 2010 F

Finding Number: 035

Finding: The Department of Social and Health Services does not have adequate procedures to ensure compliance with earmarking requirements for the Children's Health Insurance Program.

Resolution: This finding involved the Medicaid Purchasing Administration (MPA) which was previously an administration within the Department of Social and Health Services. Effective July 1, 2011, MPA was transferred to the State Health Care Authority. Refer to page 51 for the joint response from the State Health Care Authority and Department of Social and Health Services on this finding.

Status of Resolution of Audit Findings

December 2011

State Health Care Authority (HCA)

Agency: 107

Audit Report: 2010 F

Finding Number: 037

Finding: The Department of Social and Health Services does not have an adequate process to identify ineligible Medicaid expenditures for nonqualified aliens at the time of payment, resulting in \$187,557 in questionable costs.

Resolution: This finding involved the Medicaid Purchasing Administration (MPA) which was previously an administration within the Department of Social and Health Services. Effective July 1, 2011, MPA was transferred to the State Health Care Authority. Refer to page 54 for the joint response from the State Health Care Authority and Department of Social and Health Services on this finding.

State Health Care Authority (HCA)

Agency: 107

Audit Report: 2010 F

Finding Number: 038

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

Resolution: This finding involved the Medicaid Purchasing Administration (MPA) which was previously an administration within the Department of Social and Health Services. Effective July 1, 2011, MPA was transferred to the State Health Care Authority. MPA does not concur with the finding and will continue to work to clarify the issue.

There are no federal or state statutes that require a payer (e.g. state) to validate the Drug Enforcement Administration (DEA) number of a prescriber. Therefore, MPA disagrees that the lack of an edit that validates DEA for Schedule II – Schedule V drugs constitutes inadequate internal controls or that the lack of such validation renders the payment unallowable.

MPA believes that responsibility for compliance with controlled substance requirements lies with the prescribing provider and the dispensing pharmacies. The Controlled Substance Act (21 USC Sec. 821) and the State Uniform Controlled Substance Act (RCW 69.50) do not regulate payment for controlled substances and there are no provisions in either that could be interpreted as a requirement relating to payment of claims for controlled substances. Title 21 CFR Section 1306.04 clearly states that the prescribing practitioner is responsible for assuring that the prescription conforms in all essential respects to the law and regulation:

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

This finding indicates that since the previous 2009 finding, MPA has developed procedures to verify DEA for Schedule II drugs. That statement is incorrect. The automated edit procedure has been in place since 2002 when MPA implemented a pharmacy Point of Sale (POS) edit for the purpose of validating the DEA number of the prescribing physician for Schedule II drugs. MPA considered this to be an essential POS validation because Schedule II drugs are subject to the highest risk of abuse. MPA considered it prudent to provide this additional validation to guard against the potential for fraud and abuse.

MPA implemented a new pharmacy Point of Sale (POS) in October 2008. The POS design allowed the Administration to require and utilize the National Provider Identifier (NPI) as the prescriber identifier. The POS was designed to utilize a national file that associated the NPI to the DEA number, theoretically allowing a match of the NPI to DEA that enforces the Schedule II edit. However, at implementation it was discovered that the national file that associated NPI to DEA was not complete and did not meet the business

Status of Resolution of Audit Findings

December 2011

needs of matching NPI to DEA. As a result, the Schedule II edit in POS is based on a work-around. The POS maintains a "prescriber network" of known NPI/DEA associations, and it is updated by MPA staff as new associations become known. The work-around includes manual updates to a "blocked prescriber list" that identifies prescriber DEA numbers prevented from prescribing Schedule II drugs.

There continues to be no complete external source of data that provides the NPI to DEA crosswalk. As a result, the work-around within the POS does not provide any external data file that can be utilized for analysis or that allows staff to query the data and match DEA with NPI. So while the POS automatically associates the NPI with DEA for adjudication, external review of the NPI/DEA associations requires manual lookup to document the association. MPA performed the following detailed claims analysis and responded to the auditors as follows:

- Transactions with an invalid DEA number (4,071 records): MPA reviewed the first 100 records in POS and found 100 percent were active in the POS prescriber file with valid DEA numbers. The prescriber file does not currently include DEA end dates.
- Transactions with an NPI number (9,946 records): A manual review of 50 records found 47 associations of NPI to valid DEA numbers. In three instances, only the NPI was in the prescriber network file. These three claims were paid because the NPI was not on the blocked Schedule II list.
- Auditors were provided with access to the POS as well as instruction on the screens showing how the NPI/DEA associations could be located.

In addition to the POS edit that validates the DEA for Schedule II drugs, MPA has a set of robust program integrity activities including pharmacy utilization review, pharmacy rules-based algorithms that identify improper payments and data mining activities that identify patterns outside the norm. In the absence of any requirement to validate DEA numbers for controlled substances, MPA believes this set of program integrity activities provides adequate controls to ensure that controlled substances are authorized and allowable.

MPA continues to research the availability of a complete external file that accurately and completely associates NPI to DEA. Other states are faced with similar difficulties in utilizing the NPI for prescriber identifier.

MPA will continue to work with the U.S. Department of Health and Human Services to determine if any questioned costs need to be reimbursed.

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Status of Resolution of Audit Findings

December 2011

State Health Care Authority (HCA)

Agency: 107

Audit Report: 2010 F

Finding Number: 040

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

Resolution: The Medicaid Purchasing Administration (MPA), previously an administration within the Department of Social and Health Services, was transferred to the State Health Care Authority effective July 1, 2011. MPA does not concur with the finding.

MPA continues to believe that it is in compliance with the Deficit Reduction Act (DRA) of 2005. MPA meets this standard by making data available to all insurers to use for third party liability (TPL) reporting and by matching data directly with those insurers most likely to provide third party coverage to Medicaid recipients.

In January 2011, MPA signed a contract with Health Management Systems to perform automated data matches of MPA enrollment data against health insurance carrier files. This is intended to enhance TPL information in ProviderOne, MPA's primary provider payment processing system.

By January 2012, MPA will implement in ProviderOne the data exchange format published by the Centers for Medicare and Medicaid Services in June 2010. This new format serves as a tool to enable all states and all payers to use and comply with the DRA data exchange requirements. MPA is moving forward to incorporate this tool into ProviderOne to enhance cost avoidance and recovery activities.

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Status of Resolution of Audit Findings

December 2011

State Health Care Authority (HCA)

Agency: 107

Audit Report: 2010 F

Finding Number: 043

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

Resolution: This finding involved the Medicaid Purchasing Administration (MPA) which was previously an administration within the Department of Social and Health Services. Effective July 1, 2011, MPA was transferred to the State Health Care Authority. Refer to page 60 for the joint response from the State Health Care Authority and Department of Social and Health Services on this finding.

Status of Resolution of Audit Findings

December 2011

State Health Care Authority (HCA)

Agency: 107

Audit Report: 2010 F

Finding Number: 044

Finding: The Department of Social and Health Services Medicaid Purchasing Administration's internal controls are insufficient to ensure payment rates for its Healthy Options managed care program are based on accurate data.

Resolution: The Medicaid Purchasing Administration (MPA), previously an administration within the Department of Social and Health Services, was transferred to the State Health Care Authority effective July 1, 2011. MPA does not concur with the finding.

MPA believes there are sufficient controls in place to assure managed care rates are set based on the verified managed care organizations' (MCO) actual costs of care.

The controls MPA has in place are:

- Actuarially certified, proprietary cost information is submitted directly to MPA's actuary. The actuary verifies the information submitted by comparing it to audited financial statements submitted to the Office of the Insurance Commissioner and to encounter data submitted to MPA.
- The actuary also does analysis of prior years, compares MCOs to each other and resolves outliers that arise from its analyses with the MCOs.

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

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State Health Care Authority (HCA)

Agency: 107

Audit Report: 2010 F

Finding Number: 047

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

Resolution: The Medicaid Purchasing Administration (MPA), previously an administration within the Department of Social and Health Services, was transferred to the State Health Care Authority effective July 1, 2011. MPA partially concurs with this finding.

The total children's medical caseload for July 1, 2009, through March 31, 2010, was 384,033. Two hundred cases were sampled and 15 cases were cited with exceptions. MPA agrees that two of the 15 cases lacked income documentation to determine if the clients were eligible for medical coverage. To address this, MPA took the following actions in January 2010:

- Staff was trained on income eligibility determinations and required documentation. Classroom instruction was and continues to be provided with handouts that can be used at the worker's desk to reinforce class learning. Specific training and handouts are provided on self-employment and corporations.
- Policy and procedure manual sections were updated with requirements on income calculations and documentation.
- Medicaid Eligibility Quality Control focused audits are performed on income eligibility requirements, calculations and documentation to ensure staff follow rules and procedures.

MPA disagrees with the other thirteen cases, which contained procedural errors, even though the clients remained eligible for medical benefits. The procedural errors amounted to weak verification of determining reportable household income for self-employed individuals. Additionally, per RCW 74.09.402 (WAC 388-416-0015), children's medical cases remain open for a 12-month continuous certification period, regardless of changes other than death, moving out of Washington State or aging out of the program. This means that any increase in income during the audit certification period would not affect the children's eligibility during those 12 months.

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Status of Resolution of Audit Findings

December 2011

State Health Care Authority (HCA)

Agency: 107

Audit Report: 2010 F

Finding Number: 048

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

Resolution: This finding involved the Medicaid Purchasing Administration (MPA) which was previously an administration within the Department of Social and Health Services. Effective July 1, 2011, MPA was transferred to the State Health Care Authority. MPA concurs with this finding.

MPA acknowledged that on-site monitoring of activities for the transportation brokers was not completed according to the monitoring plan for 2010. This was primarily due to budget restrictions. Also, the workload required for the re-procurement of non-emergency medical transportation (NEMT) contracts was considerable.

To address this finding, MPA is reviewing broker subcontractors' monitoring schedules, broker incident/accident reports and broker invoice packets. MPA is also reviewing and resolving broker complaints.

Additionally, MPA took or will take the following actions:

- The broker's fleet inventory reports were reviewed in February 2011.
- The Trips database was developed and tested in March 2011. This database allows for improved monitoring capabilities. The database also allows MPA to match a client's trip to a covered medical service.
- By the end of December 2011, desk audits of all NEMT brokers will be completed, along with site visits of those brokers.

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Status of Resolution of Audit Findings

December 2011

State Health Care Authority (HCA)

Agency: 107

Audit Report: 2010 F

Finding Number: 050

Finding: The Department of Social and Health Services paid Medicaid providers for services that were not provided to Medicaid beneficiaries.

Resolution: This finding involved the Medicaid Purchasing Administration (MPA) which was previously an administration within the Department of Social and Health Services. Effective July 1, 2011, MPA was transferred to the State Health Care Authority. Refer to page 66 for the joint response from the State Health Care Authority and Department of Social and Health Services on this finding.

Status of Resolution of Audit Findings

December 2011

State Health Care Authority (HCA)

Agency: 107

Audit Report: 2010 F

Finding Number: 051

Finding: The Department of Social and Health Services, Health and Recovery Services Administration, does not have adequate procedures to ensure Medicaid is the payer of last resort for pharmacies.

Resolution: The Health and Recovery Services Administration was renamed the Medicaid Purchasing Administration (MPA). MPA, previously an administration within the Department of Social and Health Services, was transferred to the State Health Care Authority effective July 1, 2011. MPA does not concur with this finding, but will take the following actions to strengthen internal controls:

MPA plans to enhance functionality related to third party payers in ProviderOne by December 2012 through implementation of a change request. Until then, MPA will continue to allow providers to make eligibility checks with ProviderOne that include known third party payer information.

In June 2010, the Centers for Medicare and Medicaid Services announced recommended transmission formats for sharing eligibility and benefit information. The formats are the Payer Initiated Eligibility/Benefit Transaction and the Accredited Standards Committee. MPA will be pursuing implementation of these transaction formats.

On an ongoing basis, as resources are available, MPA will retrospectively examine pharmacy claims for the use of third party liability override codes.

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State Health Care Authority (HCA)

Agency: 107

Audit Report: 2010 F

Finding Number: 052

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

Resolution: The Medicaid Purchasing Administration (MPA), previously an administration within the Department of Social and Health Services, was transferred to the State Health Care Authority effective July 1, 2011. MPA does not concur with this finding. MPA does ensure that all requirements for Durable Medical Equipment (DME) providers are met.

Although MPA does not concur with this finding, the following actions are being taken to improve services:

- MPA made a change request to the ProviderOne vendor, CNSI, to allow a data exchange of professional and facility license information between MPA and the Department of Health. This data exchange was implemented in July 2011. The next step is to test the update in the ProviderOne system which will prevent payments associated with expired licenses. Testing is in its final stage with an estimated implementation by January 2012.
- Business licenses were not captured in the Medicaid Management Information System (the system that preceded ProviderOne). The business license field is new to the ProviderOne system. It is a requirement for enrollment to document the business license dates. ProviderOne automatically sends the provider a letter 30 days prior to the expiration date of a business license. The provider is required to then send the Provider Enrollment Unit proof of an updated license. There is currently no edit in place to deny claims on business license end dates. This edit will be put into place by February 2012.
- Beginning in April 2011, new federal regulations require states to perform pre- and post-enrollment site visits of newly enrolling DME providers and current DME providers as their enrollment is updated. Regulations allow that states may accept the results of Medicare's or another state Medicaid agency's screening results (i.e. if the provider is already a Medicare provider and Medicare has done the pre- and post-enrollment site visit). MPA is taking all steps necessary to comply with these new federal requirements.

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Status of Resolution of Audit Findings

December 2011

State Health Care Authority (HCA)

Agency: 107

Audit Report: 2010 F

Finding Number: 053

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

Resolution: The Medicaid Purchasing Administration (MPA), previously an administration within the Department of Social and Health Services, was transferred to the State Health Care Authority effective July 1, 2011. MPA does not concur with this finding.

MPA believes that it is in full compliance with the federal rules for retrospective drug utilization review. The Centers for Medicare and Medicaid Services (CMS) has provided previous validation that MPA's retrospective Drug Utilization Review reports meet all federal requirements.

MPA will submit its required annual Drug Utilization Review report to CMS for federal fiscal year 2010.

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Status of Resolution of Audit Findings

December 2011

State Health Care Authority (HCA)

Agency: 107

Audit Report: 2010 F

Finding Number: 055

Finding: The Department of Social and Health Services, Medicaid Purchasing Administration, did not ensure managed care premium payments were paid only for Medicaid eligible clients, resulting in the loss of approximately \$1 million of public funds.

Resolution: The Medicaid Purchasing Administration (MPA), previously an administration within the Department of Social and Health Services, was transferred to the State Health Care Authority effective July 1, 2011. MPA concurs with this finding.

MPA conducted a thorough analysis of the data submitted by the auditors and concluded that the small group of cases cited was accurately described. The findings were a result of limitations within the legacy Medicaid Management Information System.

With the implementation of ProviderOne in May 2010, this limitation was resolved. Currently, MPA has established business rules that will cancel enrollment of ineligible clients when their eligibility changes between cutoff and premium payment.

By June 2012, MPA will refund the federal dollars identified in the audit to the Centers for Medicare and Medicaid Services.

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Status of Resolution of Audit Findings

December 2011

Department of General Administration (GA)

Agency: 150

Audit Report: 1004959

Finding Number: 001

Finding: The Department did not comply with state contracting laws, regulations and policies related to the procurement of some purchased services and personal services contracts.

Resolution: As the audit report states, the Department had begun centralized review of many contracts in fiscal year 2009. In fiscal year 2010, the Department began the transition to centralized contract oversight by its Finance Office to begin to rectify similar issues identified by its internal reviews prior to this audit.

The Department has now completed the transition to centralized contracting oversight and competitive processes that incorporate strong internal controls within its Finance Office. All ongoing contracts have been corrected. Appropriate and consistent practices are being enforced for contract renewals and competitive procurements. The Finance Office reviewed contract processes with the impacted programs and developed work flow processes and procedures. The Department has implemented training standards for agency personnel in key procurement roles.

Effective October 1, 2011, the Department of General Administration was consolidated into the Department of Enterprise Services (DES), along with portions of four other agencies. The DES Contracts and Legal Services Division is developing consistent contracting standards which will apply to all of its operations.

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Status of Resolution of Audit Findings

December 2011

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 1004476

Finding Number: 001

Finding: The Department of Social and Health Services, Children's Administration, did not comply with documentation requirements designed to ensure it properly charged administrative costs to the federal Social Services Block Grant.

Resolution: The Department concurs with this finding and agrees the timeliness of reporting time study information is directly related to its accuracy.

Children's Administration (CA) is utilizing the Random Moment Time Study (RMTS) process within FamLink (a case management system) to ensure only those surveys meeting all requirements are being used for cost allocation. The new FamLink RMTS system is programmed to accept only surveys that meet the required criteria (i.e., case number associated to certain activity codes, time frame deadlines, etc.).

In addition, CA implemented approved protocols and established procedures that allow for analytical reviews in order to address any deficiencies in the system or sampling data. RMTS program specialists have the responsibility of ensuring the samples fall into these protocols and procedures which are based on both verbal and written communication from U.S. Department of Health and Human Services through CA management. Data is also extracted and periodic reports are run from FamLink to ensure the system is sampling workers correctly and that surveys are being filled out and compiled accurately.

The audit revealed 12 samples were out of compliance. However, out of the 12 samples it was determined that only three surveys were considered disallowable. Based on approved protocol and guidelines within the CA RMTS program and national statistical standards set by federal agencies through the Division of Cost Allocation, the remaining three samples are considered statistically insignificant and, therefore, would not result in disallowed costs.

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Status of Resolution of Audit Findings

December 2011

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 1005061

Finding Number: 001

Finding: The Department of Social and Health Services does not consistently prevent, identify, track or pursue collection of payroll overpayments, resulting in loss of public funds.

Resolution: The Department concurs with this finding. The Department has several ongoing processes in place to help ensure staff process payroll overpayments appropriately, including the following:

- Payroll staff in headquarters regularly communicates with time keepers, Human Resources staff and payroll processing staff to ensure they have timely and accurate information.
- The Department recently consolidated payroll services and is continually reviewing, evaluating and refining the payroll processes for effectiveness and to ensure overpayments are identified and tracked with follow up.
- The Department updated the identification and tracking process with an overpayment code report. This allows for logging and tracking of overpayments.

In addition, the Department has taken or will take the following actions:

In April 2011, the Chief of Staff and Senior Director of Human Resources distributed a memo to appointing authorities (individuals with delegated authority to hire, fire and recommend disciplinary action) that outlined expectations of supervisors and managers regarding the completion of payroll forms.

In June 2011, the Department:

- Developed an auditing process used by the Human Resources Management System (HRMS) processing unit and staff located in institutions, who are responsible for inputting data into HRMS. The audit process is intended to detect incorrect entries and correct them before payroll processes.
- Reviewed and updated previous internal assessments of Office of Financial Recovery program compliance with the auditors' best practices.

The Department is re-establishing regular time and attendance training and developing payroll processing training. The training will be provided to and coordinated with institutional payroll staff. Three of the re-established time and attendance classes were held in October and November 2011, including one in Spokane. The Department's expectation is to provide the class on a quarterly basis at a minimum.

By February 2012, the Department will re-evaluate and restore resources to reach and maintain timely tracking and reconciliation of payroll records with general ledger activity.

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Status of Resolution of Audit Findings

December 2011

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 1005061

Finding Number: 002

Finding: The Department of Social and Health Services overpaid \$70,761 for client support and services and risks making overpayments in the future.

Resolution: This finding involved the Aging and Disability Services Administration (ADSA), Children's Administration (CA), and the Economic Services Administration (ESA). All three administrations concur with the finding and are taking corrective action.

Aging and Disability Services Administration

ADSA will take the following actions to address the audit finding:

- In December 2011, ADSA will develop criteria to identify duplicate payments that could support a report aimed at reducing or eliminating duplicate payments. ADSA will also develop reports based on the criteria identified.
- In January 2012, ADSA will test the new reports, verify their effectiveness and move them into production.

Children's Administration

In December 2010, CA established edits in FamLink (a case management system) that will help prevent overpayments and identify potential overpayments. The new edits are working according to design. CA has also begun new initiatives to instill a new approach to payment integrity that involves statewide consistency in practice and a more concerted collaboration with its Technology Services to actively and timely look for known situations that have lead to overpayments.

The overpayments identified during the audit were reviewed. Those confirmed to be overpayments were referred to the Department's Office of Financial Recovery (OFR) for collection.

Economic Services Administration

ESA worked with internal and external stakeholders, including the Department of Early Learning, and has taken the following actions to prevent duplicate child care payments:

- The Working Connections Automated Program (WCAP) system within Barcode (DSHS child care program tracking system) is being updated to collect historical payment authorization information. WCAP will use this historical information to prevent services for the same child from being paid twice. This functionality is targeted for release in January 2012.
- Staff was retrained on how to accurately process payments through the Social Service Payment System in error-prone payment situations (i.e., situations that may result in duplicate payments). Training was completed in September 2011.

On an ongoing basis ESA is:

- Requiring supervisors and lead workers in the Statewide Provider Unit to review the Duplicate Payment Report monthly to identify duplicate child care payments. When a duplicate child care payment is identified, the Provider Team will issue an

Status of Resolution of Audit Findings

December 2011

overpayment notice to OFR, requesting collection of the overpaid amount from the child care provider.

- Requiring Working Child Care Connections (WCCC) supervisors and lead workers to perform audits on one percent of cases on a monthly basis. When a duplicate child care payment is identified during an audit, an overpayment notice is sent to OFR, requesting collection of the overpaid amount from the child care provider.
- Working with the Department's Payment Review Program to run annual algorithm reports. The reports identify potential duplicate payments for licensed family homes and child care centers. Confirmed duplicate payments are passed on to OFR, requesting collection of the overpaid amount from the child care provider.

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Audit Report: 1005061

Finding Number: 003

Finding: The Department of Social and Health Services did not comply with state contracting laws and its own policies to ensure public funds were used appropriately.

Resolution: This finding involved the following administrations: Aging and Disability Services Administration (ADSA); Children's Administration (CA); Economic Services Administration (ESA); Juvenile Rehabilitation Administration (JRA); and the Division of Vocational Rehabilitation (DVR). All administrations concur with the finding except DVR which only partially concurs. Each administration provided individual corrective action plans and responses to the finding.

Aging and Disability Services Administration

ADSA has taken or will take the following actions:

- Since September 2009, ADSA has used a reporting system that captures payments made against signed contracts in the Agency Contracts Database (ACD), initiated quarterly regional meetings that provide training and technical assistance on state and Department contracting policy and procedures, and ensured all headquarters-based contracts had a risk assessment and monitoring plan on file.
- The Risk Assessment and Monitoring Plan (RAMP) workgroup completed a risk assessment for each contracted service and drafted contractor risk assessment and monitoring tools for the regions to use for their contracts.
- The RAMP workgroup is creating standardized procedures and training intended to ensure a risk assessment and monitoring plan is completed on all contractors and is maintained in the contract file. The workgroup presented risk assessment and contractor tools to the regional field service administrator and began the discussion of procedures. These discussions will continue through February with the final procedures planned for release in March 2012.
- ADSA's contract manager will continue holding quarterly GoTo meetings and monitoring input into the ACD.

Children's Administration

In February 2011, new contract managers received mandatory training from Central Contract Services (CCS), the Department's contract unit, and contract staff participated in teleconferences regarding contract requirements and policies.

As required by policy, contract staff saves risk assessments and monitoring plans for each contract to the CA shared drive annually to allow others to refer to them. Staff enters monitoring activities, as stated in their respective monitoring plans for their contracts, into the ACD per Department policy. All activities are monitored and verified by supervisors.

Economic Services Administration

In July 2010, ESA distributed a memo to staff informing them that, prior to receiving access to the ACD, staff must undergo the appropriate contracts training offered through the CCS. On a quarterly basis, the ESA contracts officer pulls a report directly from the

Status of Resolution of Audit Findings

December 2011

ACD, comparing staff listed as ESA program management and contract contacts to the CCS training roster, to ensure they have received the mandatory ACD training.

In December 2010, ESA updated its Contract Monitoring Plan to state that on-site monitoring visits will be entered into the ACD. Also, monitoring reports will be imported into the ACD Document Management Screen. All other documentation will be maintained in the office of record contract file.

Department policy was revised to require each division's monitoring activities to adhere to that division's yearly Monitoring Plan. The plan addresses compliance for staff who conduct on-site contractor monitoring and document findings and other relevant information into the ACD. Each division's contract officer is responsible for checking the ACD for completed on-site monitoring documentation.

Juvenile Rehabilitation Administration

In May 2011, JRA clarified with contract managers/monitors the Department's expectations regarding contract monitoring activities that need to be entered into the ACD.

JRA's Grants and Contracts manager will ensure all JRA staff responsible for managing or monitoring contracts has the required CCS contracts training and documentation of that training with CCS. JRA is tracking completion and reporting progress to management on a quarterly basis. The target date for completion is March 2012.

JRA identified high usage medical providers and is working to develop the necessary contracts with these and other medical providers that are currently being utilized. This work includes conducting research on contracting language, developing a standard contract template, and negotiating and executing the contracts. Due to the unique nature of the Administration's client population, potential complexity of negotiating these contracts, and available staff resources, the estimated completion date is March 2012.

Division of Vocational Rehabilitation

By April 2011, DVR reviewed all existing contracts to ensure risk assessments and monitoring activities were conducted and recorded in the ACD. Risk assessments and monitoring activities are ongoing. For new contracts, a risk assessment is developed during the intake phase. Monitoring activities occur on a daily basis for those contracts where the risk assessment identified the contractor or services as high risk.

By April 2012, DVR will examine client service payments without contracts in the ACD and identify the necessary steps to meet the Office of Financial Management (OFM) and Department policy requirements. This will be done in coordination with CCS, OFM, and the Attorney General's Office.

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Status of Resolution of Audit Findings

December 2011

Department of Social and Health Services (DSSH)

Agency: 300

Audit Report: 2010 F

Finding Number: 002

Finding: The Department of Social and Health Services, Economic Services Administration, did not comply with federal regulations regarding support of salaries and wages paid to employees.

Resolution: The Department concurs with this finding.

The Department's Economic Services Administration (ESA) has taken action to correct the deficiencies identified in the audit. The following describes the actions:

In January 2011, ESA's Operation Support Division (OSD) updated their Business Center Process Manual that is used by Community Services Division (CSD) Business Center staff. The updates to the manual reflect federal requirements. Quarterly reviews are now a requirement. OSD headquarters staff held a conference call with CSD regional business managers to explain this process change.

In February 2011, ESA staff notified the Department's Office of Accounting Services (OAS) office chief that the Department's policy regarding time certifications needs to be brought into compliance with the federal requirements. The Department's policy on time certifications has been revised by OAS and referred to the Department's Accounting Policy Management Board where further revisions were made. The policy is scheduled for executive review in December 2011.

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Status of Resolution of Audit Findings

December 2011

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2010 F

Finding Number: 003

Finding: The Department of Social and Health Services did not issue retroactive food assistance payments in accordance with federal law.

Resolution: The Department completed the corrective action plan resulting from the audit finding, as follows:

- The Department refined the process to refer overpayments to the Office of Financial Recovery. This was completed in March 2011.
- By April 2011, the Department took action on the exceptions identified during the audit. Where appropriate, the Department established overpayments for unallowable payments.
- By May 2011, the Department retrained field staff on the proper calculation of retroactive payments.

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Status of Resolution of Audit Findings

December 2011

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2010 F

Finding Number: 006

Finding: The Department of Social and Health Services, Division of Behavioral and Health Services, does not ensure Justice Assistance Grant subrecipients are registered in the Central Contractor Registration database as required by federal regulation.

Resolution: The Department concurs with this finding.

In April 2011, the Department initiated the following process to ensure that any future federal funds that include the requirement to register in the Central Contractor Registration (CCR) database will be monitored by Department staff:

- The Department will confirm the requirement is included in the award instructions received from any federal agency.
- The Department will use the CCR to review the status of any potential subrecipient. If the subrecipient is listed in the CCR, the Department will proceed with a contract. If the subrecipient is not listed, the Department will require the potential subrecipient to register.
- The Department will confirm the registration is completed before issuing a contract to the subrecipient.

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Status of Resolution of Audit Findings

December 2011

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2010 F

Finding Number: 007

Finding: The Department of Social and Health Services did not provide adequate information to its Justice Assistance Grant subrecipients, nor did it monitor subrecipients' use of those funds.

Resolution: The Department concurs with this finding.

In April 2011, the Department began:

- Ensuring that federal funds listed in any subrecipient contract includes the grant name and federal award number, and that the amount of federal funds associated with the contract is listed on the contract's face sheet. Also, the Department will highlight the amount of federal funds noted on internal documents and the contract itself.
- Reviewing the monitoring protocols used by the Division of Behavioral Health and Recovery staff that is responsible for contracts to ensure the protocols comply with subrecipient monitoring requirements and Department policy.

Also, according to current business practice, the Department continues to:

- Review and approve monthly invoices from counties.
- Have the counties monitor prevention/treatment services available from their providers.
- Monitor county records during the biennial review of the county community services contracts. Records reviewed include billing documents and supporting documentation of services rendered.

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Status of Resolution of Audit Findings

December 2011

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2010 F

Finding Number: 023

Finding: The Department of Social and Health Services is not complying with federal requirements for suspension and debarment for the federal Vocational Rehabilitation Program.

Resolution: The Department concurs with this finding. The Division of Vocational Rehabilitation (DVR) was the program within the Department that received the finding.

By the end of December 2011, DVR is anticipating that work with Central Contract Services (the Department's contracts unit) and the Attorney General's Office to review terms and conditions will be completed. A recommendation will be made on suspension language that should be added to terms and conditions. Also, DVR will begin including a review of a contractor's suspension and debarment status as part of their monitoring of contractors.

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Status of Resolution of Audit Findings

December 2011

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2010 F

Finding Number: 024

Finding: The Department of Social and Health Services is not complying with federal requirements for time and effort documentation for the Vocational Rehabilitation Program.

Resolution: The Department partially concurs with this finding in that the time certifications from October 2009 to March 2010 did not include staff who left employment during this certification period.

The Department does not concur with the questioned costs. Thirty-five employees out of 350 division employees did not have certifications from October 2009 to March 2010. During the course of the audit, 33 of the employees were certified as having worked 100 percent on Vocational Rehabilitation grant activities. Since then, the remaining two employees have been certified.

The Department has taken the following actions to ensure payroll certifications are completed:

- In January 2011, supervisors were informed they have to double check the certifications to ensure they include all staff who worked during the certification period.
- In May 2011, time certifications were developed using salary and benefit expenditure information from the state's payroll system allowing certifications to be reconciled to payroll costs charged to the grant.

The Department was informed by the federal grantor that the questioned costs are not required to be reimbursed.

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Status of Resolution of Audit Findings

December 2011

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2010 F

Finding Number: 028

Finding: The Department of Social and Health Services requested federal grant funding in excess of its immediate needs.

Resolution: The Department concurs with this finding. The errors occurred as a result of the American Recovery and Reinvestment Act (ARRA) funds adjustments which caused inadvertent "draw downs" of federal funds over a four quarter period. The draw downs were not noticed immediately because the Department's Grants Management System (GMS) does not interface with the federal Payment Management System (PMS).

Economic Services Administration (ESA) was the administration responsible for errors with ARRA funds. In October 2010, ESA contacted the Department's Office of Accounting Services (OAS). OAS is responsible for preparing and submitting the Cash Management Improvement Act annual report of interest liability to the Office of Financial Management. All inappropriately received federal funds were returned in October 2010.

In April 2011, the Department developed a quarterly reconciliation procedure to ensure that the GMS and the PMS data match. OAS has agreed to send quarterly PMS reports to staff assigned responsibility for the quarterly reconciliation.

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Status of Resolution of Audit Findings

December 2011

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2010 F

Finding Number: 031

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

Resolution: Refer to page 76 for the joint response from the Departments of Early Learning and Social and Health Services on this finding.

Status of Resolution of Audit Findings

December 2011

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2010 F

Finding Number: 032

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

Resolution: The Department concurs with this finding. The Department believes control procedures are in place to avoid payments for adopted children over ages 18 and 21. The process works very well in most regions across the state.

The Department has taken the following actions to address the deficiencies identified during the audit:

- In January 2011, a memo was sent to staff that described the established procedures that are to be followed for monitoring case files and ensuring eligibility requirements are met.
- In April 2011, all exceptions were processed. As part of the review process, the overpayments were processed automatically returning the federal share of the payment.

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Status of Resolution of Audit Findings

December 2011

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2010 F

Finding Number: 035

Finding: The Department of Social and Health Services did not have adequate internal controls to accurately identify and claim all eligible Children's Health Insurance Program expenditures.

Resolution: This finding involved the Aging and Disability Services Administration (ADSA) and the Medicaid Purchasing Administration (MPA). MPA, previously an administration within the Department of Social and Health Services, was transferred to the State Health Care Authority effective July 1, 2011. Both ADSA and MPA concur with this finding.

The specific actions ADSA and MPA have taken are:

- In March 2011, a Children's Health Insurance Program (CHIP) work group was established that is comprised of MPA, ADSA, and other Department staff as needed. The purpose of the group is to communicate availability of funding and regulation changes and to establish a system to identify CHIP-eligible costs.
- In April 2011, the CHIP work group:
 - Evaluated CHIP regulation revisions and their impact on the ability to claim CHIP funds.
 - Developed a process/procedure for communicating the status of CHIP funding availability on a routine basis.
- In May 2011:
 - The work group established a process for identifying CHIP clients and transferring CHIP-eligible expenditures when necessary.
 - MPA established a routine process to identify all Medicaid-eligible costs for CHIP reimbursement.
- In August 2011:
 - ADSA established a routine process to identify all Medicaid-eligible costs for CHIP reimbursement.

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Status of Resolution of Audit Findings

December 2011

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2010 F

Finding Number: 036

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

Resolution: The Department concurs with this finding. The Department has plans to implement the Provider Compensation System (PCS) by the end of 2012 which will allow for an automated review process. PCS will be a sub-system of ProviderOne and is designed to generate intermittent, random notices to clients informing them how many hours were paid to the provider on their behalf during the previous month. The clients will be instructed to notify the Department if they notice a discrepancy in the hours provided versus the hours billed.

Until PCS is implemented, the Department will rely on the following controls that are currently in place:

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

In June 2011, the Department's Aging and Disability Services Administration (ADSA) conducted a pilot review of randomly selected individual provider time sheets within the Division of Developmental Disabilities. This review will go ADSA-wide within the next year. The review found most individual providers were compliant with time sheet requirements. For those that were not, action was taken ranging from issuing a warning to processing an overpayment to terminating the individual provider's contract.

State of Washington

Status of Resolution of Audit Findings

December 2011

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Status of Resolution of Audit Findings

December 2011

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2010 F

Finding Number: 037

Finding: The Department of Social and Health Services does not have an adequate process to identify ineligible Medicaid expenditures for nonqualified aliens at the time of payment, resulting in \$187,557 in questionable costs.

Resolution: This finding involved the Aging and Disability Services Administration (ADSA) and the Medicaid Purchasing Administration (MPA). MPA, previously an administration within the Department of Social and Health Services, was transferred to the State Health Care Authority effective July 1, 2011. Both ADSA and MPA concur with this finding.

ADSA has taken or will take the following actions to correct the deficiencies identified during the audit:

- In July 2011, ADSA trained field staff on how to identify client citizenship and assign correct Social Service Payment System (SSPS) codes when authorizing services.
- SSPS codes were established for state-only clients in August 2011. Authorizations for existing clients are being corrected.
- Because Medicaid funding is no longer allowable for emergency services for ADSA clients, expenditures are transferred quarterly to state-only funding until new authorizations using state-only SSPS codes are established.
- Staff reviewed clients on the list of exceptions identified by the auditors to determine whether or not they are eligible for Medicaid. If they are not eligible, costs were transferred to state-only funding. ADSA is working on correcting SSPS codes on all authorizations.

MPA has taken the following actions:

- In January 2010, a procedure was developed and implemented where the client's eligibility is federally verified at the time of application. An interface with the Social Security Administration is used to confirm social security numbers (SSN) and citizenship status.
- In June 2011:
 - A process was developed to move claims for Medicaid services provided to nonqualified aliens from Medicaid to state only. The process entails periodic identification of non-citizens with invalid SSNs. This list is then passed to financial staff who identifies the non-emergent Medicaid claims data from ProviderOne and perform an accounting adjustment to shift these dollars to state-only funds.
 - MPA followed up on the questioned cost relating to managed care insurance premiums, dental services, and other services including physician visits, prescription drugs, family services and vision identified as being provided to nonqualifying aliens and coordinated with the Centers for Medicare and Medicaid Services (CMS) to determine if any related Medicaid funds must be returned. MPA is awaiting the CMS response.

Status of Resolution of Audit Findings

December 2011

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Status of Resolution of Audit Findings

December 2011

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2010 F

Finding Number: 039

Finding: The Department of Social and Human Services, Aging and Disability Services Administration, did not ensure the level of in-home care services for some clients was evaluated at least annually.

Resolution: The Department partially concurs with this finding. The Department reviewed the 10 exceptions identified by the auditors as being at least five months late. The Department determined two of the 10 clients had annual assessments completed within the required time frames; however, due to computer anomalies, they were coded as late. There was documentation in both clients' Service Episode Record that documented the situation. The other eight clients remained eligible for services during the time their assessments were out of date. There are routine reasons an assessment may not be included within the required time frame. Some examples are the client's inability to meet with the case manager, delays in locating a provider of personal care, and delays caused in obtaining specialized medical equipment or making environmental modifications. Also, a client may have been admitted to a nursing facility or hospital or had a break in service that nullified the annual assessment due date.

During this audit cycle, the Department completed 59,570 assessments. The auditors identified 662 assessments as being more than 30 days late. If these 662 were actually late, this amounts to a compliance rate of 98.9 percent which is well within an acceptable threshold given the routine reasons why an assessment could be late. The Department has set a benchmark of 100 percent for compliance with assessment timeliness.

The Department took the following actions to address the recommendations of the auditors:

- In February 2011, the Department reviewed the Quality Assurance Monitoring Tool used in the quality assurance cycle. The tool ensures the level of care assessment for clients receiving in-home care is performed at least once every twelve months.
- In June 2011, the Department contacted the U.S. Department of Health and Human Services (HHS). The HHS analyst informed the Department questioned costs will be reviewed after the audit results are received through the federal clearinghouse.

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Status of Resolution of Audit Findings

December 2011

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2010 F

Finding Number: 041

Finding: The Department of Social and Health Services did not ensure all Medicaid providers were eligible to participate in the program.

Resolution: The Department concurs with this finding. Medicaid dollars were used to reimburse an excluded party who happened to be a parent provider. The excluded party (parent provider) provided the client services, as authorized, and was paid for those services. During the audit period, parent providers were exempt by state law from background checks. This exemption will change in 2012 when all providers, including parent providers, will be required to be fingerprinted as part of the background check process.

The Department has taken or will take the following actions in response to the audit finding:

- In June 2011, the Department contacted the federal grantor. A journal voucher was processed that transferred expenditures from federal to state. The funding was returned on the third quarter 2011 federal claim report.
- By March 2012, the Aging and Disability Services Administration will develop a process to identify excluded and debarred providers.

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Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2010 F

Finding Number: 042

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

Resolution: The Department concurs that there are not adequate controls in place to ensure Medicaid payments to in-home service providers were allowable and supported. The Department is anticipating the Provider Compensation System (PCS) will be implemented by the end of 2012. PCS is a sub-system of ProviderOne that will generate intermittent notices to clients informing them of the number of hours providers were paid in the previous month. This will assist clients in determining if the hours an individual provider worked are the same as the hours they were paid.

Until the PCS is implemented, the Department has the following controls in place:

- As part of their client assessment, case managers authorize a certain number of hours a provider can provide care. These hours cannot be exceeded by a provider invoice because the Social Service Payment System will not process payments in excess of the authorized hours.
- Clients are informed they need to retain copies of their provider's time sheets. This will allow case managers to periodically review a sample of client's time sheets and verify services were provided.
- During 2010, the Department:
 - Reviewed with clients their responsibilities as the employer of their individual providers. This will continue with new clients.
 - Sent individual providers a written notice of their obligation to keep a record of in-home services provided to Department clients.
 - Began auditing randomly selected samples of individual providers' time sheets to determine that services billed are consistent with time sheet documentation submitted.

The Department has taken the following corrective actions as a result of this finding:

- In April 2011, the Department developed and provided a training module to the case management staff of the 13 Area Agencies on Aging. The training focused on the requirement that case managers review client's time sheets and verify authorized hours have been provided.
- Also in April, the Department revised the Case Management Program training curriculum to include an emphasis on review of time sheets.
- In June 2011, the Department:
 - Audited a random sample of individual providers' time sheets to determine if services billed are consistent with time sheets.
 - Contacted the U.S. Department of Health and Human Services (HHS) and was told by the HHS analyst that questioned costs would not be reviewed until the audit results were received through the clearinghouse.

Status of Resolution of Audit Findings

December 2011

- In August 2011, the Department sent written notification to individual providers regarding their obligation to keep a record of in-home services they provide to Aging and Disability Services Administration clients.

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Audit Report: 2010 F

Finding Number: 043

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

Resolution: This finding involved the Children's Administration (CA), Economic Services Administration (ESA), and Medicaid Purchasing Administration (MPA). MPA, previously an administration within the Department of Social and Health Services, was transferred to the State Health Care Authority effective July 1, 2011. Each administration provided individual responses.

Children's Administration

CA concurs with this finding. Only two of the exceptions identified during the audit were related to CA. In February 2011, CA initiated the process to obtain the correct social security numbers (SSN) for the two clients.

Economic Services Administration

ESA concurs with this finding. By March 2011, ESA took actions to address the exceptions identified during the audit.

Additionally, in conjunction with the Medicaid Purchasing Administration, ESA has requested enhancements to their automated systems. The enhancements, which are expected to be implemented by January 2012, will include:

- Automation of the State Online Query (SOLO) SSN verification process at the time of application.
- System generated edits and assignments to ensure accurate processing and follow-up of cases with missing or invalid SSNs.

Medicaid Purchasing Administration

MPA partially concurs with this finding. MPA is of the opinion that the audit sample of the total caseload of 1.1 million clients was not valid. This sample consisted only of cases that might be in error – in effect, inflating the number of potential errors that might exist within the total Title XIX and Title XXI caseloads. By comparing to the total 1.1 million cases, the audit team initially found 8,727 potential errors, a 7.9 percent potential error rate. But of that number of potential errors, the audit team found only 410 actual errors, or a 0.047 percent error rate. In addition, only 84 of the cited errors were under Medicaid's control, resulting in a Medicaid error rate of only 0.009 percent.

During July 2010, MPA took action on the 84 exceptions identified as belonging to MPA. The cases were either corrected or closed. Of the cases, 72 (86 percent) were Take Charge family-planning-only. In the past, these clients have received one medical identification card covering a 12-month certification period. Beginning in May 2010, however, the Medicaid payment system changed to ProviderOne. This system only shows one month of a client's eligibility, which enables the Department to close Take Charge certifications when needed. This new functionality in ProviderOne will eliminate the Take

Status of Resolution of Audit Findings

December 2011

Charge problem since the Department regularly terminates these cases when eligibility ends, rather than waiting until the end of the certification period as before.

During September 2010, MPA staff received training in the procedures for requiring and verifying SSNs. Also in September, MPA began auditing two percent of Take Charge cases and 10 percent of Medical Eligibility Determination Services applications. These audits are reviewed monthly.

MPA shares monthly reports on cases that lack SSNs or have invalid SSNs with ESA, allowing workers in either administration to correct them quickly. Staff has now been trained on the need for SSNs and how to verify them through the State Online Query. In addition, the Eligibility A-Z manual has been updated with the most current procedures.

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Status of Resolution of Audit Findings

December 2011

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2010 F

Finding Number: 045

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

Resolution: The Department does not concur with this finding. The Department disagrees with the auditors for the following reasons:

- Most clients do not have proof of all financial activities that occurred during the last five years, which would be all of their financial statements from banks and other financial institutions. The process that the client or Department would have to go through to provide that much history would be lengthy and expensive, and it would not meet the federal requirement that an agency's policies and procedures for determining eligibility must be conducted in a manner consistent with simplicity of administration and in the best interests of applicants and recipients.
- The Department would have to pay banks to provide archived statements that the clients no longer have per WAC 388-490-0005(7). The length of time it would take to request and then review a minimum of 60 bank statements, with the possibility of hundreds more if there are multiple accounts at different banks, would make it impossible to meet the Department's standard of promptness for Medicaid applications with existing staff. Many additional staff would be required. Requiring all clients to provide 60 months of bank statements would not be cost effective.
- Unless transfers were made with the intent of qualifying for long-term care benefits, the Department cannot impose a transfer penalty. RCW 74.08.080(2)(g) states that "the burden is on the department to prove by a preponderance of the evidence that the person knowingly and willingly assigned or transferred the resource at less than fair market value for the purpose of qualifying for medical assistance." Applicants who have or had enough resources to consider transferring assets are usually applying for public assistance for the first time. If transfers occurred between 2 - 5 years prior to applying, the Department finds that those persons were usually unaware of Medicaid policies at that time because they were in reasonably good health, were not contemplating future long-term care needs, and were simply helping family members. If they were transferring assets to qualify that long ago, it is often difficult to prove. Generally, specific planning for future Medicaid eligibility occurs within a few months of the application.
- Requiring clients to provide five years of bank statements would only pertain to bank accounts that are declared. No system is in place to identify undeclared bank accounts and other types of undeclared transfers which is the primary reason for reliance on self-declaration.
- The Department is committed to ensuring that Medicaid clients are financially eligible for the program benefits that they receive and will continue to pursue and verify any asset transfers that it becomes aware of through the written application, the subsequent interview, or other means. Applicants complete the DSHS Application for Benefits. This form specifically asks if the applicant or applicant's spouse has sold, traded, given away, or transferred a resource in the last five years, and if so, what and when. The application states that the person signing it is declaring an

Status of Resolution of Audit Findings

December 2011

understanding that they can be criminally prosecuted for making a false statement or failing to report something. The signature certifies and declares under penalty of perjury under the laws of the State of Washington that the information given is true and correct.

In addition, the Department is taking the following actions:

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

The Department submitted policies and procedures to the Centers for Medicare and Medicaid Services (CMS) in June 2009 asking for an opinion as to whether or not federal guidelines were being met. CMS responded on December 22, 2009. CMS indicated that states have flexibility in implementing the 5-year look-back provision according to the "general rules of reason."

The Department believes the CMS response validates the position that asking for bank statements for the entire look-back period is not required. The Department believes the methods described above meet the "rules of reason" test referred to by CMS.

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Status of Resolution of Audit Findings

December 2011

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2010 F

Finding Number: 046

Finding: The Department of Social and Health Services, Economic Services Administration, does not have adequate controls to ensure sufficient action is taken to correct errors identified by the Medical Eligibility Quality Control Unit.

Resolution: The Department concurs with this finding. In April 2010, the Department formalized monitoring procedures for assigning, tracking and following up on the correction of errors identified through the Medical Eligibility Quality Control (MEQC) reviews.

The specific procedures are as follows:

1. Upon completion of an MEQC project review, the MEQC Unit creates a spreadsheet (problem report) identifying potential errors.
2. This spreadsheet is uploaded to the Barcode system and sent to the MEQC program manager at the Medicaid Purchasing Administration (MPA) for distribution to the field.
3. The MPA MEQC program manager classifies the problem report by Community Services Division, Customer Service Center district (region), based on where the client resides.
4. Each district-specific report is sent to the appropriate district contact (a supervisor in the district office) for correction.
5. The district contact (supervisor) assigns the case errors to staff in the district call center for correction.
6. The district contact reports back to the MPA MEQC program manager upon completion of the corrections. Corrections are then reported back to the MEQC unit.

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Status of Resolution of Audit Findings

December 2011

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2010 F

Finding Number: 049

Finding: The Department of Social and Health Services did not have adequate controls to ensure the federal share of overpayments made to Medicaid providers are refunded to the federal government in an accurate and timely manner.

Resolution: The Department concurs with this finding. While the Department's Office of Financial Recovery (OFR) has found that monthly reminders to Administrations have not been effective in ensuring timely overpayment referrals, OFR will comply with current policy while working to change the policy and implement effective refund practices. Policy revisions have been made and are under review. The Department anticipates the review will be completed by the end of December 2011.

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Status of Resolution of Audit Findings

December 2011

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2010 F

Finding Number: 050

Finding: The Department of Social and Health Services paid Medicaid providers for services that were not provided to Medicaid beneficiaries.

Resolution: This finding involved the Aging and Disability Services Administration (ADSA) and the Medicaid Purchasing Administration (MPA). MPA, previously an administration within the Department of Social and Health Services, was transferred to the State Health Care Authority effective July 1, 2011. Both ADSA and MPA concur with this finding.

Aging and Disability Services Administration (ADSA)

ADSA will continue its work to strengthen processes to provide a timelier and more consistent way to inform field staff about deceased clients. Currently, field staff receive this information from a variety of sources, including relatives, death notices in the papers, and Automated Client Eligibility System-Social Security data exchange matches. There is no Departmental or legal requirement to notify field offices. The availability and consistency of this information will improve when phase two of ProviderOne is completed, tentatively scheduled for the summer of 2013. At that time staff should have uniform access to the same data sources for information about client deaths.

ADSA took the following action in April 2011:

- Provided the Payment Review Program (PRP) the client list with dates of death. This assisted the PRP in determining if there are algorithm improvements that will assist in strengthening procedures for identifying deceased beneficiaries.
- Established overpayments for those payments identified after the audit began.

In November 2011, ADSA reimbursed federal share costs to the federal grantor.

Medicaid Purchasing Administration (MPA)

The audit identified transactions totaling \$3,266 in payments made through the Medicaid Management Information System (MMIS) that were paid after the date of death. In January 2011, the date of death was documented in MMIS and the payments have been recouped.

The audit recommended that MPA "continue to strengthen procedures for identifying deceased beneficiaries to prevent overpayments in the future." MPA continues to be a stakeholder in a Department of Health (DOH) initiative that will provide online access to DOH death data. The initiative will provide death data in a timelier manner, but has yet to be implemented. DOH remains dependent upon counties for receipt of death data, resulting in a delay in receiving the information. Due to this delay, DSHS will continue its successful post-pay review activities by using the quarterly DOH death data file to identify and recoup claims paid for deceased clients.

Status of Resolution of Audit Findings

December 2011

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Status of Resolution of Audit Findings

December 2011

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2010 F

Finding Number: 054

Finding: The Department of Social and Health Services, Aging and Disability Services Administration, billed approximately \$600,000 to the Medicaid program for services provided to ineligible individuals.

Resolution: The Department concurs with this finding. Department staff within Aging and Disability Services Administration (ADSA) was not aware of the correct process and client eligibility criteria for charging funds to the State Children's Health Insurance Program (SCHIP) grant. ADSA worked with other administrations within the Department, including the Medicaid Purchasing Administration (MPA) and the Economic Services Administration, to ensure that expenditures are properly charged to the SCHIP grant and not Medicaid.

In August 2011, the Department:

- Obtained reports from MPA that assisted in identifying eligible SCHIP clients.
- Established Social Service Payment System codes for state-only and SCHIP-enhanced clients and moved unidentified clients to state only until correct funding determinations can be made.
- Established a routine process for identifying and transferring SCHIP-eligible expenditures.
- Worked with the Centers for Medicare and Medicaid Services and the Department's Office of Accounting Services. The outcome was that some of the expenditures were moved to the SCHIP 2010 grant. A journal voucher was completed that moved all eligible CHIP expenditures. Ineligible expenditures were moved to state-only funding.

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Status of Resolution of Audit Findings

December 2011

Department of Social and Health Services (DSHS)

Agency: 300

Audit Report: 2010 F

Finding Number: 057

Finding: The Department of Social and Health Services, Aging and Disability Services Administration, Division of Behavioral Health and Recovery, did not comply with the federal requirement for independent peer reviews for the Substance Abuse Prevention and Treatment Block Grant.

Resolution: The Department concurs with this finding.

The Department created the Behavioral Health Advisory Council (BHAC). The BHAC was developed jointly by the Mental Health Policy Council and the Chemical Dependency Citizen's Advisory Council. The BHAC is responsible for facilitating and overseeing the peer review process. Eight chemical dependency professionals and eight treatment agencies volunteered to act as peer reviewers.

The Department trained the peer reviewers in the peer review process. Peer reviews of treatment programs were held during July and August 2011. The BHAC submitted the final report to the Substance Abuse and Mental Health Services Administration on December 1, 2011.

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Status of Resolution of Audit Findings

December 2011

Department of Health (DOH)

Agency: 303

Audit Report: 2010 F

Finding Number: 015

Finding: The Department of Health did not comply with time and effort requirements for the Capitalization Grants for Drinking Water State Revolving Fund program.

Resolution: New procedures have been implemented by the Department's Grants and Accounting Office to ensure that documentation is submitted timely and that documents are securely stored and available for audit.

The current procedure includes a notification from the Grants and Accounting Office to the unit managers whose employees are required to submit quarterly certifications.

Certifications are collected centrally and stored in a secure file where they can be made available for subsequent review.

The Department believes that it is now in full compliance with federal requirements for employee time and effort certifications.

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Status of Resolution of Audit Findings

December 2011

Department of Health (DOH)

Agency: 303

Audit Report: 2010 F

Finding Number: 025

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

Resolution: The Department is evaluating its subrecipient monitoring procedures as well as the requirements currently in place on subgrants to provide documentation in support of invoiced charges on federal grant sources.

The Department is implementing an agencywide subrecipient monitoring policy that standardizes invoicing formats and requires periodic desk reconciliations of revenues provided and expenditures charged by subgrants. Additional resources and training will be included in this effort. The estimated completion date is April 2012.

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Status of Resolution of Audit Findings

December 2011

Department of Health (DOH)

Agency: 303

Audit Report: 2010 F

Finding Number: 026

Finding: The Department of Health did not support over \$448,000 in payroll costs in accordance with federal regulations for the National Bioterrorism Hospital Preparedness and Public Health Emergency Preparedness Programs.

Resolution: All program managers involved with both the Public Health Emergency Preparedness and Hospital Preparedness grants are now maintaining detailed time sheets that are in compliance with federal requirements.

The Department is in communication with the Center for Disease Control and U.S. Department of Health and Human Services, Assistant Secretary for Preparedness and Response, and has provided additional documentation in support of these costs. The Department is waiting for a final determination from both federal agencies on the questioned costs.

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Status of Resolution of Audit Findings

December 2011

Department of Health (DOH)

Agency: 303

Audit Report: 2010 F

Finding Number: 056

Finding: The Department of Health charged federal grants for expenditures after the grant period had closed.

Resolution: The Department reviewed its process over expenditures for obligations incurred during the grant period and stressed the awareness of account coding for grants that have exceeded the 90-day period past closing.

Accounting and Grants Management staffs have clear instructions to close these account codes, making them unavailable, once they have exceeded their period of availability.

In addition, program managers have stressed the importance that the required financial reports are filed with the federal grantor by the due date.

The Department is in communication with U.S. Department of Health and Human Services, Assistant Secretary for Preparedness and Response, and has provided additional documentation that supports an extended deadline for a portion of these expenditures. In these discussions, the Department also stressed that all of these expenditures were otherwise allowable. The Department is awaiting the federal agency's final determination on the questioned costs.

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Status of Resolution of Audit Findings

December 2011

Department of Corrections (DOC)

Agency: 310

Audit Report: 1004550

Finding Number: 001

Finding: Employees do not consistently follow the Department's policies and procedures on universal fuel cards and management does not properly monitor use to prevent or detect a misappropriation of public funds.

Resolution: The Department has limited allowable fuel card transactions to only "pay at the pump" and implemented limits of \$100 on single transactions and three transactions per day, per card.

Business staff in all institutions and community corrections regions continues auditing the 15 fuels cards with the highest monthly charges, as well as 5 randomly selected fuel cards. These audits include a review of all transactions and related vehicle logs to verify:

- the charges are properly logged,
- vehicle usage logs are completed consistent with Department policy, and
- fuel card usage is consistent with the use of the state vehicle.

Any single fuel charge above \$75 for a non-diesel fuel purchase is reviewed for appropriateness. Additionally, all transactions that show as "miscellaneous" are referred to the Department's universal fuel card administrator for research and resolution. Results are then submitted to regional business managers for review monthly. Feedback to staff on a regular basis has helped to significantly reduce exceptions by an average of 75 percent from a year ago.

Annually, the comptroller or designee randomly audits fuel card documentation maintained by regional business managers. Also staff is reminded of the Department's fuel card policy via an annual email.

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Status of Resolution of Audit Findings

December 2011

Department of Services for the Blind (DSB)

Agency: 315

Audit Report: 2010 F

Finding Number: 022

Finding: The Department of the Services for the Blind is not complying with federal requirements regarding payroll costs charged to the Vocational Rehabilitation Program.

Resolution: The Department agrees with the audit finding and recommendations. A corrective action plan has been completed which included:

- An Effort Certification form for staff working solely on a single federal award or cost objective has been adopted into Department procedures.
- Effort Certifications have been completed on all impacted staff for the latest 6-month period of time.
- Department support staff who had previously been preparing effort certifications has been changed to cost allocation effective October 1, 2011.
- The effort certification process has been added to the Department's calendar of due dates in coordination with the federal fiscal year.

The Department contacted the U.S. Department of Education, Rehabilitation Services Administration (RSA), for their determination of any costs that are to be repaid as a result of the lack of certifications. The response from RSA was to distribute the questioned expenditures between the respective grants as if they had been initially cost allocated. The Department complied with this in September 2011.

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Department of Early Learning (DEL)

Agency: 357

Audit Report: 2010 F

Finding Number: 031

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

Resolution: The Department of Early Learning (DEL) and the Department of Social and Health Services (DSHS) do not concur with this audit finding. In July 2008, DEL and DSHS implemented a process to reconcile child care payments to attendance records to determine if the payments were supported by appropriate documentation.

On a monthly basis, payment files are randomly selected from child care centers and family child care homes by DSHS. Those records are audited by DSHS to monitor for correct payments. Overpayments and underpayments are written by DSHS if found during the monitoring.

This reconciliation occurred through the fiscal year 2010 audit period.

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Audit Report: 1005589

Finding Number: 001

Finding: The University's controls over accounts receivable are not adequate reducing the likelihood of collecting all amounts that are owed.

Resolution: The University continues to aggressively follow up on any accounts that are past due. This is accomplished in a number of ways. Staff in the Student Accounts department routinely makes phone calls and sends letters to students to work with them on keeping their accounts current. These efforts are working in controlling the University's overall accounts receivable balances. During the audit period of fiscal year 2010, accounts receivable were 6.4 percent of operating revenues. During fiscal year 2011, that has dropped to 5.3 percent.

Billing statements are currently on schedule. They are run and distributed monthly either by email to currently enrolled students or mailed to those students with an outstanding balance who are not currently enrolled. The University also revised and updated the procedures for the Student Accounts department relating to accounts receivable. This document will be reviewed by the appropriate personnel to establish a final University-approved procedure. In addition to monthly monitoring, there has been a policy established that a student will have a hold placed on their account and will not be allowed to register for future classes if they have an outstanding balance of \$200 or more. The purpose is to ensure that students remain current on their accounts and for the University to maintain control over receivables.

The University is currently looking to implement a process that is available within the collections module of its current computer system. This module will identify those students who are no longer enrolled but have outstanding balances in a report available to the staff responsible for collection efforts. The University is scheduled to migrate to version 9.0 of the student system in the spring of 2012. Because of the far-reaching implications of the whole system upgrade to 9.0, no additional functionality will be brought online until the new version is implemented.

At this point, no official decision has been made on whether the University will pursue charging interest on past due accounts. Under consultation with its AAG and also under the provisions stated in WAC 82-06-010, the University is in the process of determining if charging interest should be waived under either of the following criteria:

1. In situations where the cost of charging interest is expected to exceed the amount of interest received.
2. In situations where the cost of developing systems to charge interest is expected to exceed the amount received. The word "systems" in this context refers to both computer systems and general systems of managing and processing receivables.

The University currently assesses tiered late fees on unpaid balances beginning after the fifth day of classes.

State of Washington

Status of Resolution of Audit Findings

December 2011

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Status of Resolution of Audit Findings

December 2011

Central Washington University (CWU)

Agency: 375

Audit Report: 1005589

Finding Number: 002

Finding: The University issued \$145,719 in ineligible or unallowable tuition waivers, sixty percent of which went to dependents or spouses of employees.

Resolution: The University, in consultation with its Assistant Attorney General (AAG), interpreted and applied RCW 28B.15.915 as authorizing the exercise of reasonable discretion in the granting of full or partial waivers as appropriate to the needs of the institution and individual students.

Nevertheless, the University has worked with its AAG to develop a new institutional waiver policy with procedures to ensure that waivers granted under authority of RCW 28B.15.915 are consistent with written policies and are subject to appropriate administrative review and approval. The new comprehensive policy and procedure document is currently under final review by the University's AAG.

Tighter administrative oversight has been in place during the interim, while the new policy and procedure are under development. Significant changes have been put in place to ensure compliance with all state regulations. The new policy includes a section on "Conflict of Interest Guidelines" and a waiver council has been named and charged with reviewing any discrepancy, disagreement, or questionable offer that might surface. Personal relationships must be disclosed to the waiver council for review and recommendation for approval by the Chief Financial Officer (or other disinterested cabinet level administrator). The policy includes specific eligibility criteria developed by the administrators who are responsible for issuing the waivers. The waiver council will review reports to ensure compliance with the written policy. In addition to these steps being implemented, programming has been implemented to ensure waivers are limited to the exact percentage of specific funds as stated in the authorizing RCW.

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Status of Resolution of Audit Findings

December 2011

The Evergreen State College (TESC)

Agency: 376

Audit Report: 1006173

Finding Number: 001

Finding: The College did not follow the Office of Financial Management's instructions for determining project management fees, resulting in spending at least \$219,397 more in project management fees than it should have.

Resolution: The College acknowledges that it did overallocate for project management fees on three appropriations totaling approximately \$75,000. The difference between this amount and the \$219,000 stated in the finding is based on the College's understanding of the guidelines.

The College is taking corrective action by following the Office of Financial Management's (OFM) Capital Budget instructions as detailed in Chapter 5.1 - Administrative Cost Standards, to avoid overallocating project administration fees in the future. Appropriate college staff have been instructed to follow the OFM Capital Budget instructions.

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Status of Resolution of Audit Findings

December 2011

Department of Transportation (DOT)

Agency: 405

Audit Report: 2010 F

Finding Number: 011

Finding: The Department of Transportation does not have adequate controls to ensure that information the American Recovery and Reinvestment Act requires to be reported for its Highway Planning and Construction program is accurate.

Resolution: Prior to the audit, the Department identified and corrected the error reported as part of the March 2010 quarterly reporting cycle. Since the reporting process, at that time, only allowed for cumulative expenditures to be included in this American Recovery and Reinvestment Act (ARRA) report, correcting the next quarterly report for April through June 2010 was the only means of correcting the reported expenditures for January through March 2010.

Subsequent to the actions above, the federal ARRA reporting system now allows and facilitates correcting and updating prior quarter report filings, so the Department requested that the quarterly filing in question be corrected.

In addition, the Federal Highways Administration issued a management decision letter indicating that, "It should be emphasized that WSDOT's internal control processes identified and attempted to correct an error prior to the entrance of the audit team. No additional corrective action is necessary as WSDOT has internal controls in place to ensure proper reporting in accordance with federal requirements."

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Department of Transportation (DOT)

Agency: 405

Audit Report: 2010 F

Finding Number: 012

Finding: The Department of Transportation did not ensure highway construction contractor invoices were supported and approved before payment.

Resolution: As soon as the Department's project office became aware of the situation they conducted a full reconciliation of the force account payments associated with the contract, which at the time had approximately six months remaining on the project and had only been paid approximately 50 percent of the bid amount. "Force account payments" are a method of payment with a price established by the cost of material, equipment, and labor and are used for contracted or added work that is not easily quantifiable or measureable. The invoices addressed in this finding were for this type of payment. The Department recovered the overbilled amounts by reducing subsequent payments to the contractor.

Overall, the inconsistencies found on the payment in question appeared to be an isolated incident due to extenuating circumstances surrounding the particular billing request by the contractor. This was confirmed when the auditors expanded their testing, both in 2010 and 2011, and found no other payments with similar issues. In addition, the Federal Highways Administration (FHWA) also conducted a review of force account payments and "noted no other instances where the contractor was overpaid."

In addition to the increased awareness at the particular project office involved, the Department's Headquarters Construction Office issued a memorandum to all offices and construction project engineers reminding them of the importance of strong internal controls and related documentation for contractor payments, particularly force account payments. The Construction Office also included contractor payments as a major topic in the 2011 training season and sought feedback from all project offices on any suggestions that could further improve internal controls.

The FHWA responded to the finding in a management decision letter indicating the "FHWA agrees with WSDOT's corrective action" and that "no additional corrective action is necessary as WSDOT has taken appropriate measures to strengthen internal controls to ensure payments are properly supported and in compliance with federal requirements."

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Status of Resolution of Audit Findings

December 2011

Department of Transportation (DOT)

Agency: 405

Audit Report: 2010 F

Finding Number: 013

Finding: The Department of Transportation did not support over \$759,000 in payroll costs in accordance with federal regulations for the Formula Grants for Other Than Urbanized Areas.

Resolution: The Department is considered an innovative leader by the Federal Transit Administration (FTA) for its grant administration methods, which include administering a number of closely related grant programs.

In response to the initial audit finding for fiscal year 2009, the Department's Public Transportation Division developed and submitted a formalized direct payroll cost allocation plan to FTA (the Plan), known as a "substitute system," to meet federal regulations (OMB Circular A-87, 2CFR 225). Upon receipt of the Plan, FTA requested that the Department continue to allocate payroll costs under the current method, until such time as the new plan could be reviewed and approved. The Department complied with this request because the current allocation method had been approved by the FTA's Regional Office and to ensure continued federal grant funding.

Since the Plan was not reviewed by FTA during fiscal year 2010, the auditor was compelled to repeat the audit finding for 2010. The Plan was reviewed by the FTA, via a consultant, in January 2011 and a report was issued in June 2011. In June 2011, in response to this report, the Department's Public Transportation Division implemented the FTA recommendation of tracking and allocating direct payroll charges based on actual time worked, for an extended analytical period (four months or longer if required by FTA). Also per the FTA recommendation, the tracked data will be analyzed to substantiate the previous year's direct payroll allocations and be used as the basis for allocations moving forward through the 2011 - 2013 biennium.

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Status of Resolution of Audit Findings

December 2011

Department of Ecology (ECY)

Agency: 461

Audit Report: 2010 F

Finding Number: 014

Finding: The Department of Ecology does not have adequate internal controls to ensure it complies with suspension and debarment requirements.

Resolution: The Department respectfully disagrees with the finding that the Department does not have adequate internal controls to ensure it complies with suspension and debarment requirements. The Department agrees that it could update and enhance the suspension and debarment language in contract, grant, and loan documents.

Department contract, grant, and loan language requires subrecipients and vendors to certify they have not been suspended, debarred, or otherwise excluded from receiving federal funds. Department contract, grant, and loan agreements also require subrecipients and vendors to ensure all their subgrantees and subcontractors comply with the terms and conditions of the agreements. The Department believes this language is sufficient in communicating requirements to subrecipients. This is supported by the fact that there have been no substantiated violations in payments to suspended or debarred vendors.

That said, the Department has:

- Included current federal suspension and debarment language in all new contracts, grants, and loans effective April 1, 2011, or later.
- Updated all current agreements with end dates beyond June 30, 2011, to include current federal suspension and debarment language.
- Updated all active agreements funded by the American Recovery and Reinvestment Act to include current federal suspension and debarment language.

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Status of Resolution of Audit Findings

December 2011

Recreation and Conservation Funding Board (RCO)

Agency: 467

Audit Report: 2010 F

Finding Number: 004

Finding: The Recreation and Conservation Office did not comply with federal cash management requirements.

Resolution: The Recreation and Conservation Funding Board (Board) finalized the process of reviewing and updating policies and processes and is now in compliance with the federal requirements for cash advances to subrecipients. These modifications were effective August 14, 2010.

Currently, there are no federal cash advances that exceed the cash requirements for 30 days. With the updating of policies, the Board now requires subrecipients who receive cash advances to sign an agreement which details the advance policy and consequences for noncompliance.

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Employment Security Department (ESD)

Agency: 540

Audit Report: 1005008

Finding Number: 001

Finding: The Employment Security Department is not adequately verifying the on-going eligibility of some unemployment insurance claimants.

Resolution: In response to this finding, the Department has taken or will take the following actions:

In-person Review of Job Search Logs

Many of the issues identified by the auditor in this finding relate to the use of the internet by claimants to look for work. Job search regulations required information that was not available to these job seekers. As a result, the Department revised WAC 192-180-015 in June 2010. This WAC provides direction to unemployment insurance claimants on requirements for online job search efforts. As noted by the auditor, compliance with the revised WAC could not be verified during the fiscal year 2010 audit cycle.

In addition to the WAC change, the Department scheduled additional training for staff, supervisors and managers on how to properly conduct job search reviews, schedule follow-up reviews and handle noncompliant job search logs. These training efforts were completed by May 31, 2011.

Ongoing technical assistance is available to job search review staff, and all policy and training materials are available online for staff reference.

Central office program staff continues to perform regular monitoring of the job search review activity and provide timely feedback and technical assistance to field staff as needed.

Department monitoring efforts during fiscal year 2011 have determined these changes have significantly reduced job search review exceptions.

Job Search Log Verification

Revisions to WAC 192-180-015 also had an impact on the work search verification process. This WAC outlines the required documentation for job search activities where there is no direct contact between the employer and the claimant. Verification of claimant's work search efforts is difficult whether the work search is done in person, online or through the mail.

The Department's Work Search Verification staff will continue to review job search logs, attempt to verify work search and establish benefit eligibility issues for job search activities identified as unacceptable through the log verification process.

Benefit Accuracy Measurement Reviews

During the fiscal year 2010 audit period, staff in the unit was relatively new to their positions and the unit lacked a supervisor during much of that time. Staff in the unit have gained additional experience over the last year and have received additional training to

Status of Resolution of Audit Findings

December 2011

ensure completeness and accuracy of the Benefit Accuracy Measurement (BAM) audits they perform.

In addition to the increase in the level of staff experience, the unit also hired a new supervisor with extensive BAM experience to oversee the function and perform the necessary quality assurance reviews. These reviews have been implemented to ensure audits are compliant with U.S. Department of Labor (USDOL) requirements.

The Department discussed the issue of in-person employer contacts with the USDOL and obtained clarification that these contacts are not required.

Audit results from fiscal year 2011 show significant progress on BAM reviews has been made. However, additional improvements are still needed, and the Department is continuing to improve BAM processes to resolve issues raised by the auditor.

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Status of Resolution of Audit Findings

December 2011

Employment Security Department (ESD)

Agency: 540

Audit Report: 2010 F

Finding Number: 008

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

Resolution: During the fiscal year 2010 audit period, staff in the unit was relatively new to their positions. In addition, the unit lacked a supervisor during much of the audit period.

Over the last year, staff in the unit have gained additional experience and have received additional training to ensure completeness and accuracy of the Benefit Accuracy Measurement (BAM) audits they perform. Unit management also implemented weekly peer review sessions to enhance staff knowledge and communication.

In addition to the increase in the level of staff experience, the unit also hired a new supervisor with extensive BAM experience to oversee the function and perform the necessary quality assurance reviews. These reviews have been implemented to ensure audits are compliant with U.S. Department of Labor (USDOL) requirements.

The Department obtained clarification from USDOL that in-person employer contacts are not required.

Audit results from fiscal year 2011 show significant progress has been made; however, additional improvements are still needed.

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Status of Resolution of Audit Findings

December 2011

Employment Security Department (ESD)

Agency: 540

Audit Report: 2010 F

Finding Number: 009

Finding: The Employment Security Department did not comply with federal cash management requirements.

Resolution: The Department requested and received approval to change the draw method used for the Unemployment Insurance (UI) program to a more appropriate method in January 2011. This change is in effect for fiscal year 2011.

The Department performed an analysis of cash draws for the UI administrative grant for the audit period and found there were no interest earnings due to the federal government. The Department has addressed this finding with the U.S. Department of Labor, and they consider the finding resolved.

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Status of Resolution of Audit Findings

December 2011

Employment Security Department (ESD)

Agency: 540

Audit Report: 2010 F

Finding Number: 010

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

Resolution: Many of the issues identified by the auditor in this finding related to the use of the internet by claimants to look for work. Regulations for job search required information that was not available to these job seekers. As a result, the Department revised WAC 192-180-015 in June 2010. This WAC provides direction to unemployment insurance claimants on requirements for online job search efforts. As noted by the auditor, compliance with the revised WAC could not be verified during the fiscal year 2010 audit cycle. Department monitoring efforts during fiscal year 2011 have determined these changes have significantly reduced job search review exceptions.

In addition to the WAC change, the Department scheduled additional training for staff, supervisors and managers on how to properly conduct job search reviews, schedule follow-up reviews and handle non-compliant job search logs. These training efforts were completed by May 31, 2011.

Ongoing technical assistance is available to job search review staff and all policy and training materials are available online for staff reference.

Central office program staff continues to perform regular monitoring of the job search review activity and provide timely feedback and technical assistance to field staff as needed.

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Schedule 2 – Audit Reports by Topic

December 2011

TOPIC	REPORT NUMBER	PAGE
State of Washington State Grants	1006575	93
Audit of State Payments to Child Care Providers	1006484	95

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State of Washington State Grants

Report Number: 1006575

Objectives: In the absence of centralized guidance and criteria, are state agencies effectively managing state grants and are state agencies reimbursing grant recipients for unallowable or unsupported costs?

Summary: The state's accounting system does not specifically identify state grant expenditures. Instead, it includes them in an expenditure category entitled "other grants and benefits." The state also does not provide agencies with centralized grant management guidance.

The audit found significant differences in four agencies' grant management. Two agencies' practices led to questionable payments while other agencies were using best practices. For most programs reviewed, payments to grant recipients were allowable and supported. In instances where questionable payments were found, the agencies began to implement new policies and procedures during the audit to address the internal control weaknesses.

Recommendation: The auditors recommended that the Office of Financial Management:

- Develop a clear definition of state grants.
- Refine coding in the state's accounting system so it can identify and quantify state grant expenditures.
- Update the *State Administrative and Accounting Manual* or Internal Controls Resources website to include guidance on grants management to help ensure consistency.

Agency Response: The Office of Financial Management (OFM) agrees that statewide guidance on grants management could be improved. OFM has initiated research into best practices and made contact with the Washington Association of Contract Specialists (WACS). At the September 15, 2011, WACS meeting, OFM presented preliminary information on this state grants audit and asked for agency representatives to work on a statewide best practices workgroup to formulate guidance, develop tools, and identify resources for grants management which will be made available to all agencies on OFM's website.

Current plans are for the best practices workgroup to begin meeting early in 2012 and have guidance available on the website by July 2012. The workgroup will establish a working definition of grants for purposes of developing guidance and will address key areas of grants management such as risk assessment, monitoring, documentation and overhead allocation. Additionally, OFM will seek opportunities to share best practices such as trainings/presentations for state contracting, fiscal and program staff, and communications through email distribution groups and newsletters.

The coding elements and structure of the state's accounting system follow generally accepted accounting requirements. Object of expenditure classifies what good or service is being obtained. For instance, Object N is used for grants, benefits, and client services. The source of funding for the expenditure is captured through the use

Status of Statewide Accountability Reports

December 2011

of revenue source and expenditure authority type coding. The use of specific combinations of coding elements reasonably identifies state grant expenditures.

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Audit of State Payments to Child Care Providers

Report Number: 1006484

Objective: Are providers being overpaid for child care services?

Summary: The Working Connections Child Care Program overpaid providers more than \$2.6 million. The legitimacy of an additional \$241,000 in payments is questioned.

In April 2011, the number of families on the waiting list for the Working Connections Child Care Program was 3,295. Overpayments decrease the amount of resources available for eligible recipients.

Since the Working Connections Child Care Program is partially funded by federal dollars, the U.S. Department of Health and Human Services could recoup overpayments by the state.

Recommendation: The auditors recommended that the Department of Social and Health Services (DSHS) and Department of Early Learning (DEL):

- Pursue collection of identified overpayments made to child care providers.
- Follow up on provider licensing violations that were identified.
- Establish and follow internal controls to ensure documentation regarding registration fees is obtained and reviewed before payment is authorized.
- Ensure that they follow a new state law regarding tracking child care attendance by designing effective internal controls to prevent overpayments.

Agency Response: As the audit acknowledged, it takes significant time and resources to reconcile attendance records to invoices, and that must be balanced with the primary licensing focus of ensuring the safety of children while in care. However, licensors will be notified when specific issues arise in a time and attendance audit, so they may follow up with a licensing complaint inspection.

A new law enacted in 2011 requires DEL and DSHS to identify different options to track subsidized child care attendance by December 31, 2011. Because of a conflict between this law and the budget bill, funds have not been released to begin implementation of a new attendance tracking system. The tentative date for funds to be released is June 2012. Plans call for the new system to incorporate internal controls to assure program integrity. This solution, when implemented, holds the greatest promise for preventing fraud and abuse.

The majority of overpayments noted in the audit reflect the 3-month review of records conducted by the auditors (February – April 2010). The vast majority of the calculated overpayments (\$2.0 million of the \$2.6 million total overpayments) are from a 7-year extrapolation based on one provider's failure to produce records for that period. This case is being thoroughly investigated by the Departments.

Additionally, the DSHS Office of Fraud and Accountability and its Economic Services Administration, with assistance from DEL, initiated action to recover more than \$426,000 in overpayments from 19 providers identified in the audit. Another 10

Status of Statewide Accountability Reports

December 2011

providers are under review for possible criminal action. More recoveries could be made based on the outcome of ongoing investigations.

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Schedule 3 – Fraud Findings by Agency

December 2011

AGENCY NUMBER	AGENCY	AUDIT NUMBER	FINDING NUMBER	PAGE
360	University of Washington	1006178	001	99

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Status of Resolution of Reported Fraud Findings

December 2011

University of Washington (UW)**Agency: 360****Audit Report:** 1006178**Finding Number:** 001**Finding:** An employee at the University of Washington misappropriated \$252,059 in public funds between June 2008 and April 2010.**Fraud Amount:** \$252,059**Recovery to Date:** \$190,353**Resolution/Status:** Upon becoming aware of the potential loss of public funds, the University notified the State Auditor's Office. The University's investigation revealed that the former employee of the University of Washington Medical Center (UWMC) misappropriated funds using the procurement card (ProCard), corporate travel card and unearned leave.

The UWMC instituted an additional level of review of the ProCard and travel purchases by department personnel to ensure purchases are properly supported and document a valid business purpose. More robust online Procard reports have been developed and rolled out for better monitoring of expenses. These reports are easily accessible and are available to all relevant department fiscal staff. In addition, UWMC Accounting hired an internal control analyst who is responsible for conducting periodic examinations of medical center ProCard and travel expenses to ensure compliance with policies and procedures.

UWMC developed medical center specific ProCard training which has been rolled out to all departments. In addition, all current and prospective cardholders and account reconcilers are required to complete periodic online training and pass a quiz to demonstrate sufficient knowledge of ProCard policies and procedures. UWMC complies with University policies regarding travel approvals and maintenance of supporting documentation.

In May 2010, UWMC developed a standard UW Medicine Health Systems Time-Off Request Form and communicated standards for leave reporting documentation, retention and reconciliation to time sheets to all departments.

Personnel Action Taken: The employee was terminated on May 11, 2010.**Criminal Action Taken:** The case was referred to the King County Prosecutor's Office. The King County case number is 111029278. The sentencing is scheduled for December 2011.**Amount to be Recovered:** \$255,011 (\$252,059 misappropriation plus \$2,952 audit costs)

Status of Resolution of Reported Fraud Findings

December 2011

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Schedule 4 – Special Reports by Agency

December 2011

AGENCY NUMBER	AGENCY	REPORT NUMBER	PAGE
103	Department of Commerce	1004595	103

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Report Number: 1004595

Investigation Overview: On October 17, 2007, the Department of Commerce signed a \$2.3 million grant contract with a non-profit housing organization for the purchase of five parcels of land for the Hilltop Renaissance Community project in Tacoma. The contract was later amended to add additional funds to be used for architectural and engineering services, demolition, site preparation, construction management and equipment costs. The Department also awarded a \$400,000 loan to the non-profit through the Brownfields Program for cleanup of hazardous waste located on the property.

In August 2009, the Department became aware that the Executive Director and Chief Financial Officer of the non-profit had left the organization. The Department hired a certified public accountant (CPA) to determine if the non-profit had used the grant money in accordance with the terms of the contract. The CPA reviewed the financial records of the non-profit and the records of a subsidiary organization owned by the non-profit. The CPA found that the non-profit was either overpaid or mis-used funds totaling \$1.8 million. On October 8, 2009, the Department notified the State Auditor's Office (SAO) of the potential loss of public funds.

Using the work of the CPA, SAO determined that the Department had overpaid the non-profit \$1.8 million. The overpayment resulted from a lack of internal controls to ensure all contractor costs are allowable and funds used as intended.

Recommendation: The auditors recommended that the Department:

- Perform on-site financial reviews for all state and federal contracts to ensure information contractors report is accurate and grant money is used as intended. The information should be kept in accordance with records retention schedules.
- Additionally, all state and federal non-financial reviews such as on-site inspections to determine project completion status should be documented to support project costs.
- Ensure its programs communicate payment information to each other in instances in which they provide the same type of services.
- Consult with its legal counsel and determine how to recover the almost \$1.8 million owed to the state.
- Consult with its federal grantor to determine what actions should be taken regarding the \$50,380 brownfields loan payment.

Agency Response: The Department first became aware of the problems with the Hilltop Renaissance Community project in August 2009 and took immediate action to minimize risk for future capital projects. The Department agrees with the auditor's recommendations and has initiated corrective action, as follows:

Perform on-site financial reviews for all state and federal contracts. The Department currently performs on-site financial reviews for most of its state and federal contracts. The Community Services and Housing Division has implemented new standards for programs that perform project monitoring. Programs have agreed to standardized letters, communication with fund recipients, monitoring terms, checklists and follow-up procedures.

Document all state and federal non-financial reviews. All of the programs in the Community Services and Housing Division that involve capital expenditures perform on-site non-financial reviews, either during the project or after project completion. Some perform the non-financial review at the same time as the financial review, while others perform them separately depending on the timing and program requirements. The Department will determine how to improve non-financial reviews and what supporting information is appropriate to inspect and retain concerning project completion and expenditure of funds.

Ensure programs communicate payment information to each other. The Community Services and Housing Division now has quarterly meetings to discuss contractor risk issues across programs. Programs from other parts of the agency are included as appropriate.

Consult with legal counsel and determine how to recover the almost \$1.8 million owed to the state. The Department has been working with legal counsel over the past year to determine the best course of action to recover the funds. The Department has also been discussing several options with the non-profit to help them meet the original legislative intent and recover the funds.

Consult with federal grantor regarding the brownfields loan payment. The Department continues to keep the Environmental Protection Agency (EPA) Region 10 brownfields program manager updated about the status of the defaulted brownfields loan. Currently, EPA is allowing the Department to manage the negotiation. Loan cost recovery could potentially come through the non-profit or another party that acquires the cleaned property. The brownfields loan is secured by a first lien position on two of the project parcels.

In addition to the corrective action noted above, the Department commissioned an independent review and made changes to its Capital Programs contracting processes and documentation requirements for capital projects of \$250,000 or more that involve non-profits.

For non-profit projects that involve the acquisition of real property, construction, or major renovations, the Department requires a deed of trust and promissory note that favors the Department for a period lasting at least ten years following the date of the last payment of the grant. The deed of trust must be recorded in the county where the project is located and the original returned to the Department before any project funds will be released.

Additionally, Capital Project contractors must purchase an extended coverage lender's policy of title insurance insuring the Department lien position of the deed of trust in an amount not less than the amount of the grant.

Existing Capital Programs contract provisions relating to the establishment of property values have been amended as follows:

- When property is purchased from an independent third-party seller, the value of the property shall be evidenced by a current appraisal prepared by a licensed Washington state commercial real estate appraiser.

- When property is purchased from a non-profit's subsidiary organization, such as an affiliated LLC, the value of the property shall be evidenced by a current appraisal prepared by a licensed Washington state commercial real estate appraiser or the prior purchase price of the property plus holding costs, whichever is less.

Contracts are now required to contain a provision that enables the Department to recapture all funds disbursed under a Capital Programs contract in the event a grantee fails to perform in accordance with state or federal laws or any of the terms and conditions of the subject contract. Additionally, the Department can recover all contract funds disbursed to grantees when there is evidence of fraud or misrepresentation.

The Department also modified billing procedures to prevent double billings and nonpayment of vendors. In addition to providing proof that grantees have incurred project costs, Capital Programs now require that grantees submit proof that the vendors have actually been paid at the time the voucher is initially submitted or within 30 days thereafter.

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