

STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

# 2015 Audit Resolution Report

ACCOUNTING DIVISION  
DECEMBER 2015



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STATE OF WASHINGTON  
OFFICE OF FINANCIAL MANAGEMENT

# 2015 Audit Resolution Report

ACCOUNTING DIVISION  
DECEMBER 2015

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STATE OF WASHINGTON

# AUDIT RESOLUTION REPORT

December 2015

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**THIS REPORT SUMMARIZES** the status of corrective actions taken by state agencies, in conjunction with the Office of Financial Management (OFM), to resolve exceptions to specific expenditures or financial transactions reported in audits performed under RCWs 43.09.310 and 43.09.340.

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

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

This report summarizes the status of resolution of audit exceptions reported in conjunction with individual agency post audits and the statewide single audit, as well as other special State Auditor's Office (SAO) reports. These reports were issued between November 1, 2014, and October 31, 2015.

The audit reports issued during that period include:

- 55 federal compliance findings
- 13 non-federal findings
- 3 findings of fraud

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

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**Schedule 1 – Audit Findings by Agency**

December 2015

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**Schedule 1 – Audit Findings by Agency**

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2014 F = Statewide Single Audit Report

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**Department of Commerce (COM)**

**Agency: 103**

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**Audit Report:** 2014 F

**Finding Number:** 005

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

**Resolution:** The Department concurs with the finding. On an ongoing basis, the Department's Accounting Office will:

- Identify the balance in the HOME program income account at a minimum of twice a month which coincides with performing the federal draws.
- Draw program income prior to drawing federal funds.
- Require approval of the federal draw and the HOME program income payment by the supervisor who oversees banking authorizations.
- Require approval of the HOME program income account bank reconciliation by the accounting manager.

The Department evaluated the current process and implemented new procedures. Specifically, the Department's Accounting Office:

- Updated the desk manual for HOME program income and federal draws to include the process identified above.
- Developed and maintains a register showing the deposits made to the HOME program income account.

The Department determined the interest earned on this account for fiscal year 2014 was \$101 and is working with the Federal granting agency with regard to its disposition.

**Completion Date:** June 2015, subject to audit follow-up

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## Status of Audit Resolution

December 2015

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Department of Commerce (COM)

Agency: 103

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**Audit Report:** 2014 F

**Finding Number:** 006

**Finding:** The Department of Commerce does not have adequate internal controls to ensure subrecipients spending \$500,000 or more in total federal dollars obtain audits as required.

**Resolution:** The Department concurs with the finding. The fiscal year 2014 audit recommends the Department ensure that its existing audit policy and procedures are clearly communicated, understood, and followed by staff.

During fiscal year 2014, the Internal Auditor began running reports through the Contract Management System to identify subrecipients that received less than \$500,000 from the Department and may have received federal funding from other sources. Once identified, the Internal Auditor emails grantees. Grantees are required to send either their federal audit or an Audit Verification Form indicating they do not exceed the threshold requiring an audit.

The Department drafted new policies and procedures to articulate roles and responsibilities for the new process. The Department's policy committee reviewed the new policies and procedures, and communicated to all levels of the agency.

**Completion Date:** August 2015, subject to audit follow-up

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## Status of Audit Resolution

December 2015

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Department of Commerce (COM)

Agency: 103

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**Audit Report:** 2014 F

**Finding Number:** 007

**Finding:** The Department of Commerce does not have adequate internal controls to ensure reports required by the Federal Funding Accountability and Transparency Act for the Crime Victim Assistance Program are filed accurately.

**Resolution:** The Department concurs with the finding. The Department streamlined the process and created a procedure to ensure all Federal Funding Accountability and Transparency Act (FFATA) reports are submitted properly and timely. In August 2015, FFATA training was provided to Department staff.

The Department established a new process to include a secondary review. Administrative support staff enters the information into the FFATA Subaward Reporting System and a program manager reviews and submits the report. In addition, the federal grantor must enter the grant into the system before the Department is able to enter the necessary information. When the Department is unable to enter the information before the deadline, the program documents the inability to enter it with screen shots of the system and email correspondence with the federal program manager.

The Department also ensures that it reports subawards made by other Washington state agencies.

**Completion Date:** May 2015, subject to audit follow-up

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**Status of Audit Resolution**

December 2015

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**State Health Care Authority (HCA)**

**Agency: 107**

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**Audit Report:** 2014 F

**Finding Number:** 029

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

**Resolution:** As of February 2014, the Authority followed up on all 183 clients identified in the finding and either closed their coverage or updated the case with the correct Social Security number. In addition, staff began following the Authority's verification process that aligns with Center for Medicare and Medicaid Services guidance to ensure follow-up is performed on missing or unmatched Social Security numbers.

The Authority is working with the U.S. Department of Health and Human Services to determine if questioned costs should be repaid.

**Completion Date:** March 2015, subject to audit follow-up

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**State Health Care Authority (HCA)**

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**Agency: 107****Audit Report:** 2014 F**Finding Number:** 030**Finding:** The Health Care Authority improperly claimed federal reimbursement for non-emergency services provided to nonqualified aliens and for payments made on behalf of deceased Medicaid clients.**Resolution:** As of February 2015, the Authority reviewed all payments identified by the auditor as paid on behalf of deceased persons, and is proceeding with recoupment of those claims.

The Authority will continue regular matches to the Department of Health death data and will continue to refine the processes to capture this information for timely recoveries.

The Authority reviewed and corrected the services improperly rendered for non-qualified aliens as identified by the auditor. As of February 2015, the Authority refined processes to avoid these improper approvals, and implemented processes to review alien emergency medical claims timely and correct all cases of inappropriate payment.

The Authority is working with the U.S. Department of Health and Human Services to determine if questioned costs should be repaid.

**Completion Date:** March 2015, subject to audit follow-up**Agency Contact:** Kathy E. Smith  
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**Status of Audit Resolution**

December 2015

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**State Health Care Authority (HCA)**

**Agency: 107**

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**Audit Report:** 2014 F

**Finding Number:** 031

**Finding:** The Health Care Authority did not seek reimbursement for all eligible Medicaid outpatient drug rebate claims.

**Resolution:** Staff have identified the steps necessary to include Medicare crossover claims which are eligible for Medicaid drug rebate invoicing. Testing of the new invoicing process began in March 2015, with a target implementation date of March 2016.

Currently, family planning providers' claims for certain family planning drugs are excluded from drug rebates due to past system limitations. The Authority is developing an action plan to reverse the exclusion and notify impacted providers. The first phase of the reconfiguration was implemented in May 2015, with final completion by December 2015.

The exception noted related to other eligible professional and outpatient claims that were excluded was corrected by changing the timing of certain vendor claim payment interfaces.

The Authority is working with the U.S. Department of Health and Human Services to determine if questioned costs should be repaid.

**Completion Date:** Corrective action is expected to be complete by March 2016.

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**State Health Care Authority (HCA)**

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**Agency: 107**

**Audit Report:** 2014 F

**Finding Number:** 032

**Finding:** The Health Care Authority made improper Medicaid inpatient high outlier payments to hospitals.

**Resolution:** The Authority changed WAC 182-550-3700 (1) (b) and the payment system to align with the auditor's calculation methodology. Changes were effective July 1, 2014.

The Authority corrected the four high outlier payments identified by the auditor that were paid with an incorrect diagnosis-related group conversion factor. This correction was completed by May 1, 2015.

The Authority reallocated the inpatient program workload in order to allow additional capacity for monitoring system and rate changes. All changes are now reviewed by Authority staff for accuracy.

The Authority is working with the U.S. Department of Health and Human Services to determine if questioned costs should be repaid.

**Completion Date:** May 2015, subject to audit follow-up

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**State Health Care Authority (HCA)**

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**Agency: 107****Audit Report:** 2014 F**Finding Number:** 033**Finding:** The Health Care Authority made overpayments to providers for Medicaid dental services.**Resolution:** As of May 2014, the Authority revised WAC 182-535-1082 to clarify when fluoride treatments are covered, and revised WAC 182-535-1080 to clarify when comprehensive and periodic oral evaluations are covered. The WACs are now consistent with the Medicaid State Plan and the Medicaid Provider Guide.

The Authority updated the automated controls in the ProviderOne payment system to incorporate edits needed to ensure payments are consistent with state rules and the Medicaid State Plan. These system edits will prevent payments when the allowable number of comprehensive or periodic oral evaluations has been exceeded.

The Authority is working with the U.S. Department of Health and Human Services to determine if questioned costs should be repaid.

**Completion Date:** February 2015, subject to audit follow-up**Agency Contact:** Kathy E. Smith  
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## Status of Audit Resolution

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**State Health Care Authority (HCA)**

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**Agency: 107**

**Audit Report:** 2014 F

**Finding Number:** 034

**Finding:** State law requiring Medicaid data exchanges with health insurers is not being followed.

**Resolution:** Since February 2011, the Authority has been contracting with Health Management System Inc. (HMS) to provide supplemental identification of third party liability (TPL) insurers not previously identified. HMS leverages their expansive carrier network to match Medicaid data with third party coverage; their National Eligibility Database contains over one billion health insurance coverage records, including more than 5.4 million, or 89 percent, of Washington residents. The contract with HMS supplements the Authority's data matching capabilities and further ensures compliance with applicable state law.

The Authority implemented the Payer Initiate Eligibility/Benefit Transaction data-sharing format in July 2013, and is actively working with three major insurers in Washington to participate in electronic sharing of TPL data.

The Authority will contact the Office of Insurance Commissioner and the Office of Financial Management to discuss options for enhancing direct insurer participation.

**Completion Date:** October 2015, subject to audit follow-up

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**Status of Audit Resolution**

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**State Health Care Authority (HCA)**

**Agency: 107**

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**Audit Report:** 2014 F

**Finding Number:** 035

**Finding:** The Health Care Authority did not properly calculate a Medicaid Electronic Health Record incentive payment.

**Resolution:** Hospital payouts occur over a four-year period. When this issue was identified by the auditors, the hospital identified in the finding had not yet received its final payment. The calculation was revised and the correct payment to the hospital was made in February 2015, when the final payment of the four-year period was due.

**Completion Date:** February 2015, subject to audit follow-up

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**Status of Audit Resolution**

December 2015

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**State Health Care Authority (HCA)**

**Agency: 107**

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**Audit Report:** 2014 F

**Finding Number:** 036

**Finding:** The Health Care Authority made improper payments to Medicaid Federally Qualified Health Center providers.

**Resolution:** As of October 2015, the Authority's Office of Medicaid Systems and Data implemented system updates that will help prevent overpayments. The system edits will eliminate duplicate payments for fee-for-service claims in addition to encounter payments, and paying for ineligible encounter claims.

The third exception noted in the finding, paying for more than one encounter payment for the same client, was an isolated issue not related to a system-wide defect. The Authority corrected this issue, and as of February 2015, collected the associated overpayment of \$4,188.07.

The Authority initiated action through the Office of Payment Integrity to recoup the remaining payments made in error discovered in this audit.

The Authority is working with the U.S. Department of Health and Human Services to determine if questioned costs should be repaid.

**Completion Date:** October 2015, subject to audit follow-up

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**Status of Audit Resolution**

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**State Health Care Authority (HCA)**

**Agency: 107**

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**Audit Report:** 2014 F

**Finding Number:** 037

**Finding:** The Health Care Authority improperly claimed Children's Health Insurance Program federal funds for eligible Medicaid expenditures.

**Resolution:** With the implementation of the Affordable Care Act (ACA) in October 2014, Children's Health Insurance Program eligibility is now determined in accordance with ACA rules. The Authority has a new eligibility service which corrected the issue identified in the finding by no longer rounding down income determinations.

The Authority returned the \$6,428 in overdrawn funds noted in the finding to the federal government.

The Authority is working with the U.S. Department of Health and Human Services to determine if the remainder of the questioned costs should be repaid.

**Completion Date:** March 2015, subject to audit follow-up

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**Status of Audit Resolution**

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**State Health Care Authority (HCA)**

**Agency: 107**

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**Audit Report:** 2014 F

**Finding Number:** 038

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

**Resolution:** In May 2014, the Authority hired an employee to work on final settlements. All 98 settlements identified in this audit were completed before December 31, 2014. In addition, 23 hospitals not identified in this audit had final settlements completed by December 31, 2014.

The Authority also took the following actions to strengthen internal controls to ensure all Critical Access Hospitals' (CAH) costs are settled timely:

- CAH program staff now review the federal Hospital Cost Report Information System for finalized cost reports on a monthly basis and initiate the reports for final settlement.
- The CAH settlement process was revamped to ensure efficient and accurate final settlements.

**Completion Date:** December 2014, subject to audit follow-up

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**Status of Audit Resolution**

December 2015

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**State Health Care Authority (HCA)**

**Agency: 107**

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**Audit Report:** 2014 F

**Finding Number:** 039

**Finding:** The Health Care Authority did not have adequate controls in place to investigate Medicaid services verification surveys returned in a foreign language.

**Resolution:** The Authority acknowledges the lack of oversight related to following up on returned medical surveys written in a foreign language, and arranged to use professional translation services to follow up on negative survey responses written in a foreign language.

**Completion Date:** February 2015, subject to audit follow-up

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**Board for Volunteer Firefighters and Reserve Officers (BVFFRO)**

**Agency: 220**

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**Audit Report:** 1013186

**Finding Number:** 001

**Finding:** The Board for Volunteer Fire Fighters and Reserve Officers does not have adequate controls over its cash receipting and pension tracking system.

**Resolution:** The Board agrees that a segregation of duties is important when receipting and depositing. The Board feels adequate controls over its cash receipting and pension tracking system are in place. The Board follows guidance included in the *State Administrative and Accounting Manual (SAAM)* Chapter 20 to mitigate any potential shortcomings including authorization, review and approval, verification, reconciliation, physical security, education, training, and coaching. While a segregation of duties may be the ideal control activity, it is not the only control activity recognized in SAAM. Where the Board has been unable to segregate duties sufficiently due to staffing limitations, it has worked hard to implement other control activities.

The Board agrees that the pension tracking system is outdated, which is the cause of most issues identified in the finding. The Board is currently working on a decision package to seek funding for a study to replace the aging system. Until the Legislature gives approval for a new system, the Board will work with contractors to set up additional controls within the current system. Specifically, the Board will work with the contractor to develop better reports within its tracking software to better monitor additions, edits, or deletions to the pension database, including any changes made to the receipt table.

The Board does not agree with the auditor's recommendation to reconcile receipts in the database to deposit amounts in the state's Agency Financial Reporting System (AFRS). The Executive Secretary reconciles each deposit made with receipts entered in AFRS on a daily basis, which has been the process for several years. The Board understands the auditor's concern that a receipt can be added or changed after the daily reconciliation takes place. As mentioned above, the Board will address this concern through the development and monitoring of a change report.

The Board already had written policies and procedures in place regarding the pension database which are included in the employee handbook.

The Board also concurs that Human Resource Management System (HRMS) and the pension tracking system do not reconcile. The pension tracking system was developed to track the service time that members accumulate to become eligible for pensions. It was not built to track pension payments. The Board believes that the auditor's concern stems from the risk that staff could create a retirement pension within HRMS without approval. To address this risk, the Board is working on identifying a report within HRMS that can be used to monitor any additions and changes made within the system which can be compared to additions within the pension database to ensure only approved pensions are being added to HRMS.

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As of October 2014, the Board contracted with the U.S. Department of Commerce to verify the eligibility of all benefit recipients against the Social Security Death Master Index File on a monthly basis. This process ensures that the Board can identify members that have passed away and cease any further pension payments in a timely fashion.

As of November 2014, the Board began validating all members' Social Security Numbers prior to payment of benefits. This allows the Board to verify that only members with valid Social Security Numbers that match federal records of names and dates of birth are paid benefits.

**Completion Date:** Corrective action is expected to be complete by December 2016.

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**Department of Labor and Industries (L&I)**

**Agency: 235**

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**Audit Report:** 1014618

**Finding Number:** 001

**Finding:** The Department lacks adequate internal controls over payments for interpretive services.

**Resolution:** As of October 2014, the Department requested an internal audit consultation to assess and implement the following:

- A new process to conduct a monthly post audit of interpreter bills which includes the ten highest dollar amount billed interpreters and ten random interpreters.
- The use of the Department of Social and Health Services provider number as the sole provider number.\*
- Gathering information and conducting analysis of results from the new processes identified above to provide additional recommendations as needed.

\* NOTE: The Department is gathering data for analysis on the best ways to approach the issue of identifying a sole provider number that will allow the program to accurately identify individual providers on reports. The program is evaluating further options.

As of November 2014, a service request was completed to deny bills in excess of 480 minutes.

Beginning in November 2014, on a monthly basis, the Department conducts post pay audits on interpreters.

As of September 2015, the Department created a new Interpretive Service Appointment Record (ISAR) form including:

- New language with legally binding content on the signature line the provider uses.
- A time field to delineate services provided on the same day.
- A requirement that interpreters use a single official Department provided form, rather than multiple provider created forms.

The Department conducted interpreter billing workshops to inform interpreters of the changes to documentation, billing requirements, and dates of implementation.

As of October 2015, the Department made the following system changes:

- Added Optical Character Recognition software, which enhances information recognition, gathering, and appropriate action.
- Prevented payments unless an ISAR form is submitted with the billing.
- Suspended payments for ten business days if the ISAR form was not submitted, then denying the payment after 10 days.
- Verified information on the ISAR form matches the billing information.
- Required signatures from the interpreter and the provider verifying the services rendered.
- Required that each ISAR form list only one transaction/appointment in order to identify duplicate payments.

## Status of Audit Resolution

December 2015

- Allowed the Medical Information Payment System and the Organized Information Online systems to communicate, checking for billing time/date and claim information.
- Added system checks for previous versions of documentation and identification of attached ISAR to eliminate the need for post pay review audits.

Strategies to prevent interpreters from having multiple numbers and preventing duplicate payments using different provider numbers will be determined with anticipated implementation by June 2016.

**Completion Date:** June 2016, subject to audit follow-up

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## Status of Audit Resolution

December 2015

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**Military Department (MIL)**

**Agency: 245**

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**Audit Report:** 2014 F

**Finding Number:** 004

**Finding:** The Military Department did not maintain required documentation for payroll costs charged to the National Guard Program.

**Resolution:** The manager identified in the finding revised his time sheets previously submitted to reflect the actual time worked on the grant. The manager continues to prepare time sheets for each pay period per agency policy, which the supervisor subsequently reviews. This process will continue as long as the manager works on the grant.

The current policy is very clear on when employees are to submit time sheets and the supervisors' responsibility to ensure time sheets are accurate and submitted timely. The Payroll Administrator reviews payroll reports on a quarterly basis to ensure time sheets or certificates are submitted.

The Department contacted the United States Property and Finance Office to determine if the state will be required to repay the questioned costs. It was determined that the federal government received the benefits of the time charged by the manager and that repayment of funds would not be required.

**Completion Date:** June 2014, subject to audit follow-up

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**Status of Audit Resolution**

December 2015

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**Military Department (MIL)**

**Agency: 245**

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**Audit Report:** 2014 F

**Finding Number:** 055

**Finding:** The Military Department does not have adequate internal controls to ensure reports required by the Federal Funding Accountability and Transparency Act for the Homeland Security and Fire Management Assistance Grant Programs are filed accurately.

**Resolution:** The Department concurs with the finding. The Department modified procedures and communicated the revisions to responsible individuals to ensure all subawards are complete and accurate when reported. Federal Funding Accountability and Transparency Act reports are reviewed by the Contracts Office Supervisor, and the funding amount is confirmed by program managers.

**Completion Date:** January 2015, subject to audit follow-up

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## Status of Audit Resolution

December 2015

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**Military Department (MIL)**

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**Agency: 245**

**Audit Report:** 1014540

**Finding Number:** 001

**Finding:** The Military Department does not have adequate internal controls over payments for the Washington State Enhanced 911 services program.

**Resolution:** Beginning in fiscal year 2014, the State Enhanced 911(E911) Coordinator's Office began analysis of all E911 telecommunications billing to align individual vendor line item costs with authorized and validated network components. To date, the Department identified and communicated numerous billing discrepancies to multiple vendors as a result of this new process. The Department remains in negotiations with vendors to recoup all identified overcharges and authorized interest penalties. The Department continues to track and rectify all billing discrepancies as they are identified.

Additionally in fiscal year 2014, the Department recruited additional technical and fiscal staff to manage all aspects of E911 telecommunications billing including implementing sufficient internal controls and ongoing tracking of network and service changes. Currently, the E911 Office is developing detailed written procedures to ensure continuity of the ongoing invoice review processes already underway.

To date, the Department implemented all recommendations presented by the auditor. Specifically, the Department:

- Requires staff with adequate technical knowledge of the E911 statewide services to review invoices ensuring charges are accurate and approved prior to making payments.
- Tracks and monitors changes made to the contract, services, or equipment.
- Notifies telecommunications companies promptly when services are no longer needed.
- Improved written policies and procedures detailing the E911 invoice review process.

**Completion Date:** June 2015, subject to audit follow-up

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**Status of Audit Resolution**

December 2015

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

**Agency: 300**

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**Audit Report:** 2014 F

**Finding Number:** 018

**Finding:** The Department of Social and Health Services does not have adequate internal controls to ensure reports required by the Federal Funding Accountability and Transparency Act for the Substance Abuse and Mental Health Services Projects of Regional Significance programs are filed accurately.

**Resolution:** By December 2015, the Department's Budget and Finance Director for the Behavioral Health and Service Integration Administration will:

- Develop policies and procedures incorporating strong internal controls to collect information on each subaward or amendment of \$25,000 or more in federal funds and report in the Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System.
- Develop and maintain a tracking methodology and validation procedure to ensure reports are submitted timely and properly completed in accordance with FFATA requirements.

**Completion Date:** Corrective action is expected to be complete by December 2015.

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**Status of Audit Resolution**

December 2015

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

**Agency: 300**

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**Audit Report:** 2014 F

**Finding Number:** 019

**Finding:** The Department of Social and Health Services does not have adequate internal controls in place to ensure subrecipients of the Block Grants for Prevention and Treatment of Substance Abuse and Substance Abuse and Mental Health Services Projects of Regional Significance programs receive required audits.

**Resolution:** In April 2015, the Department's Behavioral Health and Service Integration Administration's accounting section began tracking subrecipients requiring audits.

By December 2015, the Department will:

- Conduct follow-up telephone interviews or on-site visits with subrecipient contractors, as appropriate, when findings are reported to ensure corrective action plans are followed. Follow up is documented in the subrecipient tracking system.
- Coordinate with the Department's Office of Indian Policy to make sure the 25 tribal subrecipients comply with audit requirements and properly report the federal funds received from the Department.

**Completion Date:** Corrective action is expected to be complete by December 2015.

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**Status of Audit Resolution**

December 2015

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

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**Audit Report:** 2014 F

**Finding Number:** 020

**Finding:** The Department of Social and Health Services did not have adequate internal controls over, and was not compliant with its required collection of Data Universal Numbering System (DUNS) numbers from subrecipients under the Block Grants for Prevention and Treatment of Substance Abuse and Mental Health Services Projects of Regional Significance programs.

**Resolution:** In February 2015, the Department developed policies, procedures and internal controls to obtain Data Universal Numbering System (DUNS) numbers from subrecipients prior to making subawards in accordance with federal requirements. Until a permanent change to the Department's contractor database is made, DUNS numbers will be recorded in the special terms and conditions of all applicable contracts.

In April 2015, the Department developed the appropriate training and checklists to ensure all employees responsible for collecting and documenting DUNS numbers are aware of and comply with the federal requirements.

**Completion Date:** April 2015, subject to audit follow-up

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

**Agency: 300**

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**Audit Report:** 2014 F

**Finding Number:** 021

**Finding:** The Department of Social and Health Services does not have adequate internal controls to ensure only eligible refugees receive Refugee Cash Assistance.

**Resolution:** The Department concurs with this finding. The Department has taken the following actions.

As of January 2015, an automated system was implemented to track employment referrals, and work and training activities for clients applying for Refugee Cash Assistance (RCA).

As of February 2015, the Department began providing staff with a listing of new clients receiving RCA funds. Staff use the list to ensure eligibility was accurately determined for clients receiving assistance. Since implemented this is an ongoing task.

In March 2015, the Department:

- Provided annual refresher training to all staff who determine client eligibility for RCA. The training is meant to reinforce internal controls for proper enrollment in RCA.
- Reviewed all clients who received RCA during the audit period to ensure eligibility was accurately determined. All errors were corrected.

In May 2015, the Department:

- Began generating a monthly report to track the enrollment and participation of RCA clients. Program managers use the report to work with their supervisor to ensure clients register for employment or training programs. If clients are not enrolled in required programs, action will be taken to correct the situation.
- Trained staff on the new employment referral, and work and training activity tracking system.

If the U.S. Department of Health and Human Services contacts the Department regarding questioned costs that should be repaid, the Department will confirm these costs and will take appropriate action.

**Completion Date:** May 2015, subject to audit follow-up

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**Status of Audit Resolution**

December 2015

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

**Agency: 300**

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**Audit Report:** 2014 F

**Finding Number:** 022

**Finding:** The Department of Social and Health Services improperly charged grant expenditures prior to the start of the grant's period of availability.

**Resolution:** The Department contacted the federal granting agency and had additional discussions about this finding. The Department now concurs with this finding and corrected the issue. The program moved the improperly charged grants expenditures back to the 2013 grant. The program will ensure that, during federal fiscal year roll over, schedules are left in the Cost Allocation Plan for liquidation of previously accrued transactions.

**Completion Date:** May 2015, subject to audit follow-up

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

**Agency: 300**

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**Audit Report:** 2014 F

**Finding Number:** 026

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

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

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

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

DEL is working with the Legislature and the Office of the Chief Information Officer to establish funding to implement a cloud-based, Software as a Service solution for an electronic time, attendance, and payment system for Working Connections Child Care and Seasonal Child Care subsidy attendance and billing that will interface with the eligibility system. This system will provide mobile access for parents/guardians to check children in/out of early learning programs, and an online portal to review documents, attendance records, and submit electronic invoices.

The purpose of an electronic time, attendance, and payment system is to reduce errors in subsidy payments through a single cohesive subsidy system. Most child care providers currently keep attendance records on paper and dial in their invoice via phone. State child care eligibility workers use multiple systems to determine eligibility and make payments. The current way of doing business offers many chances for errors and overpayments. The new system will tie together attendance, authorized care, and payment records thereby strengthening internal controls, reducing the number of overpayments, and reducing recovery costs expended by the state.

The Department and DEL have or will implement the following child care program reform initiatives\*:

- In May 2015, the Department implemented child care verification requirements at the time of application, through certification period, and at recertification. In addition, the Child Care Subsidy Program handbook was updated. A memo was sent to staff informing them of the changes which were implemented.

## Status of Audit Resolution

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- By February 2016, the Working Connections Automated Program screens, which are part of the eligibility system, will be updated so they are more user friendly and provide more accuracy in the eligibility determination process.

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

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

- 1.6 percent of open authorizations are audited monthly.
- 100 percent of exceptional payment authorizations are audited to ensure they are reviewed and approved by a supervisor before payments are made. An example of an exceptional payment is when a child requires, and is authorized for, more than 230 hours of care per month due to extenuating circumstances such as a parent with multiple approved activities (school and work, etc.).
- 100 percent of preauthorization and post authorization work for all new child care workers are audited.

Data is provided monthly by the Health Care Authority which identifies error prone cases to audit for eligibility and areas where policy clarification, training, or systems support can increase accuracy.

DEL established a specialized child care audit team in January 2012. The audit team is tasked with reviewing time and attendance records and provider payments. DEL hired five additional auditors in January 2013, increasing the audit team to nine members. The audit team increased the population of authorized payments reviewed for payment and billing accuracy. DEL currently randomly selects attendance record audits within four to six months of the end of the payment month.

**Completion Date:** Corrective action is expected to be complete by April 2016.

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

**Agency: 300**

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**Audit Report:** 2014 F

**Finding Number:** 027

**Finding:** The Department does not have adequate internal controls over, and was not compliant with, foster care payment rate setting and application requirements for the Foster Care program.

**Resolution:** The Department does not concur with this finding. The review of regular rate reviews and sufficiency required by the Office of Management and Budget (OMB) took place under guidance from the Administration for Children and Families (ACF) and is a new test as a part of the 2014 Statewide Single Audit. The Department's Children's Administration (CA) describes the approach to establish rates in its Title IV-E plan, which is approved every year by ACF. The mandate from ACF to review rates for sufficiency is very vague and no guidance regarding what constitutes is included. As a result, this audit represents the first time CA has received feedback that its approach is not compliant with federal regulations.

CA's rate structure represents a child specific strategy that flexes with the needs of the child. Furthermore, the Department developed a process, adopted in the administrative code, for identifying the amount of time spent meeting the needs for care and supervision of each child. Combined, these steps work in tandem to create sufficient rates for each foster child. Therefore the required review of the rate is met every time the Department sets a rate for a child and provides additional ad hoc services.

In addition, statewide processes and economic conditions hampered CA's ability to conduct system-wide reviews of the foster care maintenance rate. Specifically, the repeal of the Governor's Vendor Rate committee, deep economic recession, and the Foster Parent Association of Washington (FPAWS) lawsuit essentially eliminated what little discretion or authority CA had for the consideration of rates.

CA has a potential resolution that may address the concern specifically identified by the audit related to a proposed negotiated settlement of the FPAWS case. Under the negotiated settlement, CA undertook an economic analysis of rates and negotiated new foster care rates and an accompanying methodology that gives structure to a potential process to update rates. However, again, due to lack of clarity of the federal requirement it is unclear whether this settlement would represent compliance from the federal perspective. Nevertheless it does contain a potential mechanism for a "review" of foster care rates.

**Completion Date:** The Department did not concur with this finding. No corrective action taken.

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## Status of Audit Resolution

December 2015

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

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**Agency: 300**

**Audit Report:** 2014 F

**Finding Number:** 040

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

**Resolution:** The Department concurs with this finding. The Department has taken action by putting processes in place to ensure supported living providers are paid at authorized rates.

Beginning in July 2014, the Department strengthened its reconciliation process by adding more frequent reviews of provider payments by rate analysts.

As of January 2015, the Department converted to the ProviderOne payment system from the Social Service Payment System for processing payments to providers. This new process and payment system does not allow payment of two authorizations for the same client/provider location combination. The payment error identified by the auditors will not be possible with the new payment system.

Overpayments are established for incorrect rate payments that are identified. Overpayments are referred to the Office of Financial Recovery. This was the case with the overpayment identified during the audit. Should the U.S. Department of Health and Human Services contact the Department about the overpayment in this audit, the Department will take the action requested.

**Completion Date:** January 2015, subject to audit follow-up

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**Status of Audit Resolution**

December 2015

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

**Agency: 300**

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**Audit Report:** 2014 F

**Finding Number:** 041

**Finding:** The Department of Social and Health Services, Developmental Disabilities Administration, does not have adequate internal controls to ensure cost of care adjustments paid to Medicaid supported living service providers are authorized, supported and reasonable.

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

The cost of care adjustment (COCA) form was modified to include a section for justifying the need for the COCA. The new addition to the form helps provide staff additional information for making a decision. The Department's Resource Manager Administrator will continue to train on COCA justification and decision making in addition to providing training to agency providers as needed.

**Completion Date:** February 2015, subject to audit follow-up

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

**Agency: 300**

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**Audit Report:** 2014 F

**Finding Number:** 042

**Finding:** The Department of Social and Health Services, Developmental Disabilities Administration, did not have adequate controls to ensure Medicaid payments to supported living service providers are allowable.

**Resolution:** The Department does not concur with this finding. However, the following actions have been or will be taken to strengthen internal controls.

As of October 2015, the Department's Developmental Disabilities Administration (DDA) began an audit process dedicating one full time employee to conducting audits of selected residential providers. The scope of these audits includes reconciling instruction and support service (ISS) hours provided by households to amounts billed, and providing consultation and training to service providers related to the tracking and documenting of ISS hours. Twenty percent of the supported living providers are audited per year.

As of 2014, additional schedules were added to the cost report submitted by supported living providers to include ISS hours in a format reconcilable to payroll records.

As of July 2015, the Department revised the DDA policies to clarify provider documentation requirements regarding payroll activities.

As of September 2015, the Department reconciled the fiscal year 2014 cost reports from providers. All overpayments identified were referred to the Department's Office of Financial Recovery. Any federal funds due are refunded to the Centers for Medicare & Medicaid Services (CMS) through the Medicaid overpayment process and included on the CMS-64 report.

By December 2015, the Department will train all supported living providers on the revised policies.

**Completion Date:** Corrective action is expected to be complete by December 2015.

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## Status of Audit Resolution

December 2015

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

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**Agency: 300**

**Audit Report:** 2014 F

**Finding Number:** 043

**Finding:** The Department of Social and Health Services, Developmental Disabilities Administration, made overpayments to Medicaid supported living providers.

**Resolution:** The Department issued overpayments for all exceptions identified in this audit. All overpayments were referred to the Department's Office of Financial Recovery (OFR) for processing. Any federal funds due are refunded to the Centers for Medicare & Medicaid Services (CMS) through the Medicaid overpayment process and included on the CMS-64 report.

During the spring of 2015, the state fiscal year-end settlement process was initiated. Any provider overpayments discovered during this process were referred to OFR. The Department completed the settlement process in October 2015.

The Department will consult with the U.S. Department of Health and Human Services regarding resolution of questioned costs.

**Completion Date:** October 2015, subject to audit follow-up

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

**Agency: 300**

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**Audit Report:** 2014 F

**Finding Number:** 044

**Finding:** The Department of Social and Health Services, Developmental Disabilities Administration, made overpayments to Medicaid supported living providers who did not ensure all staff with access to developmentally disabled clients receive a proper background check and are authorized to have access to vulnerable supported living clients.

**Resolution:** In response to the fiscal year 2013 audit, the Department implemented the following corrective actions which continue to be utilized:

- Providing ongoing training to Department employees and providers.
- Dedicating a position in the Headquarters' office to provide direct support and consultation to providers on the interpretation of background check result letters.
- Monitoring background check compliance through reviews conducted by the Enterprise Risk Management Office and Residential Care Services certification reviews.
- Collaborating with the background check unit to simplify result letters sent to providers and background check processes.

As of February 2015, the Department resolved the outstanding exceptions identified during the course of the fiscal year 2014 audit.

By December 2015, the Department will repay questioned costs for exceptions that could not be resolved.

**Completion Date:** Corrective action is expected to be complete by December 2015.

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## Status of Audit Resolution

December 2015

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

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**Agency: 300**

**Audit Report:** 2014 F

**Finding Number:** 045

**Finding:** The Department of Social and Health Services, Aging and Long-Term Support Administration, did not respond in a timely manner to complaints/allegations of abuse, neglect, exploitation, inadequate care or supervision in Medicaid residential facilities.

**Resolution:** The Department concurs with this finding. The Department has taken the following actions to strengthen internal controls to ensure that all complaints are accounted for and responded to in a timely manner.

As of July 2014, the Department revised intake priorities to reflect federal and state timelines. In addition, registered nurses in the Complaint Resolution Unit (CRU) began reviewing all nursing home intakes. This is an ongoing process.

As of October 2014, the Department put in a request to update the automated system for tracking incidents of vulnerable adults to allow for a manual update of dates intakes are reviewed and referred to field staff. The Department completed implementation in July 2015.

As of January 2015, the CRU registered nurses began reviewing all intakes for intermediate care facilities for individuals with intellectual disabilities.

As of March 2015, the Department completed its review of existing procedures with the goal of developing procedures that streamline the complaint resolution process. Included in this review was a LEAN Value Stream Mapping that occurred in February 2015. As a result, the following procedures were developed to streamline the complaint resolution process:

- Implementing a reporting system available to all providers
- Converting faxes to email
- Reducing the number of questions asked of hotline callers
- Assigning confirmation numbers to each hotline call
- Emailing referrals to the Department of Health and Adult Protective Services.

As of September 2015, the Department reached its goal of responding to and initiating investigations of clients who are in immediate jeopardy of harm within two days.

**Completion Date:** September 2015, subject to audit follow-up

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

**Agency: 300**

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**Audit Report:** 2014 F

**Finding Number:** 046

**Finding:** The Department of Social and Health Services, Aging and Long-Term Support Administration, did not complete surveys for Medicaid nursing home and intermediate care facilities for individuals with intellectual disabilities in a timely manner.

**Resolution:** The Department will schedule and monitor nursing home and intermediate care facilities for individuals with intellectual disabilities surveys to meet required standards. Delays in timely completion of nursing home surveys are due to staffing limitations. In November 2015, the Legislature approved funding for six nursing home complaint investigators. Steps have been taken to recruit additional staff. It is anticipated the staffing issue will be resolved in August 2016.

By March 2016, the Department will implement a formal tracking process allowing for improved monitoring of statements of deficiencies and plans of corrections that result from surveys.

**Completion Date:** Corrective action is expected to be complete by August 2016.

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## Status of Audit Resolution

December 2015

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

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**Agency: 300**

**Audit Report:** 2014 F

**Finding Number:** 047

**Finding:** The Department of Social and Health Services, Aging and Long-Term Support Administration, did not adequately document inspections of Medicaid Adult Family Home providers.

**Resolution:** As of October 2015, in response to the finding the Department has taken the following actions:

- Revised standard operating procedures to require inspection forms to be consistently used to document observations and findings during adult family home inspections.
- Issued a Management Bulletin that requires staff to complete inspection forms in full.
- Required field operations staff to conduct periodic quality assurance checks on required documentation and forms to verify the process is followed.
- Implemented an ongoing practice of having the Adult Family Home Quality Assurance unit conduct periodic reviews to verify staff are completing required forms and following standard operating procedures.

**Completion Date:** October 2015, subject to audit follow-up

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**Status of Audit Resolution**

December 2015

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

**Agency: 300**

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**Audit Report:** 2014 F

**Finding Number:** 048

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

**Resolution:** In response to the fiscal year 2013 audit, the Department implemented several processes that continued through the fiscal year 2014 audit and remain ongoing.

The Department is providing training to staff on standard operating procedures for inspections which includes reviewing background checks on all caregivers, representatives, and resident managers who are employed directly or by contract.

Additionally, the Department is continuing to strengthen its monitoring of adult family home (AFH) staff background checks through the Department's standard facility licensing, annual facility survey, and investigatory business protocols. During AFH inspections, the Department reviews background checks for all employees working at the facility to ensure disqualified caregivers do not have access to vulnerable adults.

The Department will take action on questioned costs as requested by Centers for Medicare and Medicaid Services.

**Completion Date:** February 2015, subject to audit follow-up

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

**Agency: 300**

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**Audit Report:** 2014 F

**Finding Number:** 049

**Finding:** The Department of Social and Health Services, Aging and Long-Term Support Administration, made unallowable payments to Medicaid providers who did not meet background check requirements for in home care providers.

**Resolution:** Although the finding was for providers not having current background checks, the Department made significant progress ensuring providers have current background checks. The finding states, "The Department improved the overall communication of Departmental policies and procedures to unit managers at Area Agencies on Aging (AAA's) that oversee provider contracts."

The Department will continue in its efforts to ensure providers have current background checks. Specifically:

As of March 2015, the Department:

- Completed a LEAN value stream mapping that identified improvements in the individual provider qualification process. This included communication of background check results to providers.
- Terminated payments to providers that did not have current background checks.

As of June 2015, the Department:

- Terminated contracts with providers who failed to comply with requests to have current background checks completed.
- Submitted overpayments to the Department's Office of Financial Recovery for the questioned costs. Funds will be returned to the Centers for Medicare and Medicaid Services (CMS) as overpayments are received. Any overpayments not received within 365 days will be returned to CMS through the Medicaid Overpayment Management System process.

As of October 2015, the Department's Home and Community Services Division implemented new and easier to understand background check results letters.

**Completion Date:** October 2015, subject to audit follow-up

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

**Agency: 300**

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**Audit Report:** 2014 F

**Finding Number:** 050

**Finding:** The Department of Social and Health Services improperly claimed federal reimbursement for non-emergency services provided to nonqualified aliens and for payments made on behalf of deceased Medicaid clients.

**Resolution:** This finding involved four administrations within the Department: the Aging and Long Term Support Administration-Home and Community Services (AL TSA/HCS), the Children's Administration (CA), the Developmental Disabilities Administration (DDA) and the Economic Services Administration (ESA). Each administration has taken or will take corrective action.

**AL TSA/HCS:**

- In 2013, the Recipient Aid Codes (RACS) for non-emergency services were corrected for DDA clients, but the correction was missed for the AL TSA nursing home clients. The RACS and account coding for nursing home clients were corrected in November 2014.
- AL TSA/HCS repaid all questioned costs related to alien emergency medical services.
- As of June 2015, AL TSA/HCS resolved overpayments related to payments made after the client's date of death. Overpayments for these costs (\$21,159) have been referred to the Department's Office of Financial Recovery. Funds will be returned to Centers for Medicare and Medicaid Services (CMS) as overpayments are recovered. Any overpayments not recovered within 365 days will be refunded to CMS through the Medicaid Overpayment Management System (MOMS) process.
- As of September 2015, AL TSA/HCS revised the invalid payment report so it provides a more accurate reporting of invalid payments. Additionally, AL TSA/HCA implemented the revised invalid payment report and began utilizing it for ongoing reviews.

**CA:**

- As of September 2014, questioned costs for the three exceptions related to CA were returned to the grantor.
- By January 2016, CA will strengthen processes regarding review of cases related to non-qualified aliens receiving services.

**DDA:**

- The DDA Social Service Payment System program manager will continue to provide quarterly reports to regional management for review. These reports include payment authorizations after the date of death. Regions will report the level of compliance in their quarterly reviews.
- DDA continues its partnership with the Health Care Authority and external audit agency, Optum, to identify payments for services provided after the date of death using an algorithm. The algorithm will continue to be run quarterly.
- DDA will continue to provide training and direction to staff to ensure authorizing staff understand the need to match end date authorizations to the date of death or earlier as soon as they learn of a client's passing.

## Status of Audit Resolution

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- DDA staff participated in the design of edits for the ProviderOne payment system to prevent payments for services provided after the death of the client.
- Overpayments have been submitted to the Department's Office of Financial Recovery for the questioned costs of \$5,025.78. The recovery will be returned to CMS or, if not recovered timely, through the MOMS process.

### ESA:

- In February 2015, ESA reviewed the one exception identified during the audit and corrected the inappropriate payment. In addition, staff were informed by memo about the requirements for processing cases that involve non-qualified aliens.
- ESA's share of the questioned costs is \$34.70. If the Department of Health and Human Services contacts ESA regarding questioned costs that should be repaid, ESA will confirm these costs and take appropriate action.

**Completion Date:** Corrective action is expected to be complete by January 2016.

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## Status of Audit Resolution

December 2015

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

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**Agency: 300**

**Audit Report:** 2014 F

**Finding Number:** 051

**Finding:** The Department of Social and Health Services did not have adequate internal controls in place, and did not comply with, the level of effort requirements for the Block Grants for Prevention and Treatment of Substance Abuse.

**Resolution:** The Department concurs with this finding.

As of April 2015, the Department:

- Developed policies, procedures, and internal controls to ensure monitoring and documentation of level of effort requirements are performed.
- Began actively monitoring the state-funded spending. Specifically, the Department's Accounting Section started producing monthly reports showing the status of the state-funded spending. The Department's Budget Section is reviewing the monthly reports in order to monitor the capability of meeting the minimum required amount each year.

The Department continues to remain in contact with the federal grantors to keep them apprised of the Department's ability to meet the annual minimum required state-funded spending.

**Completion Date:** April 2015, subject to audit follow-up

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**Status of Audit Resolution**

December 2015

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

**Agency: 300**

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**Audit Report:** 2014 F

**Finding Number:** 053

**Finding:** The Department of Social and Health Services did not have adequate internal controls to ensure contracts were procured in accordance with state law for the Disability Insurance and Supplemental Security Income programs.

**Resolution:** In August 2014, the Department's division of Disability Determination Services (DDS), which is part of the Department's Economic Services Administration (ESA), began working with the Department's Central Contract Services unit to ensure state procurement laws are followed. In addition, DDS staff involved with contracts completed training provided by the Central Contract Services unit.

In March 2015, the ESA Workgroup developed an administration-wide procurement process/universal request for qualification, which was posted to the Department's procurement website and the Washington Electronic Business Solution system.

These steps brought the Department into compliance with state procurement laws.

**Completion Date:** March 2015, subject to audit follow-up

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## Status of Audit Resolution

December 2015

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

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**Agency: 300**

**Audit Report:** 2014 F

**Finding Number:** 054

**Finding:** The Department of Social and Health Services does not have adequate internal controls to ensure providers were qualified to perform consultative examinations for the Disability Insurance and Supplemental Security Income programs.

**Resolution:** During the course of this audit, the Department took steps to correct the deficiencies that were identified.

The Department revised procedures regarding providers who perform consultative examinations. The Department is now reviewing the List of Excluded Individuals and Entities (LEIE), maintained by the federal Office of the Inspector General, twice a year to ensure providers are qualified to perform consultative examinations. The LEIE is a federal list of individuals and entities that are excluded from participation in Medicare, Medicaid, and all other federal health care programs.

The Department created a list of contracts and their license expiration date to ensure contractors renew their licenses timely. The Department also developed written procedures that require a manager or designee conduct a quarterly quality assurance (QA) review to ensure contractors renew their licenses as required. Finally, on a monthly basis, 10 percent of contractor files are reviewed to ensure the accuracy of LEIE and license renewal checks. The results of the review show that all have submitted LEIE documentation timely and accurately. The Division of Disability Determination Services staff meets monthly to discuss how the QA process works and how to refine it and make it better.

**Completion Date:** July 2014, subject to audit follow-up

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**Status of Audit Resolution**

December 2015

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**Department of Health (DOH)**

**Agency: 303**

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**Audit Report:** 2014 F

**Finding Number:** 011

**Finding:** The Department of Health does not have adequate internal controls to ensure reports required by the Federal Funding Accountability and Transparency Act for the Drinking Water State Revolving Fund are filed correctly.

**Resolution:** In January 2015, the Department corrected the Federal Funding Accountability and Transparency Act (FFATA) reporting for the grant identified in the finding.

Additionally, the Department revised its written FFATA reporting procedures for the Drinking Water State Revolving Fund grants. These revised procedures include a secondary review conducted by the finance director after receiving the information from the Department of Commerce.

Once the secondary review is complete, the reports are forwarded to the Central Administration Grants Unit for input into the FFATA subaward reporting system.

The FFATA input is reviewed and approved by a Grants Unit supervisor prior to submittal to the FFATA subaward reporting system.

**Completion Date:** January 2015, subject to audit follow-up

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**Status of Audit Resolution**

December 2015

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**Department of Health (DOH)**

**Agency: 303**

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**Audit Report:** 2014 F

**Finding Number:** 016

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

**Resolution:** The Department concurs with the finding. The Department established, and now follows, written policies and procedures for tracking, documenting, and reporting the level of effort.

The Department communicated with its federal grantor to determine the best method for how and when to provide notification in the event that the required level of effort will not be met.

**Completion Date:** June 2015, subject to audit follow-up

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## Status of Audit Resolution

December 2015

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Department of Health (DOH)

Agency: 303

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**Audit Report:** 2014 F

**Finding Number:** 017

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

**Resolution:** The Department began making improvements to Federal Funding Accountability and Transparency Act (FFATA) reporting when this condition was identified in the fiscal year 2013 Single Audit.

Four subawards were not reported by the Department because the federal award did not appear in the FFATA Subgrant Reporting System (FSRS). The federal awards have now been added to the FSRS by the federal awarding agency and the FFATA information submitted in FSRS.

The Department updated its written procedures for submitting FFATA reports by adding additional detail. Specifically, the procedures have been modified to include the Grants Unit supervisor's review process and the necessary steps for ensuring all FFATA data is submitted in a timely manner. The new procedures have been incorporated with current practices.

**Completion Date:** June 2015, subject to audit follow-up

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Department of Health (DOH)

Agency: 303

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**Audit Report:** 2014 F

**Finding Number:** 028

**Finding:** The Department of Health did not ensure Medicaid hospital and home health agency surveys were performed in accordance with the frequency required by state and federal laws.

**Resolution:** The Department concurs with the finding. In an effort to meet federal requirements, the Department went through a hospital survey Lean process to help improve administrative processing and develop surveyor worksheets designed to create a more focused survey approach and concentrate on infection control, quality assurance, performance improvement, and care continuity (transitions in care).

Both the hospital and home health agency (HHA) programs implemented improved scheduling practices that assured each facility type adhered to their respective survey timelines.

The workload for end stage renal dialysis (ESRD) was such that the Department determined the need to create a survey team specific for this facility type. Two nurse surveyors and a public health advisor were hired to focus on the ESRD work and remove the impact that this workload had on the hospital survey schedule. This allowed the hospital team to work exclusively with hospitals.

The Department hired a manager to work specifically with the HHA surveyors to maintain current progress and push toward 100 percent compliance. Both the hospital and HHA survey managers will work with the accrediting organization to ensure continued coordination and ensure surveys are completed within prescribed timelines.

All efforts described above are ongoing and have led to improvements in compliance over last fiscal year. The Facilities Survey and Inspection Executive Director will ensure all activities described above continue.

**Completion Date:** Corrective action is expected to be complete by December 2017.

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## Status of Audit Resolution

December 2015

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Department of Health (DOH)

Agency: 303

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**Audit Report:** 2014 F

**Finding Number:** 052

**Finding:** The Department of Health does not have adequate internal controls over, and did not comply with, the Federal Funding Accountability and Transparency Act reporting requirements for the Maternal and Child Health Services Block Grant.

**Resolution:** The Department agrees that five subawards totaling \$250,334 were not reported during the audit period.

This was in part caused by the awards being omitted from the monthly Federal Funding Accountability and Transparency Act (FFATA) reporting list due to an error in the criteria used to extract the reporting data from the Department's financial system. This error was discovered and corrected in September 2013.

The Department updated its written procedures for submitting FFATA reports by adding additional detail. Specifically, the procedures have been modified to include the Grants Unit supervisor's review process and the necessary steps for ensuring all FFATA data is submitted in a timely manner. The new procedures have been incorporated with current practices.

**Completion Date:** May 2015, subject to audit follow-up

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**Status of Audit Resolution**

December 2015

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**Department of Veterans' Affairs (DVA)**

**Agency: 305**

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**Audit Report:** 1014538

**Finding Number:** 001

**Finding:** The Department of Veterans' Affairs lacked adequate internal controls over its dining hall cash receipting process.

**Resolution:** As of October 2015, the Department reviewed the process for the sale of non-resident meals at each of the State's Veterans Homes. As a result, the Department developed standard policies and procedures regarding receipts from sales of meal tickets. By December 2015, the Department will provide additional training to staff responsible for dining hall cash receipting to ensure they follow the policies and procedures. To ensure sales are reconciled to cash receipt reports, meal ticket sales made in the dietary department are reconciled twice per week and delivered to the cashier for deposit. Meal ticket sales made at the cashier desk are deposited on the same or next business day.

**Completion Date:** Corrective action is expected to be complete by December 2015

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## Status of Audit Resolution

December 2015

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Department of Veterans' Affairs (DVA)

Agency: 305

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**Audit Report:** 1014538

**Finding Number:** 002

**Finding:** The Department lacked adequate internal controls over the issuance of gift cards to veterans, increasing the risk of misuse, abuse and theft of public funds.

**Resolution:** As of October 2015, the Department developed operating procedures for determining eligibility for accessing services within the Homeless Veterans Reintegration Program and Homeless Veterans Programs. As of November 2015, the Department finalized a gift card purchases policy including a tracking log and audit template for tracking the issuance and distribution of gift cards to eligible veterans. In November 2015, staff were trained on the new policy, the tracking log, and the audit template. Upon issuance of the finding, the Department required program staff to maintain supporting documentation. The new gift card policy also includes the requirements for performing random audits twice per year.

**Completion Date:** November 2015, subject to audit follow-up

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**Status of Audit Resolution**

December 2015

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**Workforce Training and Education Coordinating Board (WFTECB)**

**Agency: 354**

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**Audit Report:** 2014 F

**Finding Number:** 012

**Finding:** The Workforce Training and Education Coordinating Board did not have adequate internal controls to ensure it meets federal level of effort requirements for the Career and Technical Education Grant.

**Resolution:** As of November 2015, the Board in coordination with the State Board for Community and Technical Colleges and the Office of the Superintendent for Public Instruction, developed written policies and procedures and established an administrative level of effort tracking process. In addition, annually, at the end of each grant cycle, the Board submits a consolidated annual report to the federal granting agency including a certification that the desired level of maintenance of effort was achieved.

**Completion Date:** November 2015, subject to audit follow-up

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**Workforce Training and Education Coordinating Board (WFTECB)**

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**Agency: 354**

**Audit Report:** 2014 F

**Finding Number:** 013

**Finding:** The Workforce Training and Education Coordinating Board does not have adequate internal controls to ensure reports required by the Federal Funding Accountability and Transparency Act are filed.

**Resolution:** As of December 2014, the Board began coordinating the collection of Federal Funding Accountability and Transparency Act (FFATA) reportable data with its secondary award recipient, the Office of the Superintendent of Public Instruction (OSPI). Monthly, OSPI reports to the Board all awards passed through to non-state agency subrecipients greater than \$25,000. The Board then enters the data for each subrecipient award into the FFATA Subaward Reporting System (FSRS) as required under the terms and conditions of the grant. The chief financial officer and the assigned program manager will review each federal grant award received to ensure the Board is aware of all federal grant requirements.

As of November 2015, the Board developed written policies and procedures documenting this process.

**Completion Date:** November 2015, subject to audit follow-up

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**Department of Early Learning (DEL)**

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**Agency: 357**

**Audit Report:** 2014 F

**Finding Number:** 014

**Finding:** The Department of Early Learning did not have adequate internal controls to ensure subrecipients that spend \$500,000 or more in federal dollars obtain required audits.

**Resolution:** The Department continues to strengthen the subrecipient monitoring policies and procedures for identifying grantees who may meet the threshold for federal audit requirements. To address the finding, the Department is working on adding additional functionality in the Integrated Contract Information System to assist in tracking subrecipients of federal funds who require a federal audit. In addition, the Department will also contact grantees whose level of funding from the Department falls under the threshold requiring an audit but may receive federal funds from other sources. The Department will establish a process for communicating audit report due dates to subrecipients. All communications will be tracked by program staff and the federal grants manager in the finance division.

The Department will provide training to all grants program staff and finance staff on the policies and procedures for subrecipient federal audit compliance. Any new requirements will be properly communicated with applicable agency staff. The Department's federal grants manager is responsible for federal audit compliance and will provide quarterly reports to the internal control officer updating the status of the federal audit compliance and tracking, staff training, and any policy and procedure changes.

**Completion Date:** Corrective action is expected to be complete by April 2016.

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**Department of Early Learning (DEL)**

**Agency: 357**

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**Audit Report:** 2014 F

**Finding Number:** 015

**Finding:** The Department of Early Learning does not have adequate internal controls to ensure reports required by the Federal Funding Accountability and Transparency Act are filed accurately for the Race to the Top-Early Learning Challenge and Affordable Care Act Maternal, Infant, and Early Childhood Home Visiting programs.

**Resolution:** The Department continues to strengthen internal policies and procedures to ensure compliance with the Federal Funding Accountability and Transparency Act (FFATA) reporting requirements. These policies and procedures include grant specific reporting requirements and internal controls to ensure accuracy of the data and include a secondary review of all reports before submission. The Department established a detailed written procedure to assist employees with FFATA reporting.

Starting in January 2015, the Department updated the FFATA reporting process to include maintaining monthly Integrated Contract Information System (ICIS) reports of contracts and a PDF copy of the FFATA report filed for each grant. These monthly ICIS reports show all federal contracts including any changes such as amendments to the contracts, dollar amounts of the changes, and any new contracts. These change reports are then reconciled to the previous month's ICIS report to ensure any required changes are captured in FFATA.

The Department also assigned an additional employee to serve as FFATA reporting backup and implemented a review process by the comptroller before any reports are released in the system to ensure information is reported accurately. The Department maintains a checklist of all federal grants to ensure each grant is reported properly each month. In addition, the updated policies and procedures were added to the fiscal division monthly policy review process to ensure they are reviewed and updated when federal changes are made or at least annually.

**Completion Date:** February 2015, subject to audit follow-up

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## Status of Audit Resolution

December 2015

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**Department of Early Learning (DEL)**

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**Agency: 357**

**Audit Report:** 2014 F

**Finding Number:** 023

**Finding:** The Department of Early Learning does not have adequate internal controls over payments to child care providers for the Child Care and Development Fund program.

**Resolution:** The Department of Early Learning (Department) and the Department of Social and Health Services (DSHS) continue to make consistent progress in actively auditing and recovering overpayments. The Department currently audits randomly selected attendance records within four months of the end of the payment month.

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

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

The Department contracted with the Aclara Group to provide an evaluation of the Child Care Subsidy Programs (CCSP) and develop recommendations for business process improvements. Aclara's final report was completed on October 31, 2012. The report identified 29 recommendations for improvement that span policy, business processes, and information technology supports. The Department is taking a structured project approach to address the report recommendations. The proposed project structure fosters a close partnership between the Department and DSHS to streamline and simplify CCSP policies and processes. The Department and DSHS formed 14 interagency workgroups to analyze these recommendations and implement those that would improve the program. This project was completed in July 2015.

Starting in July 2014, the Department collaborated with DSHS on an interagency and interdivision Lean Six Sigma process improvement effort to address the high rate of overpayments the Department is currently experiencing. The effort includes mapping multiple related work processes to identify variables that may contribute to overpayments and identifying improvements that can be made to these processes that could help lower the rate of overpayments. As of July 2015, the Department completed Lean process maps for all subsidy audit work processes and identifying areas for improvement. Work is ongoing in many areas to implement improvements.

In November 2014, the Department and DSHS formed a WCCC reframe workgroup designed to address the recent reauthorization of the Child Care Development Fund grant.

## Status of Audit Resolution

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Part of the scope of this work is to conduct a comprehensive analysis of billing and other child care provider requirements that have the potential to cause confusion or otherwise increase the risk of improper billing. The workgroup continues to collaborate on this analysis on an ongoing basis. The Department will continue to audit records up to twelve months old in cases where providers back bill for a prior period. If the Department reviewed only very recent records as requested by the auditor, the population of records to review would be incomplete and providers could submit invoices for time periods that wouldn't be subject to audit, which would create a significant risk factor that could increase fraud. Also, the statute of limitations is three years for establishing an overpayment and the Department's reviews have historically been made within this timeframe

In February 2015, the Department and DSHS formed a Child Care Audit Committee designed to address internal and external audit issues, and improve internal controls over client eligibility and direct payments to child care providers. This group continues to meet and collaborate on process improvements.

In the most recent required Child Care Development Fund Program State Improper Payment Report submitted in July 2014, the Department reported that, of 276 cases sampled, nine cases (3.3 percent of the total) had an improper payment error (overpayment or underpayment). The national improper payment error rate for this same period was 5.7 percent, so the Department is well below this national average. The federal government requires a corrective action plan for states exceeding 10 percent.

**Completion Date:** Corrective action is expected to be complete by December 2016.

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**Status of Audit Resolution**

December 2015

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**Department of Early Learning (DEL)**

**Agency: 357**

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**Audit Report:** 2014 F

**Finding Number:** 024

**Finding:** The Department of Early Learning does not have adequate controls to ensure it draws Child Care and Development Fund program federal funds in accordance with the Cash Management Improvement Act.

**Resolution:** The Department concurs with this finding. To address the weaknesses noted in the finding, the Department has taken the following steps to ensure draws of federal funds are in accordance with the Cash Management Improvement Act:

- Documented the cash draw reporting procedures for grants.
- Created a shared calendar for the finance staff noting all draw due dates.
- Provided cross training to other finance staff.
- Established internal policies and procedures.

These policies and procedures include internal controls over draws including reviewing the accuracy of data and dual reviews before submission to the comptroller for approval.

**Completion Date:** May 2015, subject to audit follow-up

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**Department of Early Learning (DEL)**

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**Agency: 357**

**Audit Report:** 2014 F

**Finding Number:** 025

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

**Resolution:** The findings of this audit clarified that transfers of federal awards to another component of the same awardee do not constitute a subrecipient or vendor relationship. Since this condition was raised by the auditor, the Department is no longer reporting the Department of Social and Health Services as a subrecipient.

The Department continues to strengthen internal policies and procedures to ensure compliance with the Federal Funding Accountability and Transparency Act reporting requirements. These policies and procedures include internal controls over proper reporting, reviewing the accuracy of the data, and dual reviews of all reports before submission.

**Completion Date:** December 2014, subject to audit follow-up

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## Status of Audit Resolution

December 2015

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The Evergreen State College (TESC)

Agency: 376

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**Audit Report:** 1014422

**Finding Number:** 001

**Finding:** The College should improve internal controls over Residential Services capital assets to ensure accurate reporting.

**Resolution:** The College performed an extensive review of every capital asset in the Residential Services inventory and corrected capital assets accounting records. The errors identified by the auditors included:

- Incorrectly recording useful life on certain assets.
- Incorrectly capitalizing 12 assets that should have been expensed in the year purchased.
- Incorrectly calculating depreciation on assets that had more than one addition.

The College recognizes that additional controls need to be implemented to ensure that only those assets that meet the state's capitalization threshold are capitalized and that depreciation expense is accurately calculated. In the future, to ensure capital assets and depreciation are accurate, complete, and supported, the College will run depreciation expense monthly instead of annually and reconcile the amount posted in the accounting system to the expected monthly depreciation expense. The College Accounting Office will review and approve monthly reconciliations.

The College will also ensure that staff responsible for monitoring and posting capital assets are adequately trained. Additionally, the College will continue to have annual meetings of the Accounting Office, Residential Services Department and the Procurement and Supply staff assigned to monitor capital assets to ensure only capital assets that meet the state's capitalization policy are capitalized.

**Completion Date:** May 2015, subject to audit follow-up

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**Status of Audit Resolution**

December 2015

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**Department of Transportation (DOT)**

**Agency: 405**

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**Audit Report:** 2014 F

**Finding Number:** 010

**Finding:** The Department of Transportation does not have adequate internal controls to ensure reports required by the Federal Funding Accountability and Transparency Act for the Highway Planning and Construction grant program are filed accurately.

**Resolution:** As indicated in the finding, the Department reported 455 federal aid contracts which should not have been reported under the Federal Funding Accountability and Transparency Act (FFATA). Since being informed of this situation, the Department discontinued reporting these federal aid contracts not sub-awarded to other local governments or entities. In addition, the Department's office responsible for tracking these federal aid contracts will confer with the grantor and document the decisions should questions on proper FFATA reporting arise in the future.

Given the method that federal aid subaward contracts must be entered into the FFATA Subaward Reporting System (FSRS), a secondary review is not practical; however, the Department put a compensating control in place to ensure the accuracy of FFATA reports.

**Completion Date:** December 2014, subject to audit follow-up

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## Status of Audit Resolution

December 2015

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Department of Ecology (ECY)

Agency: 461

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**Audit Report:** 1014112

**Finding Number:** 001

**Finding:** The Department lacks adequate internal controls to safeguard and account for corporate travel card purchases.

**Resolution:** As of January 2015, the Department:

- Revised the travel card application process to require supervisor approval and employee acknowledgement of the cardholder requirements and appropriate use for the card.
- Revised the travel card certification document to include language prohibiting personal charges, notifying employees of spot audits, and allow for collection of unpaid charges through payroll deduction.
- Requires the employee and supervisor upon issuance of the card, and annually thereafter, to complete the travel card certification.

On a monthly basis, the travel liaison will conduct an audit of five percent of employee cardholders to ensure usage complies with the travel card certification. The travel liaison will report improper use to Department management, which may result in account suspension or cancellation.

**Completion Date:** April 2015, subject to audit follow-up

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**Recreation and Conservation Funding Board (RCFB)**

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**Agency: 467**

**Audit Report:** 2014 F

**Finding Number:** 003

**Finding:** The Recreation and Conservation Office does not have adequate internal controls to ensure reports required by the Federal Funding Accountability and Transparency Act for the Pacific Coast Salmon Recovery Program are filed accurately.

**Resolution:** As of January 2015, the Office ceased including amounts passed through to other Washington state agencies in Federal Funding Accountability and Transparency Act (FFATA) reports. Additionally, the policies and procedures have been updated to ensure FFATA reports are submitted accurately.

Furthermore, the Office now contacts the Washington state agencies receiving grant funds from the Office to identify amounts passed through to subrecipients. If any amounts are passed through by any Washington state agencies to non-state agency subrecipients, the Office will include those subawards on the FFATA reports. This new process was effective for awards after March 2015.

The issue identified in the finding for not completing the reports has been corrected.

**Completion Date:** March 2015, subject to audit follow-up

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## Status of Audit Resolution

December 2015

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Department of Natural Resources (DNR)

Agency: 490

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**Audit Report:** 1015212

**Finding Number:** 001

**Finding:** The Department of Natural Resources did not follow established policy when it executed an emergency wildfire suppression contract that cost \$1.8 million.

**Resolution:** The Department's internal auditor is conducting an audit of emergency rentals, leases, and purchase contracts entered into by the Department for firefighting resources during the 2015 wildfire season. The internal auditor will test these items to ensure compliance with state laws and regulations and the Department's policies and procedures.

The Department executives and managers will issue reminders to wildfire fiscal staff of agency policies and procedures regarding contracts for wild land firefighting resources, with direction to ensure that all emergency contracts are complete and include detailed compensation components as required in the contract template. These reminders will be issued annually, before the wildfire season, during refresher training for all personnel responsible for wildfire business functions.

Department wildfire administrators will give direction to incident commanders and wildfire fiscal and purchasing staff, to comply with internal policies and procedures. Specifically, to ensure fire suppression resource contracts are complete with appropriate goods and services descriptions, and itemized wage and equipment rates. This communication will also occur annually, before the wildfire season, during refresher training for all personnel responsible for wildfire business functions.

Annually, in advance of the fire season, the Department wildfire personnel will reach out to local fire suppression resource contractors to request they enter into pre-season agreements to avoid the haste of entering emergency agreements in the midst of wildfire season. Outreach will include contractors who have supported wildfire response in the past, as well as potentially new contractors who are interested in having an agreement in place so they can participate in wildfire response in the future.

The Department incurred additional charges during the 2015 season with the contractor identified in the audit. The Department is reviewing these charges with a high level of scrutiny to ensure appropriateness and reasonableness prior to payment. The Department terminated the contract and it will not be in effect for the 2016 wildfire season.

**Completion Date:** Corrective action is expected to be complete by June 2016.

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**Department of Agriculture (AGR)**

**Agency: 495**

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**Audit Report:** 2014 F

**Finding Number:** 001

**Finding:** The Department of Agriculture does not have adequate internal controls to ensure compliance with federal suspension and debarment requirements for the Food Distribution cluster.

**Resolution:** As of July 2015, the Department added federal suspension and debarment language to each contract. In addition, program staff checks the federal Excluded Parties List system prior to the contract execution date. The contractor verification documentation is being maintained in each contract file.

Staff requires each contractor to include suspension and debarment language in all lower tier agreements. This requirement is included in all lower tier agreement templates.

All Food Assistance program staff have received training and written instructions on federal suspension and debarment requirements.

**Completion Date:** July 2015, subject to audit follow-up

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**Status of Audit Resolution**

December 2015

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**Department of Agriculture (AGR)**

**Agency: 495**

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**Audit Report:** 2014 F

**Finding Number:** 002

**Finding:** The Department of Agriculture does not have adequate internal controls to ensure reports required by the Federal Funding Accountability and Transparency Act for the Food Distribution Cluster are filed correctly.

**Resolution:** All Federal Funding Accountability and Transparency Act (FFATA) reportable amounts have been entered into the federal reporting system by the Food Assistance program staff.

The Department developed written reporting procedures that include a secondary review prior to submitting the reports. Applicable Food Assistance program staff have been trained on the new procedures. The program will submit all future FFATA reportable amounts within the established FFATA time frames.

**Completion Date:** June 2015, subject to audit follow-up

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**Employment Security Department (ESD)**

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**Agency: 540**

**Audit Report:** 2014 F

**Finding Number:** 008

**Finding:** The Employment Security Department does not have adequate internal controls to ensure transportation reimbursement payments to Trade Adjustment Assistance program participants are allowable and accurate.

**Resolution:** The Department made and continues to make the necessary improvements to ensure that the Trade Adjustment Assistance (TAA) program complies with federal program requirements, and that transportation payments to participants are accurate and allowable.

As of February 2015, the Department implemented procedures to include scanning and maintaining all payment supporting documentation in accordance with federal and state record retention guidelines.

As of June 2015, the Department:

- Established written policies and procedures to address TAA program requirements, and state and federal laws and regulations related to retention requirements.
- Created new internal control procedures that will be reviewed and monitored by management on an ongoing basis.
- Contacted the federal awarding agency, U.S. Department of Labor. It was determined that the questioned costs will not be required to be repaid.

By January 2016, the Department will implement segregation of duties over the transportation payment process. Specifically, one individual will enter the payment information and another individual will review prior to providing it to the vendor payment unit.

**Completion Date:** Corrective action is expected to be complete by January 2016.

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**Employment Security Department (ESD)**

**Agency: 540**

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**Audit Report:** 2014 F

**Finding Number:** 009

**Finding:** The Employment Security Department does not have adequate internal controls to ensure only eligible participants of the Trade Adjustment Assistance program receive services and benefits.

**Resolution:** The Department made and continues to make the necessary improvements to ensure that the Trade Adjustment Assistance (TAA) program complies with federal program requirements, and that only eligible recipients receive services and benefits.

As of February 2015, the Department increased managerial oversight, including a secondary review of information entered into the system, to ensure program compliance.

As of June 2015, the Department:

- Developed new policies and procedures to include the TAA program eligibility requirements to ensure only eligible participants receive services and benefits.
- Created new internal control procedures that will be reviewed and monitored by management on an ongoing basis.

By January 2016, the Department will implement separation of duties over eligibility. Specifically, one employee will determine the eligibility for benefits using the General Unemployment Insurance Design Effort system and a second employee will enter the information into the participant management system.

**Completion Date:** Corrective action is expected to be complete by January 2016.

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**Employment Security Department (ESD)**

**Agency: 540**

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**Audit Report:** 1014506

**Finding Number:** 001

**Finding:** The Employment Security Department does not have adequate internal controls to ensure only eligible participants for Trade Readjustment Allowance receives services and benefits.

**Resolution:** The Department made and continues to make the necessary improvements to ensure adequate internal controls are in place to ensure only eligible participants received Trade Readjustment Allowance.

As of June 2015, the Department:

- Updated written policies and procedures to address program requirements.
- Increased managerial oversight, including a secondary review of information entered into the system, to ensure program compliance.

By January 2016, the Department will:

- Implement separation of duties by establishing one individual to determine eligibility for benefits and a second individual to review and enter information into the Case Management System.

**Completion Date:** Corrective action is expected to be complete by January 2016.

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**Status of Audit Resolution**

December 2015

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**Whatcom Community College (WHC)**

**Agency: 621**

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**Audit Report:** 1014543

**Finding Number:** 001

**Finding:** The College's controls over financial reporting are inadequate to ensure accurate financial reporting.

**Resolution:** The errors identified in the finding were a result of misclassification of certain revenues, expenses and fund balances. To ensure veracity of coding transactions, the College implemented system oversight through regular internal meetings, as well as review by an external consultant. The process calls for statements and schedules, prepared by the fiscal analyst, to be reviewed by both the senior accountant and the finance director. When financials are nearing completion, the vice president of Administrative Services will review them before they are reviewed by a qualified external consultant.

All staff involved in preparing the College's financial statements received training regarding proper classification, including initial financial statement development training by the State Board for Community and Technical College staff in fall 2014. In addition, College staff continue to participate in the financial statements work group comprised of staff members from the other 34 Washington state community and technical colleges to stay abreast of best practices and system modifications to financial reporting.

Ongoing education and staff development in this area are important to the College. Most recently, in October 2015, College staff attended a two-day training on current Governmental Accounting Standard Board statements provided by the National Association of College and University Business Officers.

**Completion Date:** June 2015, subject to audit follow-up

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**Clark College (CLC)**

**Agency: 635**

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**Audit Report:** 1014106

**Finding Number:** 001

**Finding:** The College should improve internal controls over capital assets to ensure accurate reporting.

**Resolution:** As of April 2015, the College:

- Reassigned the task of tracking and recording capital asset values to the appropriate Business Office fiscal staff.
- Provided capital asset accounting training to Business Office staff through the Government Financial Officers Association.
- Restricted access to the Financial Management System (FMS) screens associated with valuing capital assets to a limited number of Business Office staff.

As of September 2015, the College revised its capital asset procedures requiring all capital asset values to be reviewed before and after being recorded in FMS, to ensure recorded values are supported by backup documentation.

**Completion Date:** September 2015, subject to audit follow-up

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## Status of Audit Resolution

December 2015

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**Green River College (GRC)**

**Agency: 649**

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**Audit Report:** 1014676

**Finding Number:** 001

**Finding:** The College's internal controls over financial statement preparation are inadequate to ensure accurate reporting.

**Resolution:** As of March 2015, the College assigned two accounting professionals to prepare the financial statements for fiscal year 2014 and forward. By assigning multiple employees to the financial statement preparation process, the College can now implement an internal review process instead of solely relying on the review provided by the State Board for Community and Technical Colleges (SBCTC).

Starting in fiscal year 2015, the College put together an oversight team to review the work of the capital accountant before entering additions, disposals, and depreciation into the system. Additionally, the College limited access of the system disposal screens to the capital accountant who has direct knowledge of physical building disposals, affixing the responsibility to that individual assuring that buildings are disposed of in the system timely and accurately.

College employees responsible for the statements continue to seek out training opportunities to strengthen the knowledge required to prepare the statements effectively. Additionally, College employees participate in every training opportunity the SBCTC provides.

**Completion Date:** June 2015, subject to audit follow-up

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**Status of Audit Resolution**

December 2015

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**Renton Technical College (RTC)**

**Agency: 693**

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**Audit Report:** 1014884

**Finding Number:** 001

**Finding:** The College should improve internal controls over the reporting of revenue as Student Tuition and Fees and expenses as Scholarships and Fellowships to ensure accurate reporting.

**Resolution:** The College modified its revenues and expenditures on the fiscal year 2014 financial statements as noted by the auditors to comply with the State Board for Community and Technical College's definition of tuition discounts.

Going forward, to ensure future financial statement balances are accurate and supported, the College will:

- Add an additional level of review of the financial statements by the assistant director of Financial Services and the vice president of Finance.
- Require key staff involved in the financial statement preparation process to attend training provided by the State Board for Community and Technical Colleges.
- Provide additional training opportunities for key staff such a financial statement preparation guidebooks and training classes focused on Generally Accepted Accounting Principles.

**Completion Date:** August 2015, subject to audit follow-up

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**Schedule 2 – Fraud Findings by Agency**

December 2015

<b>AGENCY NUMBER</b>	<b>AGENCY</b>	<b>AUDIT NUMBER</b>	<b>FINDING NUMBER</b>	<b>PAGE</b>
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**Department of Social and Health Services (DSHS)**

**Agency: 300**

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**Audit Report:** 1015276

**Finding Number:** 001

**Finding:** The Department of Social and Health Service's Internal Audit Office notified the State Auditor's Office (SAO) regarding a potential loss of client trust funds, as required by state law.

The Department initiated an investigation and determined a misappropriation totaling \$12,331 had occurred between January 1, 2010, and April 11, 2014. SAO reviewed the Department's investigation and agree with its conclusion. The Department has filed a report with the Washington State Patrol as required by law.

**Fraud Amount:** \$12,331

**Amount to be recovered:** \$0

**Recovery to Date:** \$0

**Resolution/Status:** The State Auditor's Office (SAO) reviewed and reported on the audit work conducted by the Departments' Office of Operations Review and Consultation (ORC). ORC concluded their audit in September 2014. The SAO's review of ORC's audit confirmed there was a misappropriation of funds totaling \$12,331 and that the Department took appropriate action in dealing with the misappropriation.

As of September 2014, the Department developed cash handling and cash fund procedures and trained staff on how to apply them. The procedures are meant to improve internal controls over client trust accounts. These procedures include having Department fiscal staff at Fircrest School:

- Review all documentation associated with cash withdrawals prior to releasing cash and deny any request which is not complete.
- Ensure receipts are obtained for resident purchases, regardless of cost. If funds are given directly to clients for personal use, reasonable documentation must be retained stating the specific amount given to the client.
- Segregate duties in a manner so at least three staff are involved in the process of disbursing resident funds.

ORC completed an internal audit of Fircrest School in September 2015. One of the areas ORC reviewed was the internal controls over cash funds. ORC determined the corrective actions developed in September 2014 were implemented and still in place.

**Personnel Action Taken:** The individual accused of misappropriating funds resigned during the course of ORC's audit. The individual was referred to and investigated by the Department's Residential Care Services program. The investigation resulted in the individual being placed on the Residential Care Services Registry. This action prohibits the individual from being employed in care of and having unsupervised access to vulnerable adults according to RCW 74.39A.056 (2).

**Status of Audit Resolution**

December 2015

**Criminal Action Taken:** The case was referred to Washington State Patrol and King County Prosecutor's Office. Both agencies reviewed the work of ORC and decided there was not sufficient evidence to pursue criminal charges against the individual who misappropriated funds. Consequently, legal action was not taken and none of the misappropriated funds were recovered.

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**University of Washington (UW)**

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**Agency: 360****Audit Report:** 1014464**Finding Number:** 001**Finding:** The University of Washington's Internal Audit Department notified the State Auditor's Office(SAO) regarding three potential losses of public funds, as required by state law.

The University initiated an investigation into each of the three reported cases and determined that misappropriation totaling \$52,893 had occurred between February 16, 2012 and January 20, 2015. SAO reviewed the University's investigation for each of the cases and agree with the conclusions reached.

**Fraud Amount:** \$52,893**Amount to be recovered:** \$57,687 (includes \$4,794 audit costs)**Recovery to Date:** \$32,494**Resolution/Status:** The University agrees with the internal control recommendations made by the auditors and will proceed to seek restitution from the employees identified in these investigations. These same internal control recommendations were included in the reports issued by the University's Internal Audit Office and the management teams in each of the units involved have instituted new processes and controls to reduce the risk of future similar occurrences.

As of November 2015, the University's Office of Minority Affairs and Diversity Instruction Center:

- Reconfigured the Husky Card reader to require the use of a PIN to process refunds, and only the Center director and office support supervisor have been provided with PINs.
- Added a requirement for the director and compliance specialist to review daily Husky Card transaction logs to identify unusual transactions.
- Developed and implemented policies and procedures regarding collection of test preparation fees, issuing refunds, and reconciliation of revenue against Husky Card transactions.
- Added a requirement for management to perform and review monthly reconciliations of revenue, refunds, and expenses.

The University has received \$32,494 in payments from the King County Superior Court as restitution for the loss of funds related to the Husky Card refunds.

As of August 2015, the University's Health Information Management (HIM):

- Developed policies and procedures to monitor time and productivity of HIM coding staff who work both in the office and remotely.
- Required daily productivity reports to be run and compared to the University of Washington Medical Center timekeeping system.

## Status of Audit Resolution

December 2015

- Developed coding productivity standards for all HIM coding areas. The HIM manager, supervisors and leads review the Coding Exception Report (CER) submitted daily and evaluate the coder's performance in relation to the standards. Any productivity anomalies identified by management are evaluated and compared to the CER to see if there is an explanation such as sick leave, staff meetings, or training that explains why productivity was not met.
- Established daily meetings to monitor all areas of coding and identify if there are any areas with coding backlogs. Further investigation is implemented if there are areas of concern identified.

As of December 2015, the University's Information Technology Services (ITS):

- Developed policies and procedures regarding the use of on-call parking passes. Employees must sign an acknowledgement of the terms and conditions prior to receiving a pass, and annually thereafter.
- Required management to perform monthly reviews of parking pass usage.
- Determined that the utilization of available reports from the timekeeping system to monitor telecommuting for on-call employees would be cost prohibitive. However, managers will be periodically reminded to be vigilant and will be provided training on monitoring employees who telecommute.

**Personnel Action Taken:** Individuals involved in the investigation were either terminated or have resigned.

**Criminal Action Taken:** The case involving the Office of Minority Affairs and Diversity was referred to the King County Prosecuting Attorneys Office. No criminal action was taken on the other cases; however, the University will seek recovery of the misappropriations.

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**Department of Natural Resources (DNR)**

**Agency: 490**

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**Audit Report:** 1012889

**Finding Number:** 001

**Finding:** On December 9, 2013, the Department's internal audit manager notified the State Auditor's Office(SAO) regarding a potential loss of public funds, as required by state law.

The Department conducted an investigation into the matter and determined that a violation of Department policies did occur at the Larch Corrections Center equipment maintenance shop, which led to an estimated loss to the state of approximately \$63,000 between July 1, 2011 and November 30, 2013. SAO reviewed the Department's investigation and agree with the conclusions.

The Department shared the results of its investigation with the state Executive Ethics Board.

**Fraud Amount:** \$63,000

**Amount to be recovered:** \$68,340 (includes \$5,340 audit costs)

**Recovery to Date:** \$0

**Resolution/Status:** Corrective action on the auditor's recommendations was initiated prior to the publication of the audit report. As of September 2014, the Department created a new shop operations manager position to address many of issues identified in the investigation.

In late 2014, the new shop operations manager began monitoring and auditing inventory purchases made by all Department equipment repair shops. In addition, each repair technician and supervisor is held responsible for ensuring purchases comply with existing purchasing rules and authorities. The supervisors and technicians received ongoing training on both the Department's existing purchasing policies and procedures and their roles and responsibilities. In light of the implementation of a replacement fleet management system in November 2015, additional training was provided on inventory management and parts processing. Inventory and parts processing procedures will be updated to align with the new system, and training on the new procedures will be completed in the first half of 2016.

By early 2015, the new shop operations manager established stock levels and ensured that purchased items were properly recorded in inventory records. The shop operation manager ensures the annual physical inventory of the parts storerooms is properly conducted according to Department procedures, and includes a reconciliation to the state's accounting system. By November 2016, the agency's parts inventory procedures will also be updated to accommodate the new fleet management system. Stock levels will be re-evaluated and established in the new system.

## Status of Audit Resolution

December 2015

The new shop operations manager periodically audits the Department's vehicle maintenance records to ensure excessive or inappropriate repairs have not taken place. This includes ensuring that the type of part purchased corresponds to the type of vehicle it was purchased for as well as monitoring for unusually excessive repairs to a vehicle.

The Executive Ethics Board is currently performing an investigation to determine if fines or restitution will be assessed on behalf of the Department. The Department's internal auditor has reviewed the corrective action measures and has indicated that they adequately address the auditor's recommendations.

- Personnel Action Taken:** The individuals involved have been reassigned.
- Criminal Action Taken:** This case was referred to the Clark County Prosecuting Attorney's Office.
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