



## STATE OF WASHINGTON

February 18, 2021

The Honorable Jay Inslee  
Governor of Washington  
P.O. Box 40002  
Olympia, WA 98504-0002

Members of the Legislature  
110 Legislative Building  
Olympia, WA 98504-0600

Dear Governor Inslee and Members of the Legislature:

State law (RCW 39.26.220<sup>1</sup>) requires the State Auditor and Attorney General to annually give the Governor and the policy and fiscal committees of the Legislature a collaborative report on state agency contract audit and investigative findings, enforcement actions and status of the state agency resolution.

This letter serves as our report of findings and actions taken on audits issued in fiscal year 2020 (July 1, 2019 through June 30, 2020).

### **STATE AUDITOR'S OFFICE**

#### *Fraud and Whistleblower Audits*

During fiscal year 2020, our Office issued one whistleblower report that contained a finding related to contracting issues.

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<sup>1</sup> <https://app.leg.wa.gov/RCW/default.aspx?cite=39.26.220>

Department of Social and Health Services<sup>2</sup>

On April 13, 2020, our Office issued a whistleblower investigation report finding reasonable cause to believe a Department of Social and Health Services (DSHS) employee failed to manage a contract with the Washington Association of Prosecuting Attorneys Support Enforcement Program (WAPA-SEP) when he did not address IT security issues.

We determined the employee failed to ensure WAPA-SEP complied with state IT security policies. We also determined, based on OCIO policy, that the subject violated state IT security policies when he did not correct the issue of people sharing the same username and password, and allowed the subcontractor to connect without a VPN.

DSHS created the following resolution plan:

The Department will provide additional training to the contract manager to ensure adequate compliance with department policy covering contract monitoring requirements. This policy requires all department staff responsible for contracts or contract monitoring to complete the Basic Contracts Certification training offered by the DSHS Contracts Academy, and the Department of Enterprise Services' WA State Contract Management 101 training. In addition, each Administration responsible for contract management is required to:

- Conduct a risk assessment of each type of service to be contracted
- Develop contract risk assessment and performance-monitoring tools to be used for individual contracts and contractors
- Develop risk-assessment and performance-monitoring plans for specific contracts
- Monitor individual contracts
- Document the results of monitoring efforts in the contract file and/or in the Agency Contracts Database (ACD), with exception of those exempted in the scope of Policy 13.11

The WAPA-SEP contract is subject to renegotiation, which the Department will initiate when appropriate. After terms are negotiated and finalized, the department will carefully and specifically review the Information Technology Security Policies with the contractor, ensuring the contractor is fully aware of and prepared to accept their role and responsibility in this regard. The contract manager will monitor the contract to ensure contractor compliance with the terms, conditions and requirements of the contract.

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<sup>2</sup> <https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1026074&isFinding=false&sp=false>

### *Compliance and Accountability Audits*

During fiscal year 2020, our Office issued two compliance and accountability audits that contained findings related to contracting issues.

#### Department of Fish & Wildlife<sup>3</sup>

On August 19, 2019, our Office issued an accountability report for the Department of Fish & Wildlife that contained a finding of inadequate monitoring of wildlife damage prevention cooperative agreements.

We examined 31 payments, totaling \$184,559, made to landowners and found:

- In 30 instances, totaling \$179,559, supporting documentation was not available to determine if the payments were allowable.
- We could not determine if the Department properly paid for range-rider services, because the agreements with landowners did not define the allowable daily or hourly billing rates for range-riding activities. Twenty-two landowners billed the Department for range-riding activities at six different daily rates, all of which were accepted by the Department at the time of payment. These payments totaled \$179,559.
- Under the terms of the agreements, landowners must submit itemized invoices documenting costs for range-rider services billed to the Department. Because the invoices submitted did not contain information regarding the daily range-rider rate, we could not determine whether the Department's payments were 50 percent of the allowed costs.

We recommended the Department:

- Require all landowners to maintain supporting documentation, such as range rider field journals, receipts, and other documentation to support invoices
- More clearly describe the scope of services in its agreements and how contractors are permitted to bill for services, such as establishing daily or hourly billing rates
- Strengthen fiscal monitoring to ensure invoiced amounts reconcile to supporting records, such as receipts, range rider field journals, or other documentation

The Department concurred with the finding and stated corrective actions were fully implemented by July 1, 2018.

#### Department of Natural Resources<sup>4</sup>

On July 25, 2019, our Office issued an accountability report for the Department of Natural Resources that contained a finding that the Department did not adequately monitor its contract with Clark County related to operations at Livingston Quarry.

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<sup>3</sup> <https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1024439&isFinding=false&sp=false>

<sup>4</sup> <https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1024321&isFinding=false&sp=false>

In this audit, we found the Department did not have adequate internal controls to ensure the County complied with the terms and provisions of the contract. The Department did not perform site visits with enough regularity to monitor operations at Livingston Quarry effectively. We confirmed the Department received monthly production summaries and royalty payments from the County, but did not perform procedures to verify the accuracy of the information. We recommended the Department continue working with the County and operators to implement adequate internal controls including:

- Performing site visits to prevent unauthorized activities and regularly reconciling load tickets to extraction reports and production summaries from Clark County
- Performing contract monitoring to ensure the County operates in compliance with contract terms and provisions.

The Department concurred with the audit finding. DNR has taken numerous steps to ensure these lands are being managed appropriately and in the best interest of the trust beneficiaries. A stop-work order has been issued to the County, and the Department has been working with the County and the operator to ensure measures are in place to address the deficiency and other contract violations before operations resume. The Department has increased funding to the Mining, Rock, Sand and Gravel Program by one-half FTE, establishing a full time Program Manager. Region staff have been identified to assist in contract administration once operations resume and a revised Plan of Operations is being negotiated between the parties.

### *Financial and Federal Audits*

During fiscal year 2020, our Office issued one financial and federal audit that contained findings related to contracting issues.

#### Department of Health<sup>5</sup>

On June 25, 2020, our Office issued a financial statements and federal single audit report for the State of Washington. Included in that report was a finding stating the Department of Health did not have adequate internal controls over and did not comply with requirements for procurements of goods and services funded by the Special Supplemental Nutrition Program for Women, Infants, and Children program.

We reviewed all four contracts procured during the audit period. For one contract, we found the Department did not meet the requirements for awarding it. We determined the Department did not have documented approval from the Department of Enterprise Services (DES) to award the contract to a sole-source vendor, as is required. The Department also did not document the vendor's qualifications to justify a sole-source contract.

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<sup>5</sup> <https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1026451&isFinding=false&sp=false>

We recommended the Department:

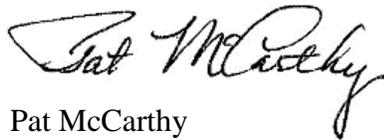
- Ensure staff responsible for procurement of goods and services are familiar with applicable state laws and policies for awarding and executing contracts
- Review its contract policies and procedures to determine if revisions are needed
- Request approval from DES for all future sole-source contracts awarded with program funds

The Department stated the cause of the condition in this instance was a misunderstanding of the entity's status as a quasi-governmental entity. The non-profit status of this entity has been clearly communicated to staff in the Contracts Unit and in the program. The Contracts Unit has worked with Department program(s) to clarify the status of this entity and has since filed several contracts with DES for this same entity as a sole-source contract or has determined them to be a subrecipient depending on the scope of work in the contract.

**ATTORNEY GENERAL'S OFFICE**

The Auditor's Office issued no audit or investigative findings that required referrals to the Attorney General's Office for enforcement.

Sincerely,



Pat McCarthy  
State Auditor



Bob Ferguson  
Attorney General