



STATE OF WASHINGTON

November 10, 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 39.26.220¹) requires the State Auditor and Attorney General to provide an annual collaborative report to the Governor and the policy and fiscal committees of the Legislature on state agency contract audit and investigative findings, enforcement actions, and the status of state agency resolution.

This letter serves as our report of findings and actions taken on the audits we issued in fiscal year 2021 (July 1, 2020 to June 30, 2021).

STATE AUDITOR'S OFFICE

Fraud and Whistleblower Audits

During fiscal year 2021, our Office did not issue any whistleblower reports that contained findings related to contracting issues.

Compliance and Accountability Audits

During fiscal year 2021, our Office issued three compliance and accountability audit reports that contained findings related to contracting issues. We issued these reports for the Department of Ecology, the Washington State Dairy Products Commission, and the Department of Social and

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

Health Services. We discuss the findings for the Department of Ecology and the Washington State Dairy Products Commission below. We discuss the finding for the Department of Social and Health Services in the Financial and Federal Audits section of this report.

Department of Ecology²

On Sept. 3, 2020, our Office issued an accountability report for the Department of Ecology. The report included a finding that the Department's internal controls were inadequate for ensuring that the funds it paid to the United States Forest Service (USFS) were allowable and properly supported.

During our audit, we requested the quarterly progress reports that the inter-agency agreement between the Department and USFS called for in the scope of work section. The Department searched its Yakima regional and headquarters offices, but it could not find the progress reports. Instead of the progress reports, the Department provided nine invoices from a USFS subcontractor, Cascade Earth Sciences (CES), totaling \$1,441,488, and a receipt documenting a refund from USFS in the amount of \$661,824. We examined the invoices from CES and determined the funds were used for the authorized purpose and allowable. The invoices, along with the refund receipt, supported about 85 percent of the total funds the Department advanced to USFS.

Although the Department did provide documentation that accounted for about 85 percent of the total funds it advanced to USFS, the documentation did not itemize each expenditure or list the running balance of available funds. Because the Department provided the funding to USFS in advance, it would have required the quarterly progress reports in this context to discern whether USFS used the entirety of the American Smelting and Refining Company (ASARCO) funds for their intended purpose.

Based on our audit finding, we recommended that the Department strengthen its internal controls related to contract monitoring and ensure it holds contractors to the monitoring stipulations outlined in future contracts.

The Department agreed with the finding. As of July 8, 2021, the Department had not completed corrective actions. However, the Department has taken the following steps:

- Requested and received backup documentation from the USFS
- Conducted a thorough review of the invoices and confirmed that all costs charged were allowable
- Improved its internal control processes to ensure it keeps supporting documentation for agency contracts
- Ensured all necessary employees had the training and information they needed to understand their responsibilities for contract monitoring and holding all contractors to the monitoring stipulations outlined in their contracts

² <https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1026907&isFinding=false&sp=false>

Washington State Dairy Products Commission³

On March 8, 2021, our Office issued an accountability report for the Washington State Dairy Products Commission. The report included a finding that the Commission lacked adequate controls for disclosing, assessing and documenting potential conflicts of interest that may exist for its officials and personnel.

During our audit, we found the following potential conflicts of interest relating to outside employment and procurement:

- The Commission hired the Chief Innovation & Inclusion Officer (CIIO) on Jan. 1, 2019. While employed as the Commission's CIIO, this person was also a consultant from October 2018 to February 2020. We determined the CIIO, while acting on behalf of the Commission, contracted with a consulting firm for services from January 2019 to January 2020. The Commission did not have any documented evidence that the CIIO completed the required Request for Outside Employment form or that the Executive Director pre-approved it.
- We reviewed disbursements for branded promotional items that the Commission purchased in 2018 and 2019. The Commission paid more than 40 invoices in 2018, totaling \$87,888; several of these invoices were made on the same day. The Commission paid eight invoices in 2019, totaling \$29,553. Our audit determined the former Executive Director and the owner of the promotional company served together on the board of an outside organization. The Commission did not have any documented evidence that the former Executive Director disclosed his outside affiliation to ensure appropriate controls would be put in place to mitigate potential conflicts of interest. We determined the products the Commission purchased were similar enough to be considered a single purchase of services. However, the Commission did not enter into a contract with the vendor. Additionally, the Commission could not provide evidence that it used a competitive solicitation process to award the vendor, as state law requires.

Based on our audit finding, we recommended that the Commission:

- Establish written policies that outline required procedures to disclose and assess any potential conflicts of interest or outside employment at the time of, and during, employment
- Ensure the evaluation of any potential conflict of interest or outside employment is performed and documented for all Commission officials and personnel
- Ensure employees complete the required Request for Approval of Outside Employment form and that those forms are reviewed and approved by the Executive Director
- Strengthen internal controls over the establishment of vendor contracts to ensure the Commission complies with applicable procurement requirements

³ <https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1027897&isFinding=false&sp=false>

The Commission agreed with the audit finding. The Commission's officials said they will proceed with formal written policy changes during 2021. The Commission will update its current policy regarding outside employment and the completion of the Request for Approval of Outside Employment form to ensure that employees disclose any outside employment and the Executive Director reviews it for potential conflicts. Additionally, the Commission will review and update its written policy regarding procurement to reflect current internal controls during 2021.

Financial and Federal Audits

During fiscal year 2021, our Office issued one financial and federal audit that contained findings related to contracting issues.

Department of Social and Health Services⁴

On June 24, 2021, our Office issued a financial statements and federal Single Audit report for the State of Washington. The report included a finding that The Department of Social and Health Services lacked adequate internal controls over, and did not comply with, federal requirements to ensure Medicaid program providers were properly screened, licensed and enrolled.

During the audit period, the Department lacked a process for adjusting risk levels for providers. The Department also did not implement a fingerprint-based criminal background check process. Federal regulations require both of these activities.

To determine if the Department had properly screened providers based on their enrollment status and correctly determined their eligibility, we used a statistically valid sampling method to randomly select and examine 59 out of a total population of 19,170 combined new and revalidated provider contracts that were executed during the audit period. We examined the 59 selected contracts to determine if the Department took proper steps when conducting provider enrollment and revalidation. We found two instances where the Department could not provide the individual provider's contract. As a result, we could not determine:

- If Department staff reviewed or signed the contracts
- Whether the Department verified that the individual providers were authorized to work in the United States
- Whether the individual providers had valid picture identification
- Whether the Department performed federal database checks before the contracts were signed

Additionally, we randomly selected and examined 59 out of a total population of 47,514 existing individual Aging and Long-Term Support Administration and Developmental Disability Administration contracts that were active during the audit period but executed before it. We

⁴ <https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1028496&isFinding=false&sp=false>

examined these 59 contracts to determine if the Department took proper steps when conducting provider enrollment and revalidation. We found five instances where the individual provider contract was signed before the Department completed federal database checks. We also found one instance where the Department could not provide the individual provider's contract. As a result, we could not determine:

- Whether the Department verified that the individual provider was authorized to work in the United States
- Whether the individual provider had valid picture identification
- Whether the Department performed federal database checks before the contract was signed

We also used a non-statistical sampling method to randomly select and examine 19 out of a total population of 167 nursing facilities contracts that were active during the audit period. We examined these 19 contracts to determine if the Department took proper steps when conducting provider enrollment and revalidation. We found five instances where the Department did not complete National Plan and Provider Enumeration System (NPPES) database checks for nursing facilities whose contracts were revalidated. We did confirm that the Department performed the checks between six months and 23 months after the most recent revalidation it performed.

We also found the Department had performed monthly System for Awards Management (SAM) database checks, but management did not establish internal controls to ensure staff performed a review of all data match results. Additionally, the Department did not have a documented process or procedure for ensuring it terminated the provider applications or revalidations that were ineligible.

Based on our audit finding, we recommended that the Department design and establish internal controls that would bring it into material compliance with the provider revalidation process. This includes:

- Completing required SAM checks at least monthly
- Properly adjusting providers' screening risk levels
- Implementing a process to conduct fingerprint-based criminal background checks for high-risk providers

The Department partially agreed with the finding. The Department agreed that it lacked comprehensive documentation outlining the entire process for the termination of provider applications or revalidations that were ineligible. The Department also agreed that it was not aware initially that NPPES checks for any nursing facility contracted on or before March 25, 2001, were required to be conducted at least every five years with a completion date of Sept. 25, 2016. The Department also agreed that it did not provide contracts for two providers.

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ATTORNEY GENERAL'S OFFICE

The State Auditor's Office did not issue any audits or investigative findings that required referrals to the Attorney General's Office for enforcement.

Sincerely,



Pat McCarthy
State Auditor



Bob Ferguson
Attorney General