



STATE OF WASHINGTON

October 14, 2016

The Honorable Jay Inslee, Governor
Members of the Legislature

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

This letter serves as our report of findings issued and actions taken from July 1, 2015 to June 30, 2016.

STATE AUDITOR'S OFFICE

Performance Audits

During the most recent fiscal year, the State Auditor's Office (the Office) issued a performance audit report related to contracting issues.

Washington State Department of Transportation: Improving the Toll Collection System¹

On May 4, 2016, our office issued a performance audit report that examined the toll collection system managed by the Washington State Department of Transportation (WSDOT) Toll Division.

We noted as a key concern that WSDOT has not been successful in enforcing contract requirements designed to ensure the toll system vendor complies with information security standards, leaving in question how well the system protects sensitive information. We also found that the system lacks key functions and has other operational limitations that affect toll processing, collection and managerial reporting.

Our audit found that issues affecting the toll system resulted from WSDOT's limited attention to adding necessary expertise, establishing functions and processes, and completing tolling system development. Enhancing leadership and management strategies would help ensure these issues.

¹ <http://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1016647&isFinding=false&sp=false>

do not persist as the Toll Division develops the next generation toll collection system and adds more tolled facilities.

We recommended that WSDOT develop appropriate processes and functions within the Toll Division to oversee all aspects of new initiatives and projects, including working with other state agencies to identify and resolve concerns, coordinating schedules and resources, and ensuring contract compliance.

During the 2016 legislative session, no bills were passed in response to our audit recommendations. In the official response to the audit report, WSDOT stated that the toll vendor was in the process of obtaining its Report on Compliance with Payment Card Industry standards. The third-party validation was received April 22, 2016.

Fraud and Whistleblower Investigations

The following state agency fraud or whistleblower investigations related to contracts and resulted in findings.

Wenatchee Valley College²

On April 21, 2016, we reported that Wenatchee Valley College's president (Subject 1) and vice president of administrative services (Subject 2) mismanaged capital projects by failing to ensure public works contracting laws were followed.

We found:

- No reasonable cause to believe Subject 1 violated state public works contracting laws.
- Reasonable cause to believe Subject 2 mismanaged her responsibilities when she allowed the College to proceed with construction projects contrary to state public works contracting laws.

The college created a plan of resolution:

- The president and vice president of administrative services will meet for weekly capital project update meetings, and the Board of Trustees will be updated monthly.
- All employees that have any purchasing and/or budget authority for capital projects are to take mandatory public works training. The training will be repeated at least annually or as personnel changes.
- College executive limitation policies relating to asset protection will be reviewed with the financial staff annually.
- The Department of Enterprise Services will continue to be involved in all capital projects.

² <http://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1016551&isFinding=false&sp=false>

Department of Transportation³

On July 30, 2015, we reported that three Washington State Ferries employees mismanaged contracts within their divisions. Specifically, the complaint asserted: Subject 1 allowed progress payments on a net 30 contract and allowed the vendor to begin work prior to being bonded; Subject 2 authorized payments that were not covered under the contract; and Subject 3 grossly mismanaged procurements when she failed to stop the behavior of Subjects 1 and 2.

We found:

- Reasonable cause to believe Subject 1 did not comply with state procurement law when she allowed a progress payment on a net 30 contract, which does not allow such payments, and allowed a vendor to begin work on a contract before being bonded.
- No reasonable cause to believe Subjects 2 and 3 grossly mismanaged contract procurements.

The Department created a plan of resolution:

- Language was added to the Washington State Ferries purchasing Desk Manual that requires contracts with progress payments to obtain a surety bond.
- Instructions have been provided to the buyers and individuals responsible for approving purchase orders about the need for a surety bond when progress payments are part of the contract.
- Request for Quote language has been added to procurement documents that states "progress payments may be considered but will require a surety bond."
- The accountant will ensure surety bonds are on file for purchase orders before progress payments are submitted to the Accounting Department.

Eastern Washington State Historical Society (Northwest Museum of Arts and Culture)⁴

On June 23, 2016, we reported that the executive director of the Northwest Museum of Arts and Culture (Museum) was engaged in improper governmental action by violating multiple state laws. One of the assertions concerned contracting practices at the Museum. We found reasonable cause to believe that the subject failed to follow state and federal laws when he established professional service contracts.

As part of its plan of resolution, the Museum Board appointed an interim executive director, who was required to complete contracts training.

Compliance and Accountability Audits

State of Washington Single Audit Report⁵

In March 2016, we issued our annual Single Audit report. This audit determines whether state agencies are complying with federal grant requirements for the fiscal year ending June 30, 2015.

³ <http://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1014716&isFinding=false&sp=false>

⁴ <http://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1016942&isFinding=false&sp=false>

⁵ <http://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1016517&isFinding=false&sp=false>

We identified the following issues related to contracts:

- *Oversight of the State's ProviderOne Vendor Contract.* The Health Care Authority (HCA) entered into a contract with ProviderOne. The contract did not require the vendor to obtain a service organization control audit report (also called SSAE 16). This is a report required to provide audit assurance that the ProviderOne system has adequate internal controls in place. At the time of the contract, HCA did not have complete knowledge of the extent of their monitoring responsibilities over the ProviderOne system. Our audit report issued a significant deficiency in internal controls over Medicaid payments processed by the ProviderOne system. HCA now recognizes the significance and priority of internal controls over recording and reporting financial transactions and is negotiating its contract with the vendor to provide for annual audit reports. (Finding No. 2015-001, Page E-15)
- *Compliance with federal suspension and debarment requirements.* Federal requirements prohibit grant recipients of federal awards from contracting with vendors who have been suspended or debarred from doing business with the federal government. The Office of Superintendent of Public Instruction (the Office) is required to verify that all vendors receiving \$25,000 or more in federal funds have not been suspended or debarred. We found the Office executed one contract, which had a value of \$17,242,155, without first verifying whether the entity was suspended or debarred. We recommended the Office ensure vendors are not suspended or debarred before entering into contracts that include more than \$25,000 in federal funds. We also recommended the Office ensure there is sufficient supervisory oversight to ensure federal requirements are met before contracts are executed. (Finding No. 2015-012, Page E-62)
- *Contract monitoring required by work verification plan.* The Department of Social and Health Services (the Department) did not conduct the contract monitoring of entities that directly administer and supervise WorkFirst participation. One entity provided partial support, and two others provided no support. The Department developed a corrective action plan. (Finding No. 2015-019, Page E-92)
- *Required background checks of contracted providers.* The Department of Social and Health Services, Aging and Long-Term Support Administration and Developmental Disabilities Administration, did not ensure background checks had been completed on home care providers paid by Medicaid. We recommended the Department follow up on background check results and ensure ineligible providers do not have access to vulnerable Medicaid clients. This is a prior audit finding for the previous four Single Audit Reports (Finding No. 2015-040, Page E235, Finding No. 2015-050, Page E-301 and Finding No. 2015-051, Page E-312)
- *Proper Payments of Contracted Providers.* The Department of Social and Health Services' Developmental Disabilities Administration did not have adequate controls to ensure Medicaid payments to supported living service providers were allowable and supported, resulting in unallowable payments of \$49,194 in our sample. When we project the results to the entire population of supported living payments, we estimate the Department made \$26,334,417 in unallowable payments to providers. We recommended the Department:
 - Compare provider payroll documentation with authorized hours and payment system billings to ensure services provided to individual clients reconcile with amounts claimed

- Develop sufficient policies and procedures for providers to follow when documenting service hours provided to clients and compiling payroll records
- Increase the rate and frequency of provider payroll reviews
- Require providers to submit cost reports annually (Finding 2015-049, Page E-293)

The Washington State Commission on African American Affairs⁶

On April 14, 2016, our Office issued a report on the Washington State Commission on African American Affairs (the Commission). In this audit, we found that the Commission entered into a contract with a private organization to manage fiscal matters for the Commission. This private organization was managed by a former Commissioner.

This private organization receipted and disbursed donated funds for the Commission and had responsibility to track the funds that came in and out of the organization. Our audit found the private organization could not demonstrate funds were spent in accordance with state law. Payments of \$258,000 made between December 2006 and February 2012 were unsupported or unallowable.

In addition, we were unable to locate contracts for about \$103,000 of services paid for with Commission funds. These services included consulting, facilitation, training and others provided to the Commission's clients and the commissioners. Without support, we were unable to determine if the payments were allowable, in accordance with state law and for official Commission purposes. We were also unable to verify contractors provided all agreed upon services before being paid, as required by state policy.

The Commission's plan of resolution:

- The Commission terminated the contract with the private organization. The Commission currently uses the state's Small Agency Financial Services department when assistance is needed with receipting and disbursing of donated funds.

The Department of Natural Resources⁷

On October 1, 2015, our office issued a report on the Department of Natural Resources (the Department). In this audit, we found that the Department did not follow established policies when it executed an emergency wildfire suppression contract costing \$1.8 million. The Department did not prepare a complete list of personnel, equipment and resources to be supplied by the contractor. The original contract did not establish the rates to reimburse the contractor for the use of its personnel, equipment and other resources, and there was no amendment to establish allowable rates.

We recommended that the Department follow internal policies when establishing contracts for fire suppression services, specifically to ensure contracts contain the allowable reimbursement rates for the contractor and any subcontractors. We further recommended that prior to making payments, the department obtain and review sufficient supporting documentation to ensure only allowable resources and services are reimbursed.

⁶ <http://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1016309&isFinding=false&sp=false>

⁷ <http://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1015212&isFinding=false&sp=false>

The Department's plan of resolution:

- After payments were made on the emergency contract, the Department's fiscal staff thoroughly reviewed invoices submitted under this contract, itemized amounts billed were compared with published reimbursement rates, and for any charges determined to be unallowable, the Department requested that the contractor repay those amounts.

Washington State Fruit Commission⁸

On December 24, 2015, our Office issued a report for the Washington State Fruit Commission (the Commission) for the fiscal year ending March 31, 2015. In this audit, we noted that the Commission spent \$1,740,774 in U.S. Department of Agriculture funding to promote Washington fruits in foreign markets. The Commission received a federal audit finding due to a lack of internal controls to ensure compliance with federal procurement requirements. The Commission contracted with 12 vendors for a total of \$1,519,952. The Commission lacked documentation to show a contract totaling \$180,000 was procured through competitive proposals, and lacked a request for proposals indicating the scope of work or the criteria by which the vendors would be evaluated.

We recommended the Commission establish internal controls to ensure vendors in foreign markets are procured in accordance with federal requirements. This was an issue in the previous audit, and the Commission stated that it took immediate steps to correct the issue but had already procured that year's contracts. We stated we would review the corrective action taken during our next regular audit.

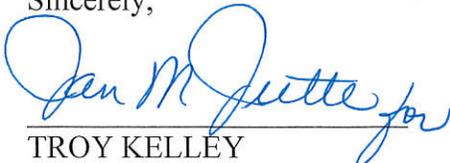
The Commission's plan of resolution:

- The Commission enhanced its internal controls and procurement practices and discussed these requirements with employees responsible for the program.
- Management continues to review its procurement practices to ensure vendors are procured in accordance with federal requirements.

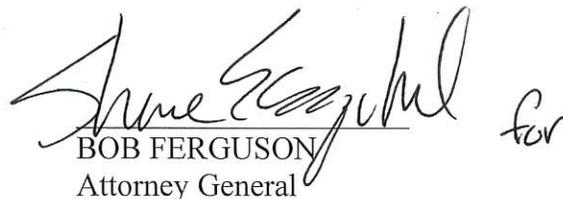
ATTORNEY GENERAL'S OFFICE

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

Sincerely,



TROY KELLEY
State Auditor



BOB FERGUSON
Attorney General

⁸ <http://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1015852&isFinding=false&sp=false>