



State of Washington Single Audit Fiscal Year 2016

July 11, 2017

The Single Audit examines whether Washington's state agencies complied with federal grant requirements. In 2016, the state spent more than \$17 billion in federal awards. This federal money, combined with significant state contributions, funded programs that include childcare, food and cash assistance, health insurance, unemployment benefits, transportation and education.

As a whole, the state materially complied with federal requirements. We issued a clean (or unmodified) opinion on most of the programs we audited.

We also issued 50 audit findings, reported \$17.9 million in questioned costs, and estimated an additional \$363.5 million in likely questioned costs. We issued an adverse opinion on one program, which means that non-compliance was both material and pervasive. Depending on the conditions of the grant, the state may have to repay the federal share of inappropriately spent funds.

This report provides a summary of the State of Washington Single Audit. The full, 1,019-page report is available online at the Washington State Office of Financial Management website (www.ofm.wa.gov/singleaudit/2016/default.asp).



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Background

Federal assistance can take many forms, including grants, loans and non-cash awards such as supplies and equipment. Recipients of federal assistance must comply with requirements that govern the allowable uses of the funding as well as many administrative areas, such as cash management, matching, supplanting, procurement and reporting. When recipients of federal assistance spend \$750,000 or more in federal awards in a year, they must prepare a Schedule of Expenditures of Federal Awards and arrange for an audit of their federal assistance under Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

The purpose of a Single Audit

The purpose of a Single Audit is to provide a format for non-federal entities to receive: (1) an audit of their federal award expenditures and (2) an audit of their financial statements. The audit of federal expenditures focuses on both compliance with federal requirements and internal controls over compliance. The auditing requirements, passed by Congress as part of the Single Audit Act of 1984 (as amended in 1996) and administered by the federal Office of Management and Budget (OMB), are recognized by federal agencies as the framework for monitoring the use of federal money.

The value of a Single Audit

As they are for local and state dollars, government officials are responsible for oversight of the federal money they spend. Single Audits evaluate their ability to ensure that federal guidelines will be followed and demonstrate the extent to which they actually followed federal guidelines when spending federal-source money.

What happens after a finding is issued?

State agencies must respond to audit findings by preparing a corrective action plan. This action plan is submitted to the grantor – the federal agency issuing the grant funds – with our audit report.

Grantors must issue a decision on audit findings within six months after they receive the audit report and action plan, and ensure the agency takes appropriate and timely corrective action. We have found this does not always occur. As the auditor, we must follow up on the status of that corrective action during the next audit and may again report any uncorrected issues as audit findings. Grantors also determine whether states are required to pay back questioned costs.

See **Appendix A** for a list of the programs audited for state fiscal year 2016, and **Appendix B** for a summary of all federal findings issued.

Some terms used in this report

Questioned costs – Costs are questioned in a finding (a) that resulted from a violation or possible violation of a provision of a law or other requirement, (b) for which the costs, at the time of the audit, were not supported by adequate documentation or (c) for which the costs incurred appear unreasonable and do not reflect the actions a prudent person would take under the circumstances.

Likely questioned costs – Likely questioned costs are calculated by projecting questioned costs identified in an audit sample to the entire population from which the sample was drawn, generally in a statistically valid method.

Subrecipient – An entity that expends awards received from a pass-through entity to carry out a program. The agency passing through these funds is expected to monitor how the subrecipient is managing the funds they receive.

Summary of the 2016 State of Washington Single Audit

The state received more than \$17 billion in federal dollars for more than 700 federal programs in 2016 that range from providing meals for school age children and vaccines for at-risk or low-income people to interstate highway construction and environmental protection projects. About 94 percent of the money was administered by 10 state agencies, listed in **Exhibit 1**.

Exhibit 1 – 10 agencies spent about 94 percent of the federal money the state received

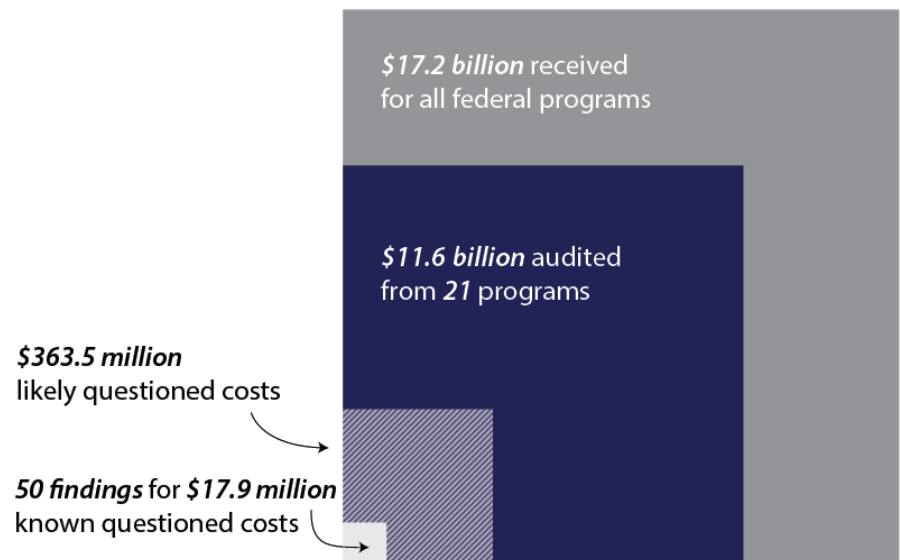
Fiscal year 2016

| Agency | Total dollars |
|--|-----------------------|
| Health Care Authority | \$5.5 billion |
| Social and Health Services | \$5 billion |
| University of Washington | \$1.4 billion |
| Employment Security | \$1.2 billion |
| Transportation | \$1 billion |
| Superintendent of Public Instruction | \$903 million |
| Community and Technical College System | \$388 million |
| Washington State University | \$362 million |
| Health | \$350 million |
| Early Learning | \$140 million |
| All others | \$1 billion |
| Total (rounded) | \$17.2 billion |

We audited 21 federal programs, administered by 12 state agencies, and more than \$11.6 billion in federal assistance, 67 percent of the federal dollars received. We audited fewer programs this year than in 2015, when we reviewed 31 programs, because the federal government made changes to the audit requirements.

We reported 50 findings and identified \$17.9 million in known federal questioned costs and \$363 million in likely federal questioned costs (shown in **Exhibit 2**). We also issued an adverse opinion for one program, the Child Care and Development Fund, managed by the departments of Early Learning and Social and Health Services.

Exhibit 2 – The value of known questioned costs decreased in 2016, but likely questioned costs increased



Seven of the 21 programs that were audited complied with federal requirements

We audited 12 state agencies and 21 programs in fiscal year 2016. Exhibit 3 lists the seven programs for which we found state agencies had established adequate internal controls over federal funds and complied with federal requirements.

Exhibit 3 – Seven programs, managed by five state agencies, met criteria

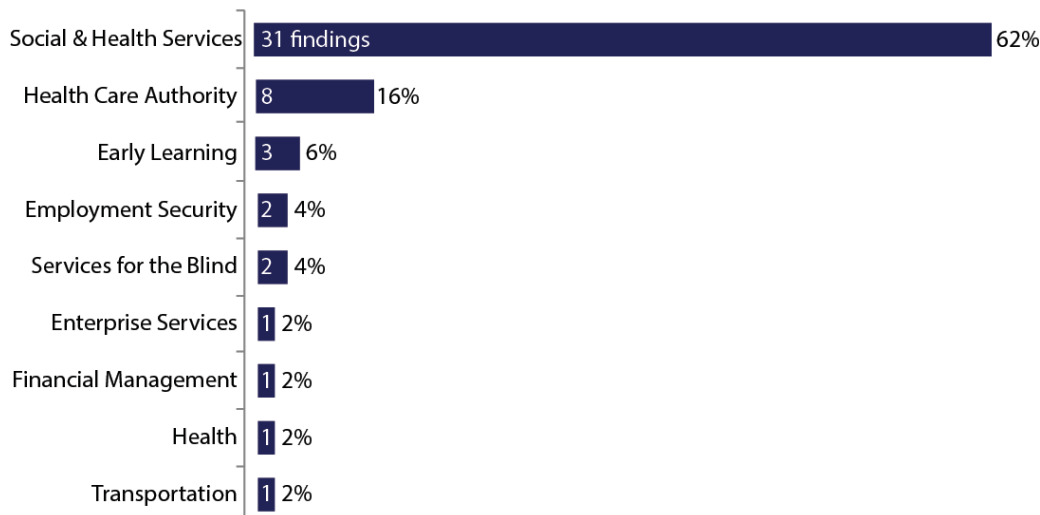
| Agency | Program | Program dollars by agency |
|--|---|---------------------------|
| Employment Security Department | WIA/WIOA Cluster | \$50,908,986 |
| Department of Health | Immunization Cooperative Agreements | \$99,235,173 |
| Military Department | Military Construction, National Guard | \$15,696,381 |
| Office of Superintendent of Public Instruction | Child Nutrition Cluster | \$288,258,727 |
| | Child and Adult Care Food Program (CACFP) | \$46,135,997 |
| | Title II Improving Teacher Quality | \$34,249,748 |
| University of Washington | Research and Development Cluster | \$781,532,621 |

Note: Numbers are rounded.

14 programs in nine state agencies received at least one finding

The remaining 14 programs in nine state agencies received at least one finding. Exhibit 4 shows how many findings each of the nine agencies received. A summary of each finding is located in Appendix B, and the full text of each finding can be found at: www.ofm.wa.gov/singleaudit/2016/default.asp.

Exhibit 4 - Number and percentage of findings by state agency



Questioned costs by state agency and program

We question costs when we find an agency has not complied with grant regulations, does not have adequate documentation to support payments or when the costs appear unreasonable. When using a statistically valid sample, we estimate the value of “likely questioned costs” by extrapolating from the amount of expenditure we sampled. Agencies may be required to return this money to the federal agency that granted it. **Exhibit 5** shows the amounts of both known questioned costs and the extrapolation of likely questioned costs.

Exhibit 5 – Known and likely questioned costs at four state agencies

| State agency | Federal program | Known questioned costs | Likely questioned costs | Total agency program dollars |
|--|--|------------------------|-------------------------|------------------------------|
| Department of Social and Health Services | Child Care and Development Fund Cluster | \$18,882 | \$102,972,489 | \$109,143,592 |
| | Medicaid Cluster | \$2,265,760 | \$96,530,983 | \$2,427,726,408 |
| | Temporary Assistance for Needy Families (TANF) | \$3,309,359 | \$24,923,091 | \$304,722,119 |
| | Vocational Rehabilitation Grants to States | \$11,145,636 | \$13,241,044 | \$49,590,515 |
| | Adoption Assistance – Title IV-E | \$3,069 | \$997,425 | \$48,105,134 |
| | Supplemental Nutrition Assistance Program (SNAP) Cluster | \$260,904 | \$0 | \$1,579,292,566 |
| | Refugee and Entrant Assistance | \$14,628 | \$0 | \$11,316,985 |
| Department of Early Learning | Child Care and Development Fund Cluster | \$24,345 | \$108,047,040 | \$108,647,091 |
| Employment Security Department | Unemployment Insurance | \$1,645 | \$1,027,796 | \$1,128,324,687 |
| Health Care Authority | Medicaid Cluster | \$885,619 | \$15,748,512 | \$5,343,729,129 |
| Total questioned costs | | \$17,929,847 | \$363,488,380 | |

Known questioned costs decreased from 2015, but likely questioned costs increased in 2016

We reported 50 audit findings in 2016, six less than the 56 findings reported in 2015. While the known questioned costs identified by the audit decreased from \$28.7 million to \$17.9 million, the likely questioned costs increased from \$142.2 million to \$363.5 million, as shown in **Exhibit 6**. The increase can be attributed largely to the Child Care Development Fund and Medicaid programs, which combined accounted for \$323.3 million in likely questioned costs.

Exhibit 6 – Findings and questioned costs, 2012–2016

| Audit year | Total federal assistance received | Number of programs audited | Number of audit findings | Known questioned costs | Likely questioned costs |
|-------------|-----------------------------------|----------------------------|--------------------------|------------------------|-------------------------|
| 2012 | \$15,764,521,000 | 30 | 63 | \$3,950,901 | \$29,016,506 |
| 2013 | \$14,892,686,000 | 31 | 45 | \$4,275,906 | \$14,799,519 |
| 2014 | \$15,730,570,000 | 32 | 55 | \$3,625,781 | \$13,861,873 |
| 2015 | \$17,030,230,000 | 31 | 56 | \$28,674,366 | \$142,222,871 |
| 2016 | \$17,205,753,785 | 21 | 50 | \$17,929,847 | \$363,488,380 |

Note: Numbers for total federal assistance received are rounded.

Audit findings by topic areas

In 2016, we reported findings in these federal grant areas:

- Activities allowed or unallowed
- Allowable costs/cost principles
- Eligibility
- Level of effort
- Matching
- Period of performance
- Reporting
- Subrecipient monitoring
- Special tests and provisions

Key Conclusions

We identified a number of significant issues in the 2016 Single Audit. In this section, we discuss problems at the two programs that made up 89 percent of the reported likely questioned costs, Child Care and Medicaid, including problems with the agency controls that are meant to prevent such issues. We also address problems at the Unemployment Insurance program that could lead to employers in Washington state having to pay higher tax rates.

We continue to find significant control weaknesses in the Child Care and Development Fund program

Two state agencies – the Department of Early Learning (DEL) and the Department of Social and Health Services (DSHS) – manage Washington’s Child Care and Development Fund program. The Department of Early Learning is the lead agency. Together, they spent \$218 million in federal funds in 2016. The Fund supports low-income working families by providing access to affordable, high-quality early care and after-school programs.

We found DEL had inadequate internal controls in place to ensure payments to care providers were accurate and supported. We began reporting these weaknesses in 2005, when the program was administered by DSHS. In the 2016 audit, we found 64 percent of child care payments we examined using a statistically valid sample were partially or completely unallowable, resulting in \$107.8 million in likely questioned costs of federal dollars, with an additional \$33.5 million in likely questioned costs of state dollars.

We also found DEL did not have adequate internal controls to ensure health and safety requirements for the program were met. The Department is required to make onsite inspections of licensed providers and follow up on any violations noted. We found 39 percent of the inspections we examined included violations concerning the health, safety and well-being of children that were not followed up on within 10 days as DEL’s own policies require. This is up from the 24 percent identified during the 2015 audit. Some examples of these violations were inadequate supervision of children, use of inappropriate disciplinary methods, exceeding the maximum licensed capacity, exceeding the staff-to-child ratio, and general health and safety hazards to the children. In addition, 842 licensed providers (18 percent) were overdue for their yearly inspections.

DSHS lacked adequate internal controls to ensure only eligible clients were approved to receive services. These weaknesses have been reported in the Single Audit since 2012. For the 2016 audit, 58 percent of client records we examined, using a statistically valid sample, lacked proper eligibility determinations, resulting in \$103 million in likely questioned costs of federal dollars, with an additional \$35.8 million in likely questioned costs of state dollars. Furthermore, DSHS had significant weaknesses regarding fraud detection and repayment requirements.

While the results of the 2016 audit of the program demonstrated significant problems, both agencies have begun efforts to correct some of those identified in the 2015 audit. While these efforts did not substantially affect the 2016 audit, it is possible they will in 2017.

We continue to find internal control and compliance issues in the Medicaid program

Three state agencies manage Washington’s Medicaid program: the Health Care Authority (HCA), the Department of Health and DSHS. In addition, the Attorney General’s Office oversees the Medicaid Fraud Control Unit, which is responsible for the investigation and prosecution of fraud committed by health care providers. The Unit also monitors complaints of resident abuse or neglect in Medicaid-funded nursing homes, adult family homes and boarding homes. Most Medicaid expenditures are payments to providers of medical treatment, prescriptions, medical equipment, home health care and other services. Due to the program’s size and complexity, and the risk of fraud and abuse, we focus much of our Single Audit effort on the Medicaid program.

As shown in Exhibit 7, the state spent roughly 45 percent, or \$7.8 billion, of all federal grant funds it received on Medicaid. The state spent another \$3.9 billion through its required state match.

Spending on Medicaid continues to rise from earlier years. Over the past two state fiscal years, Medicaid spending has increased nearly \$2 billion in federal share dollars alone: full implementation of the Affordable Care Act added about 330,000 people to the Medicaid rolls in Washington in 2015. Due to ACA Medicaid expansion, Medicaid expenditures in state fiscal year 2015 were significantly increased by about \$1.9 billion; Medicaid’s overall percentage of the state’s federal expenditures increased from 37 percent to 45 percent from fiscal years 2014 to 2016.

We audited 32 areas within the Medicaid program and issued 22 audit findings regarding unallowable expenditures, control deficiencies or noncompliance related to Medicaid rules and regulations. We identified \$3.2 million in known questioned costs and \$112.3 million in likely questioned costs related to:

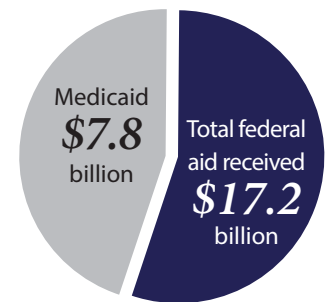
- In-home services
- Services not provided
- Ineligible individuals
- Services provided by ineligible providers
- Overpayments to providers
- Uncollected drug rebates
- Incorrect federal share claimed for Medicaid services
- Incorrect payments made to managed care organizations

We found significant control weaknesses in three areas at the Health Care Authority

Additional action is needed to improve third-party liability efforts

The Authority did not ensure data exchanges with health insurers were performed as required by state law. Data exchanges help the agency and insurers determine whether clients have third-party medical insurance coverage, which could reduce the amount of their claim paid for by Medicaid. We were unable to determine questioned costs in this area because analysis depends on viewing third-party medical insurance enrollee information. We have reported this issue since 2008.

Exhibit 7 – Medicaid accounted for 45 percent of the state’s overall federal spending



Drug rebates

The Authority did not account for all claims eligible for managed care outpatient drug rebates when preparing invoices. We found the Authority failed to claim \$368,097 in known managed care drug rebates from drug manufacturers; the federal share was \$273,598 and the state share was \$94,499. We estimate the Authority failed to collect about \$15.6 million in likely unclaimed rebates. The federal share of these likely questioned costs is about \$11.6 million and the state share is about \$4 million.

Additionally, we were unable to calculate missed rebates for 1,105 claims because the Authority did not have information for the correct number of dispensed units, which is needed to determine the rebate calculation.

We have issued findings over drug rebates since 2014. In the fiscal year 2015 audit, we found the Authority failed to account for \$97,425 in known fee-for-service outpatient drug claims. We estimated the value of those likely unclaimed rebates at about \$7 million; the federal share was about \$3.5 million.

Children's Health Insurance Program (CHIP)

The CHIP program provides health insurance for children whose family income meets Medicaid requirements. Additional CHIP funds are available for Medicaid children whose household income equals or exceeds 133 percent of the level, but does not exceed 210 percent. HCA did not have adequate internal controls to ensure and monitor that additional CHIP federal funds were claimed only for eligible Medicaid expenditures.

While HCA performs a post-eligibility review to ensure Medicaid eligibility has been adequately determined, it is generated only when household income data HCA obtains is above the Medicaid-applicable income level of 210 percent of the federal poverty level. If the verified income is below 133 percent, a post-eligibility review is not generated. For this reason, HCA did not identify errors made in the eligibility determination that resulted in it incorrectly claiming additional CHIP funds.

We randomly sampled 65 fee-for-service claims and 65 managed care premium payments, and identified \$130 in known questioned costs in which clients were not eligible for additional CHIP federal funds. When we projected the results to the entire population of fee-for-service and managed care premium payments, we estimate the likely federal share of the questioned costs to be about \$4.2 million.

We also found significant internal control weaknesses at the Department of Social and Health Services

We identified five areas of concern in the way DSHS ensures it has complied with federal laws governing health care providers, particularly payments and background checks. We found weaknesses in the agency's internal controls pertaining to timesheet reconciliation for both supported living and individual provider caregivers, cost-of-care adjustment payments, payments for care given to ineligible clients, and ensuring caregivers had current background checks in place. We also found DSHS overpaid a supported living agency because the agency did not provide all its contracted hours but was paid for those hours and did not submit its final cost reports as required by contract.

\$368,097

drug rebates
HCA did not claim



\$273,598

federal share



\$94,499

state share

Payments to supported living providers – Reconciling paid hours to timesheets

The Developmental Disabilities Administration within DSHS manages the Home and Community Based Services program for people with developmental disabilities. Supported living is a core service offered through contracted providers who help clients with the social and adaptive skills necessary to live in the community and with daily living activities.

We found DSHS's internal controls were not effective to ensure Medicaid payments to supported living service providers were allowable. We selected a statistically valid sample of 86 monthly payments totaling \$813,679, and reconciled the payments to provider timesheets to verify if payments were adequately supported.

We found 51 payments, totaling \$70,787, were not supported by payroll records; the federal share of unsupported payments was \$35,397. The estimated likely amount of unsupported payments was \$38.7 million; the federal share of likely questioned costs is about \$19.3 million. The state's share of known unsupported payments was \$35,390, and its share of likely questioned costs was about \$19.3 million.

In addition to the unsupported payments to providers, we found DSHS made unallowable duplicate payments totaling more than \$16,344 because of defects in the Department's payment system. The federal share of the unallowable duplicate payments was \$8,176; the state's share was \$8,168.

Cost-of-care adjustment payments to supported living providers

When a client is temporarily out of a group home or similar setting, a provider can request a cost-of-care adjustment that covers the administrative and staff support costs necessary to maintain the residence and the client's affairs. If a client permanently leaves the household, providers can request a cost-of-care adjustment to maintain the household's shared hours until a new housemate can be found. In fiscal year 2016, DSHS paid about \$1.2 million to supported living providers for cost-of-care adjustments.

We found its internal controls over cost-of-care adjustments were ineffective to ensure Medicaid payments were allowable. We randomly sampled and examined 63 payments from the total population of 806 cost-of-care-adjustments. We found DSHS approved 32 payments, totaling \$68,724, for which providers did not submit a clear and detailed justification showing client need. In these instances, the providers said they needed additional hours to ensure adequate staffing of the remaining clients in the home, but did not specifically describe why those hours were needed for the remaining clients and how they would be utilized.

Within the 32 requests, we also found:

- Two payments, totaling \$2,601, were made for supported living clients in a medical facility when Medicaid funds were used to pay for their hospital stays. One of those payments also included a request for shared hours for a single-person household, which is prohibited by DSHS policy.
- One payment was inaccurately calculated, which led to an overpayment of \$2,218.

We have reported findings over this area since 2013. In the 2015 audit, we found \$49,194 was not supported by payroll records. The estimated likely share of unsupported payments made to providers was \$26.3 million.

Of the \$68,724 in payments that were not adequately supported, we questioned \$34,366, which is the federal share of the unallowable payments. When projected to the entire population of cost of care adjustment payments, we estimated DSHS paid \$375,201 in unallowable payments to providers; the federal share of likely questioned costs was \$187,604. The state's share of known unsupported payments was \$34,358, and its share of likely unsupported payments was \$187,597.

We have reported findings over this area since 2013. In the 2015 audit we found \$41,245 in cost-of-care adjustments were not supported by adequate documentation. The estimated unsupported cost-of-care adjustment payments was \$570,668.

Payments to individual providers – Eligible clients

The Developmental Disabilities Administration offers personal care and other services to support Medicaid clients in community settings through the Community First Choice program. Clients may receive personal care services, skills acquisition training, assistive technology, personal emergency response systems and other services that help them remain in community settings. DSHS is required to ensure clients are eligible before authorizing services. A fully implemented person-centered service plan must be completed and signed before a client can be determined eligible for Medicaid. Federal Medicaid rules state that clients' person-centered service plans are incomplete until the clients or their representatives sign them; services should not be provided, or providers paid, without a completed agreement.

We found DSHS did not have adequate internal controls to monitor and ensure clients' person-centered service plans were fully implemented before paying providers for client services.

Before August 2015, DSHS staff accepted a verbal "agreement of services" from clients rather than obtaining the needed signatures. In August 2015, DSHS trained staff to obtain necessary signatures on the person-centered service plan, but not all staff followed training guidelines.

Using a statistically valid sampling method, we randomly selected 65 Community First Choice clients who received services from an individual provider, from a total population of 10,768, and judgmentally selected another 13 clients whose payment data lacked a Social Security number. We examined the client files and found 18 instances when a fully implemented plan was not in place. Specifically, we found:

- 14 plans did not contain all required signatures or were returned more than two months past the client's assessment completion date
- Four plans were not signed by any of the required parties

By not monitoring to ensure a fully implemented plan was in place, DSHS issued \$107,393 in unallowable payments to providers. We questioned \$60,054, which is the federal share of the unallowable payments.

When unallowable payments are identified, federal regulations suggest auditors consider if associated costs, such as benefits, were also paid. DSHS pays payroll-related benefits on behalf of Community First Choice providers that are considered associated costs. Examples of these costs include health insurance, retirement, payroll taxes and training.

For the \$107,393 in payments we determined were unallowable, we identified \$35,022 in associated costs that are also considered unallowable. We questioned \$19,612, which is the federal share of the unallowable associated payments. The state's share of known unallowable payments and associated costs for functional and financial eligibility was \$62,942 (functional only is \$62,749).

Financial Eligibility

Of the 65 clients, we also identified one client who was not financially eligible to receive benefits. Medicaid services were paid for two months after the agency determined the client was ineligible. Total unallowable payments were \$439. We questioned \$246, which is the federal share of the unallowable payments.

When the results of our statistically valid sample are projected to the entire program, we estimated the amount of likely questioned costs to be about \$16.9 million; we questioned \$9.5 million, which is the federal share of the unallowable payments. The likely associated costs are \$5.5 million; we questioned \$3.1 million, which is the federal share of these costs. The state's share of unallowable payments to providers and associated costs for functional eligibility was about \$9.8 million.

Payments to individual providers – Reconciling paid hours to timesheets

As with supported living providers, we found DSHS did not have adequate internal controls to ensure payments made to individual providers were allowable.

Timesheets

We selected a statistically valid sample of 86 monthly payments to providers, totaling \$173,452, from a population of 82,404 payments. In addition, we judgmentally selected the four most costly payments, which totaled \$40,298. We reconciled the payments with individual provider timesheets and found 48 payments, totaling \$107,899, were not supported. Unsupported payments either lacked a timesheet, or the hours or mileage DSHS paid were more than the hours or mileage recorded on the timesheet. We questioned \$60,350, which is the federal share of the unallowable payments. When we projected the results to the entire population of individual provider payments, we estimated DSHS made about \$74 million in unallowable payments; the federal share of these questioned costs is \$41.3 million.

We also identified costs associated with the 48 unallowable payments, such as provider benefits, which totaled \$33,492. We questioned \$18,758, which is the federal share of the unallowable associated cost payments; the state share was \$14,734.

When we project the results to the entire population of individual provider payments, we estimated DSHS made \$23.3 million in unallowable associated cost payments. The federal share of the estimated total questioned costs was about \$13.1 million; the state share was \$10.2 million.

Duplicate payments

We identified 144 improper payments to individual providers, totaling \$107,123, that were made due to computer system weakness that did not prevent duplicate payments. We questioned \$60,002, which is the federal share of the unallowable payments. Because we did not use statistical sampling for this test, we did not project these questioned costs to the entire population.

The additional costs associated with these duplicate payments total \$39,615. We questioned \$22,189, which is the federal share of the unallowable payments. Again, because we did not use statistical sampling for this test, we did not project these questioned costs to the entire population.

Background checks

DSHS made payments on behalf of Medicaid clients to providers who had worked without a background check, worked with disqualifying or potentially disqualifying criminal histories, did not renew their background checks in a timely manner, or had not completed a required fingerprint check.

We selected a statistically valid sample of 430 providers and found 19 caregivers who worked without a current background check or with a potentially disqualifying criminal record. We identified \$862,169 in questioned costs associated with care provided by these providers. The federal share of the costs was \$491,620; the state share was \$370,549. When projected to the entire population, the likely unallowable payments made could be about \$18 million. The federal share of the estimated unallowable payments or likely questioned costs, is about \$10 million; the state share is about \$7.9 million. These questioned costs were reported in three findings.

We have reported findings regarding background checks at DSHS since 2011.

The Employment Security Department improperly calculated employer tax rates

The Employment Security Department (ESD) calculates the unemployment insurance tax rates for all Washington employers every year. This calculation, based upon state law, includes a 5.4 percent reduction in employers' taxes if they use a federally certified, experience-rated tax system. In March 2014, ESD implemented a new computer system that, among other things, calculates this rate. However, we issued findings in both the 2015 and 2016 Comprehensive Annual Financial Report related to the way this system processes employer wage reports and payments.

During our 2016 single audit, we determined ESD did not have adequate internal controls to ensure employers were assessed the proper tax rates, a violation of state law. The system was improperly identifying some employers as delinquent when they were not and incorrectly assigning them a delinquent tax rate. We found this affected almost 6 percent of the employers we tested.

Aside from the effect on those who were assessed improper rates, if ESD does not comply with state law, the U.S. Department of Labor could revoke the state's certification. If it did, it is possible that all employers in Washington would be required to pay an additional 5.4 percent in federal unemployment insurance tax.

DSHS overpaid a Supported Living Agency

In September 2015, DSHS notified our Office of suspected illegal activity at a contracted supported living agency. The Everett Police Department investigated and found an employee of the agency misappropriated at least \$9,000 in client funds between May and December 2014. We reviewed the police department's investigation and agreed with its conclusion.

DSHS terminated its contract with the agency on September 22, 2015, due to a series of unresolved deficiencies. At that time, the agency had not repaid the clients for the loss of their funds, as required by DSHS policy.

During our investigation, we found DSHS overpaid the agency \$117,048, because the agency did not provide contracted care hours to its clients between 2013 and 2014. In addition, the agency failed to submit its final cost report for 2015 as DSHS policy required, which meant DSHS additionally overpaid the agency about \$2.4 million. The total overpayment was \$2.5 million. The federal share of the costs was \$1.3 million.

Appendix A: Programs Audited in Fiscal Year 2016

| CFDA | Program |
|---------|--|
| Various | Research and Development Cluster |
| | Child Nutrition Cluster |
| 10.553 | School Breakfast Program (SBP) |
| 10.555 | National School Lunch Program (NSLP) |
| 10.556 | Special Milk Program for Children (SMP) |
| 10.559 | Summer Food Service Program for Children (SFSP) |
| 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) |
| 10.558 | Child and Adult Care Food Program (CACFP) |
| 12.400 | National Guard Military Construction Projects |
| 17.225 | Unemployment Insurance (UI) |
| | WIA/WIOA Cluster |
| 17.258 | WIA/WIOA Adult Program |
| 17.259 | WIA/WIOA Youth Activities |
| 17.278 | WIA/WIOA Dislocated Worker Formula Grants |
| 20.319 | High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants |
| 64.005 | Grants to States for Construction of State Home Facilities |
| 84.126 | Rehabilitation Services – Vocational Rehabilitation Grants to States |
| 84.367 | Improving Teacher Quality State Grants |
| | Aging Cluster |
| 93.044 | Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers |
| 93.045 | Special Programs for the Aging – Title III, Part C – Nutrition Services |
| 93.053 | Nutrition Services Incentive Program |
| 93.268 | Immunization Cooperative Agreements |
| 93.558 | Temporary Assistance for Needy Families (TANF) |
| 93.563 | Child Support Enforcement |
| | Child Care and Development Fund Cluster |
| 93.575 | Child Care and Development Block Grant |
| 93.596 | Child Care Mandatory and Matching Funds of the Child Care and Development Fund |
| 93.658 | Foster Care – Title IV-E |
| 93.659 | Adoption Assistance – Title IV-E |
| 93.667 | Social Services Block Grant |
| | Medicaid Cluster |
| 93.775 | State Medicaid Fraud Control Units |
| 93.777 | State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare |
| 93.778 | Medical Assistance Program (Medicaid; Title XIX) |
| 93.959 | Block Grants for Prevention and Treatment of Substance Abuse |

Appendix B: Summary of Federal Findings by State Agency

The full text of the findings can be found online in the 2016 Single Audit Report, starting on page E-5, at: www.ofm.wa.gov/singleaudit/2016/default.asp.

| Agency | Number | Finding |
|-----------------------------------|---|--|
| Social and Health Services | 2016-002 | The Department of Social and Health Services improperly charged \$3.6 million to multiple federal grants. |
| | 2016-004 | The Department of Social and Health Services did not have adequate internal controls over and did not comply with public assistance cost allocation plan requirements. |
| | 2016-011 | The Department of Social and Health Services failed to establish adequate internal controls over and was not compliant with federal requirements to establish timely individual plans of employment for Vocational Rehabilitation program clients. |
| | 2016-012 | The Department of Social and Health Services did not establish adequate internal controls over and was not compliant with federal requirements to determine client eligibility within a reasonable period for the Vocational Rehabilitation program. |
| | 2016-013 | The Department of Social and Health Services did not have adequate internal controls over and was not compliant with requirements to ensure payments paid on behalf of clients and staff time and effort for Vocational Rehabilitation were allowable. |
| | 2016-014 | The Department of Social and Health Services did not have adequate internal controls over and did not comply with requirements to ensure subrecipients of the Substance Abuse and Mental Health Services Projects of Regional Significance and Block Grants for Prevention and Treatment of Substance Abuse programs received required audits. |
| | 2016-015 | The Department of Social and Health Services did not have adequate internal controls over and did not comply with requirements to sanction Temporary Assistance for Needy Families program participants who were not cooperative with the Department regarding child support issues. |
| | 2016-016 | The Department of Social and Health Services did not have adequate internal controls in place for submitting quarterly reports for the Temporary Assistance for Needy Families Grant. |
| | 2016-017 | The Department of Social and Health Services did not have adequate internal controls in place to ensure compliance with the maintenance of effort requirements for the Temporary Assistance for Needy Families grant program. |
| | 2016-018 | The Department of Social and Health Services did not have adequate internal controls in place and was not compliant with requirements for submitting quarterly and annual reports for the Temporary Assistance for Needy Families grant. |
| | 2016-019 | The Department of Social and Health Services did not have adequate internal controls over and did not comply with requirements to ensure payments to child care providers for the Temporary Assistance for Needy Families program were allowable. |
| | 2016-023 | The Department of Social and Health Services did not have adequate internal controls over and did not comply with client eligibility requirements for the Child Care Development Fund. |
| | 2016-024 | The Department of Social and Health Services did not have adequate internal controls over and did not comply with foster care payment rate setting and application requirements for the Foster Care program. |
| | 2016-025 | The Department of Social and Health Services did not have adequate internal controls over federal eligibility requirements for the Foster Care program. |
| 2016-026 | The Department of Social and Health Services did not have adequate internal controls over and did not comply with federal level of effort requirements for the Adoption Assistance program. | |

| Agency | Number | Finding |
|-----------------------------------|--|--|
| Social and Health Services | 2016-027 | The Department of Social and Health Services did not have adequate internal controls over federal eligibility requirements for the Adoption Assistance program. |
| | 2016-036 | The Department of Social and Health Services, Aging and Long-Term Support Administration, did not have adequate internal controls over requirements to ensure surveys for Medicaid nursing home facilities were completed in a timely manner. |
| | 2016-037 | The Department of Social and Health Services, Aging and Long-Term Support Administration, did not have adequate internal controls over and did not comply with requirements to ensure surveys for Medicaid intermediate care facilities were completed in a timely manner. |
| | 2016-038 | The Department of Social and Health Services did not have adequate internal controls over its examinations of Medicaid nursing home cost reports. |
| | 2016-039 | The Department of Social and Health Services, Aging and Long-Term Support Administration, did not have adequate internal controls over and did not comply with requirements to ensure complaints of abuse and neglect of clients at Medicaid residential facilities were responded to properly. |
| | 2016-040 | The Department of Social and Health Services, Aging and Long-Term Support Administration, did not have adequate internal controls to ensure Medicaid Community Options Program Entry System and Community First Choice in-home care providers had proper background checks. |
| | 2016-041 | The Department of Social and Health Services, Developmental Disabilities Administration, did not have adequate internal controls over and did not comply with requirements for cost of care adjustments paid to Medicaid supported living providers. |
| | 2016-042 | The Department of Social and Health Services, Developmental Disabilities Administration did not ensure two Medicaid Community First Choice in-home care providers had proper background checks. |
| | 2016-043 | The Department of Social and Health Services, Developmental Disabilities Administration, did not have adequate internal controls over and did not comply with requirements to ensure Medicaid Community First Choice client support plans were properly approved. |
| | 2016-044 | The Department of Social and Health Services, Aging and Long-Term Support Administration, did not have adequate internal controls and did not comply with regulations to adequately monitor Adult Family Home providers to ensure Medicaid providers and their employees had proper background checks. |
| | 2016-045 | The Department of Social and Health Services, Developmental Disabilities Administration, did not have adequate internal controls over and did not comply with requirements to ensure Medicaid payments to supported living providers were allowable. |
| | 2016-046 | The Department of Social and Health Services did not accurately claim the federal share of Medicaid payments processed through the Social Service Payment System. |
| | 2016-047 | Medicaid funds were overpaid to a supported living agency that contracted with the Department of Social and Health Services, Developmental Disabilities Administration. |
| | 2016-048 | The Department of Social and Health Services, Aging and Long-Term Support Administration, made improper Medicaid payments to individual providers. |
| | 2016-049 | The Department of Social and Health Services, Developmental Disabilities Administration, did not have adequate internal controls over and did not comply with requirements to ensure Medicaid payments made through the Social Service Payment System to individual providers were allowable. |
| 2016-050 | The Department of Social and Health Services did not have adequate internal controls over the level of effort requirements for the Block Grants for Prevention and Treatment of Substance Abuse. | |

| Agency | Number | Finding |
|-------------------------------|----------|---|
| Health Care Authority | 2016-028 | The Health Care Authority did not perform semi-annual data sharing with health insurers as required by state law. |
| | 2016-029 | The Health Care Authority and the Department of Social and Health Services did not have adequate internal controls and did not comply with requirements to ensure Medicaid service verifications were performed for all eligible claims. |
| | 2016-030 | The Health Care Authority made improper Medicaid payments to Federally Qualified Health Centers and Rural Health Clinics. |
| | 2016-031 | The Health Care Authority did not repay the federal government for improper payments made to Medicaid Managed Care Organizations. |
| | 2016-032 | The Health Care Authority did not establish adequate internal controls and did not comply with requirements to ensure it sought reimbursement for all eligible Medicaid outpatient prescription drug rebate claims. |
| | 2016-033 | The Health Care Authority did not have adequate internal controls over its Medicaid inpatient hospital rate setting process and made overpayments to inpatient hospitals. |
| | 2016-034 | The Health Care Authority did not have adequate internal controls over and did not comply with requirements to ensure Children's Health Insurance Program funds were claimed for eligible Medicaid expenditures. |
| | 2016-035 | The Health Care Authority did not notify Medicaid providers of revalidation requirements as required by the Center for Medicare and Medicaid Services. |
| Early Learning | 2016-020 | The Department of Early Learning and the Department of Social and Health Services did not have adequate internal controls over and did not comply with requirements to identify and detect fraud in the Child Care and Development Fund program. |
| | 2016-021 | The Department of Early Learning did not have adequate internal controls over and was not compliant with requirements to ensure payments to child care providers for the Child Care and Development Fund program were allowable. |
| | 2016-022 | The Department of Early Learning did not have adequate internal controls over and did not comply with health and safety requirements for the Child Care and Development Fund program. |
| Employment Security | 2016-005 | The Employment Security Department made unsupported payments to Trade Readjustment Allowance program participants under the Unemployment Insurance program. |
| | 2016-006 | The Employment Security Department did not establish adequate internal controls over its Next Generation Tax System, which led to improper computations of employer unemployment insurance tax rates. |
| Services for the Blind | 2016-009 | The Department of Services for the Blind failed to establish adequate internal controls over and was not compliant with federal requirements to determine client eligibility for the Vocational Rehabilitation program within a reasonable period. |
| | 2016-010 | The Department of Services for the Blind failed to establish adequate internal controls over and was not compliant with federal requirements to establish timely individual plans of employment for Vocational Rehabilitation program clients. |
| Enterprise Services | 2016-008 | The Department of Enterprise Services did not have adequate internal controls over and was not compliant with federal wage rate requirements for the Grants to States for Construction of State Home Facilities program. |
| Financial Management | 2016-001 | The State should improve internal controls over the processing and recording of Unemployment Insurance premium payment and wage information and accounting for program activities in the Guaranteed Education Tuition program to ensure accurate reporting. |
| Health | 2016-003 | The Department of Health did not have adequate internal controls over and did not comply with requirements to monitor local agency operations timely and at the minimum percentage for the WIC program. |
| Transportation | 2016-007 | The Department of Transportation did not have adequate internal controls over and did not comply with federal wage rate requirements for the High-Speed Rail Corridors program. |