



STATE OF WASHINGTON

November 9, 2015

The Honorable Jay Inslee, Governor
Honorable Members of the Legislature

Dear Governor Inslee and 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, 2014 to June 30, 2015.

STATE AUDITOR'S OFFICE

Performance Audits

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

Performance Measures in Economic Development Programs¹

On October 2, 2014, the Office issued a performance audit report related to the Associate Development Organization (ADO) and the performance measures in economic development programs. This report examined if money directed toward economic development has the desired impact. The Department of Commerce is required by statute to maintain a system of performance measures focused on ADO outcomes, especially job creation and capital investment, which are widely used metrics for economic development. Our audit sought to answer the following questions:

1. Is it technically feasible to isolate the ADO's impact on economic outcomes?

¹ <http://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1012412&isFinding=false&sp=false>



2. Are the performance measurement practices used by the Department of Commerce to manage ADO contracts aligned with statutory intent?
3. Are the performance measurement practices used by the Department of Commerce to manage ADO contracts aligned with leading practices?

We determined that it is not feasible to identify the ADO program's precise impact on jobs. Furthermore, we identified that the performance measurement practices used by the Department of Commerce to manage ADO contracts are not working as intended and are only partially aligned with leading practices. We recommended that the Legislature reform reporting requirements for both Commerce and the ADO program and that it improve performance measures based on clarified program goals.

Opportunities to Improve State IT Security²

On December 15, 2014 the Office issued a performance audit that examined opportunities to improve state IT security. In this audit, we identified opportunities to strengthen the state's information technology security posture to reduce security risk. We found the audited agencies that rely on contractors to provide IT services did not fully understand the related standard that required them to ensure these contractors protected the state's data.

We recommend the agency include appropriate language in vendor contracts to require compliance with Office of the Chief Information Officer and agency security policies, standards, and requirements. We also recommend they require employees and contractors to comply with these IT security standards and agency IT policies and procedures. Each user should be made clearly aware of this responsibility.

During the 2014 legislative session, no bills were passed in response to our audit recommendations. In official response to the audit report, the Department of Commerce concurs with the conclusion and recommendation in the report. Similarly, Consolidated Technology Services (now part of Washington Technology Solutions) has begun to improve the addressed opportunities our office identified for improvement.

Fraud and Whistleblower Audits

There are no state agency fraud or whistleblower audits related to contracts that resulted in an audit finding from July 1, 2014 to June 30, 2015.

² <http://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1012957&isFinding=false&sp=false>

Compliance and Accountability Audits

Statewide Single Audit Report³

In March 2015, we issued our annual single audit report. In this audit we determine whether state agencies were in compliance with federal grant requirements for the fiscal year ending June 30, 2014. We identified the following issue related to contracts:

- *Proper procurement of contracted providers.* We found that 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. The Department contracts with doctors to perform consultative examinations and provide an expert opinion regarding the client's functional limitation due to medical problems. We found the Department did not competitively procure any of the 59 social research service contracts in effect during the audit period. The Department concurs with this finding and will work with central contract services to change the contracts process to ensure that future contracts comply with RCW 39.26 (Finding No. 2014-053, Page E-332).

Washington State Historical Society⁴

In September 2014, the Office issued a report to the Washington State Historical Society. In this audit, we found that internal controls were inadequate to safeguard public resources. In many instances, the Agency did not comply with the Office of Financial Management's State Administrative and Accounting Manual (SAAM). Related to contracts, the Agency had insufficient internal controls over the procurement process. We found the Agency:

- Had no written policies or procedures for initiating procurements, monitoring performance or making contract payments.
- Did not maintain adequate documentation of the competitive procurement process in accordance with SAAM manual guidance.

We recommended the Agency implement specific policies and procedures for initiating procurements, monitoring performance, and making payments on contracts. We further recommended the Agency enter into formal written contracts and maintain contract documentation on file for the duration of the contract, and comply with state records retention requirements. The Agency concurs with this finding and has initiated a contract and procurement training, which all contract managers were required to attend. The Agency will evaluate ways to improve contracting and procurement procedures.

³ <http://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1013915&isFinding=false&sp=false>

⁴ <http://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1012566&isFinding=false&sp=false>

Washington State Fruit Commission⁵

In December 2014, the Office issued a report for the Washington State Fruit Commission for Fiscal year ending March 31, 2014. In this audit, we noted that the Commission spent \$1,396,837 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 four vendors totaling to \$775,271. For these vendors, the Commission did not comply with federal procurement rules as follows:

- The Commission obtained informal quotes instead of procurement by sealed bids or competitive proposals for one vendor paid \$110,000.
- The Commission does not have adequate documentation to verify compliance for one vendor paid \$200,000.
- The Commission did not include any evaluation factors in requests for proposals for two contracts totaling \$465,271.

We recommended the Commission establish internal controls to ensure vendors in foreign markets are procured in accordance with federal requirements. The Commission concurred with our finding and reported that it is taking steps to resolve the issues. We will follow up with the Commission during our next audit.

Military Department⁶

In June 2015, the Office issued a report for the Military Department for the fiscal year ending June 2014. In this audit we noted that the Department did not have the expertise in place to fully understand the complex nature of the E911 contracts and its multiple phases. Consequently, the Department did not have a sufficient process in place to inform the telecommunication companies when changes to services or equipment needed to be made. The staff member reviewing the bills did not have the expertise to ensure the Department was only paying for services and equipment needed for statewide E911 services.

As a result, the Department made overpayments for E911 that were not detected. The total amount of overpayments cannot be identified until the Department more accurately determines the services needed for each county and performs a more thorough review of the invoices it has paid. However, during the audit period, the Department started this process and was able to recover \$314,371 for services that were not received or not needed.

We recommended that the Department ensure staff have adequate technical knowledge to ensure charges are accurate and contract changes are tracked and monitored. The Department concurs with

⁵ <http://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1013301&isFinding=false&sp=false>

⁶ <http://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1014540&isFinding=false&sp=false>

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the finding and has implemented all recommendations presented by the Auditor's Office. The Department recruited the necessary additional technical and fiscal staff necessary to manage all aspects of E911 telecommunications billing. The Department also plans to develop detailed written procedures to ensure continuity of the ongoing invoice review process.

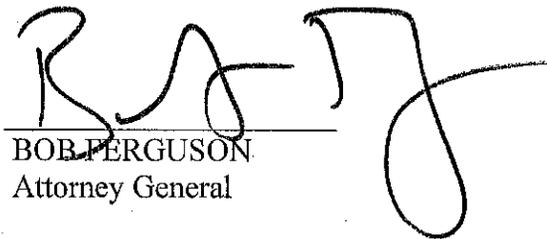
ATTORNEY GENERAL'S OFFICE

The agencies listed by the Auditor have either submitted corrective action plans or have provided detailed responses to the Auditor's findings such that the Auditor has decided to follow up with the respective agencies during the next audit. Accordingly, there were no referrals from the State Auditor to the Attorney General's Office for enforcement. The Attorney General's Office will work with the Auditor as the Auditor continues to monitor the agencies' corrective actions.

Sincerely,



JAN JUTTE, CPA
Acting State Auditor



BOB FERGUSON
Attorney General