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OFFICE OF THE GOVERNOR

## STATE OF WASHINGTON

November 4, 2014

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 letters serves as our report of findings issued and actions taken from July 1, 2013 to June 30, 2014

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

#### *Performance Audits*

Last year, we reported our January 2013 performance audit of vessel construction costs. In this report<sup>1</sup> we identified opportunities for the state to realize cost savings by making changes to their contracting practices for ferry construction. We recommended that the Legislature address regulatory barriers that limited competition of vessel procurements and that the Washington State Ferries continue to improve its vessel construction program by adopting leading industry practices. During the 2014 Legislative session, the House passed Bill No. 2555 relating to finalists for design-build contracts<sup>2</sup>, as a result amending RCW 39.10.330 and 39.10.470, and reenacting and amending RCW 43.131.408 ; [HB2555\\_Design-build Contracts](#).

During the most recent fiscal year, the State Auditor's Office (the Office) issued one performance audit report related to contracting issues. On April 14, 2014, our Office issued a performance audit report related to the Health Care Authority (the Authority). This report examined the Authority's Medicaid managed care program (see audit report No. 1011450). In this report<sup>3</sup>, we identified weaknesses in the Authority's oversight and monitoring of the program which allowed organizations to pay providers more than appropriate. In turn, this may have led the state paying higher premiums to these organizations.

<sup>1</sup> <http://www.sao.wa.gov/auditreports/auditreportfiles/ar1008884.pdf>

<sup>2</sup> <http://lawfilesexternal.wa.gov/biennium/2013-14/Pdf/Bills/HousePassedLegislature/2555.PL.pdf>

<sup>3</sup> <http://www.sao.wa.gov/auditreports/auditreportfiles/ar1011450.pdf>

We recommended that the Authority: (1) update its contract language with the managed care organizations, (2) ensure that the managed care organizations create formal documented policies and procedures for the calculation and reporting of pharmacy rebates and reinsurance recoveries, (3) structure contracts with delegated entities, and (4) provide specific guidance for the Medical Loss Ratio calculation.

### *Fraud and Whistleblower Audits*

#### Seattle Central Community College – Seattle Vocational Institute<sup>4</sup>

In October 2013, we reported on a Whistleblower assertion that the Associate Vice President at the Seattle Vocational Institute (the Institute) allowed a non-profit organization to operate a daycare at the Institute. We found the previous executive dean entered into an agreement with a non-profit organization. Our investigation found the daycare did not give preference to children of the students enrolled in the Institute as stated in the contract.

The former executive dean allowed state resources to be used for the private gain of the non-profit by providing free rent, utilities, janitorial and telephone services for the past 16 years.

The associate vice president determined how many of the Institute's students used the daycare. After determining the usage amount, the Institute re-negotiated the contract in March 2012 with the non-profit. In September 2012, the Institute notified the non-profit of its responsibilities to pay for its own rent, utilities, janitorial and telephone services. The non-profit began paying these costs in September 2012 and vacated the building on June 30, 2013. Therefore, we consider this issue resolved.

#### Washington State Department of Social and Health Services - Special Commitment Center<sup>5</sup>

In November 2013, we reported on a Whistleblower assertion that a former Superintendent of the Department of Social and Health Services (the Department), Special Commitment Center negotiated a contract under which he later performed work after leaving the Center. Although a University of Washington faculty member was listed in the contract as the principal investigator, the subject shared the role and worked as the principal investigator/project director on the contract. The Department concurred with our finding and reported that it is taking steps to resolve this issue. We will follow-up with the Department during our next audit.

<sup>4</sup> <http://www.sao.wa.gov/auditreports/auditreportfiles/ar1010655.pdf>

<sup>5</sup> <http://www.sao.wa.gov/auditreports/auditreportfiles/ar1010630.pdf>

## *Compliance and Accountability Audits*

### Statewide Single Audit Report

In the 2012 annual single audit report included a finding to the Department of Service of the Blind for not having adequate internal controls in place to ensure federal suspension and debarment requirements for contractors were met. During the 2013 annual single audit, we determined the Department implemented internal controls in August 2012 to ensure the Department would be in compliance with federal suspension and debarment requirements (*SWSA, Page 775*). The finding was not repeated.

In March 2014, we issued our annual statewide financial statement and single audit report<sup>6</sup>. We identified the following issues:

- *Oversight of the State's ProviderOne Vendor Contract.* The report included two findings related to ProviderOne. Based on these findings, the state added a requirement to the ProviderOne contract for an independent audit of the system of internal controls at the vendor location. Findings included:
  - The State's internal controls over payroll payments processed by Human Resources Management System and Medicaid payments processed by ProviderOne are inadequate to ensure those payments are properly processed and recorded (*Finding No. 2013-001, Page 185*).
  - The Health Care Authority did not complete the required security reviews of ProviderOne, the new Medicaid Management Information System, risking the loss of Medicaid program assets and jeopardizing Medicaid program integrity (*Finding No. 2013-028, Page 294*). This is a repeat finding from 2012.
- *Required background checks of contracted providers.* The Department of Social and Health Services had two divisions with contracted individuals providing health care services: Aging and Disability Services Administration and Aging and Long-Term Support Administration. We reported two findings of the Department not adequately monitoring that staff with unrestricted access to supported-living and adult family home clients had a proper background check. We recommended the agency strengthen monitoring procedures and terminate disqualifying employees immediately (*Finding No. 2013-034 & 2013-037, Pages 328 & 347*).
- *Proper payments of contracted providers.* The Department of Social and Health Services Developmental Disabilities did not have adequate controls to ensure Medicaid payments to supported living service providers are allowable and supported, resulting in unallowable payments of \$133,128. We recommended the agency strengthen monitoring of providers' payroll records to ensure payments to providers are legitimate and supported, seek recovery of the funds incorrectly paid to providers, and consult with the U.S. Department of Health and Human Services to discuss repayment of the questioned costs. (*Finding No. 2013-036, Page 341*). This is a repeat finding from 2012.

<sup>6</sup> <http://www.sao.wa.gov/auditreports/auditreportfiles/ar1012073.pdf>

#### Washington State Fruit Commission (the Commission)<sup>7</sup>

In December 2013, our Office issued a financial and federal single audit report for the Washington State Fruit Commission. In this audit, we determined whether the Commission was in compliance with federal grant requirements for the fiscal year ending March 31, 2013. We issued one finding related to contracts where the Commission did not have adequate internal controls in place to ensure compliance with federal suspension and debarment and procurement requirements. The Commission concurred with our finding and reported that Commission is taking steps to resolve this issue. We will follow-up with the Commission during our next audit.

#### Asparagus Commission (the Commission)<sup>8</sup>

In March 2014, we reported the Asparagus Commission did not establish administrative and research contracts that document terms, conditions and appropriate fees for services in accordance with state law. There is no original signed contract for administrative services and no amendments for this specific contract for the years 2010 through 2012. Therefore we are unable to determine the scope and requirements of the contract to determine if it is a valid contract. In addition, state law requires the Commission to use Washington State University (WSU) for all research, unless the Board determines that WSU's facilities are inadequate. We found no evidence that the Board evaluated WSU's facilities before awarding contracts to two contractors totaling \$175,000 and \$50,000 respectively. We will follow-up with the Commission during our next audit.

#### Blueberry Commission (the Commission)<sup>9</sup>

In March 2014, we reported that the Blueberry Commission did not establish contracts that document terms, conditions and appropriate fees for research and marketing and promotional services in accordance with state law. The Commission did not comply with state law and rules for procuring research services. The Commission does not have contracts with companies that outline what services will be provided. Therefore, it cannot ensure all services are being provided and cannot hold contractors accountable if services are not being provided. We will follow-up with the Commission during our next audit.

#### State Personal Service Contracts Report<sup>10</sup>

In May 2014, our Office issued a report that examined 160 personal service contracts at 10 state agencies. In this report, we identified 80 percent of the contracts were procured in accordance with state laws and policies. We identified nine state agencies that needed to improve documentation to ensure compliance with procurement requirements. However, the procurement issues we identified were not significant enough to rise to the level of an audit finding.

<sup>7</sup> <http://www.sao.wa.gov/auditreports/auditreportfiles/ar1010966.pdf>

<sup>8</sup> <http://www.sao.wa.gov/auditreports/auditreportfiles/ar1011384.pdf>

<sup>9</sup> <http://www.sao.wa.gov/auditreports/auditreportfiles/ar1011393.pdf>

<sup>10</sup> <http://www.sao.wa.gov/auditreports/auditreportfiles/ar1011981.pdf>

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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,

*Kelly Collins, CPA*

*for* TROY KELLEY  
State Auditor

*David M. Jones, Chief Deputy, AG*

*for* BOB FERGUSON  
Attorney General

