



STATE OF WASHINGTON

October 1, 2025

The Honorable Bob Ferguson
Governor of Washington
P.O. Box 40002
Olympia, WA 98504-0002

The Honorable Members of the Legislature
110 Legislative Building
Olympia, WA 98504-0600

Dear Governor Ferguson and Members of the Legislature:

State law (RCW 39.26.220¹) requires the State Auditor and Attorney General to annually give the Governor and the policy and fiscal committees of the Legislature a collaborative report on state agency contract audit and investigative findings, enforcement actions and status of the state agency resolution.

This letter serves as our report of findings and actions taken on audits issued in fiscal year 2025 (July 1, 2024 – June 30, 2025).

STATE AUDITOR'S OFFICE

Compliance and Accountability Audits

During fiscal year 2025, our Office did not issue any compliance and accountability audit reports that contained findings related to contracting issues.

Financial and Federal Audits

During fiscal year 2025, our Office issued three financial and federal audit reports that contained findings related to contracting issues.

Washington State Potato Commission ²

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

² <https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1035910&isFinding=false&sp=false>

On March 31, 2025, our Office issued a financial and federal report for the Washington State Potato Commission (Commission) that contained a finding that the Commission lacked adequate internal controls over and did not comply with federal suspension and debarment requirements. We recommended the Commission ensure all contractors paid \$25,000 or more, all or in part with federal funds, are not suspended or debarred from participating in federal programs before contracting with them.

The Commission agreed with the finding and will implement stronger internal controls to verify that all contractors paid \$25,000 or more, either fully or partially with federal funds, are not suspended or debarred from federal programs prior to entering into contracts. This will include regularly checking exclusion records in the U.S. General Services Administration's System for Award Management (SAM.gov) before performing work with contractors included in SCBGP contracts.

*Washington State Potato Commission*³

On November 18, 2024, our Office issued a financial and federal report for the Washington State Potato Commission (Commission) that contained a finding that the Commission lacked adequate internal controls and did not comply with federal suspension and debarment requirements. We recommended the Commission strengthen its internal controls to verify all contractors it pays \$25,000 or more, all or in part with federal funds, are not suspended or debarred from participating in federal programs.

The Commission agreed with the finding and following the March 2025 audit finding, the Commission implemented controls to address this requirement, including training and pre-award verification. The Commission acknowledged that, in this instance, verification was not documented prior to entering into contracts with the two contractors. To further strengthen internal controls and prevent recurrence, the Commission is implementing additional measures: 1. enhanced verification procedures, 2. internal compliance checklist, 3. annual staff training and monitoring.

*State of Washington*⁴

On May 5, 2025, our Office issued our annual financial and federal audit report for Washington state. This report covered the fiscal year that began on July 1, 2023, and ended June 30, 2024. The report included seven findings.

2004-011: The Washington State Department of Transportation did not have adequate internal controls over and did not comply with federal requirements for suspension and debarment and wage rate notification.

³ <https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?am=1036930&isFinding=false&sp=false>

⁴ <https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?am=1037119&isFinding=false&sp=false>

We recommended the Department:

- Establish effective internal controls to ensure it procures goods and services in accordance with state laws and regulations, FHWA regulations, and its own policies and procedures
- Improve its internal controls to ensure it complies with federal suspension and debarment requirements
- Ensure it complies with all federal regulations regarding contracting procedures, and follows its policies and procedures for awarding contracts

The Department agreed with the finding and noted it was a mistake that Form 1273 was left out of a contract. The Department subsequently discovered the oversight, and a change order was executed to include the form. We will review the status of the Department's corrective action during the next audit.

2024-021: The Washington State Department of Transportation did not have adequate controls over and did not comply with procurement and suspension and debarment requirements for the Coronavirus State and Local Fiscal Recovery Funds.

We recommended that the Department:

- Establish effective internal controls to ensure it procures goods and services in accordance with federal regulations, and its own policies and procedures
- Improve internal controls to ensure it complies with federal suspension and debarment requirements
- Ensure it complies with all federal regulations regarding contracting procedures, and follows its own policies and procedures for advertising and awarding contracts
- Improve internal controls to ensure all applicable state and federal requirements are met prior to advertisement of the contract
- Thoroughly review its construction contracts to ensure all federal suspension and debarment requirements have been met prior to execution

The Department agreed with the finding, noting these funds were for a limited program, and should the Department make any awards moving forward, it will utilize the procedures in place for FHWA. In addition, the Department will continue communications with OFM to ensure that contracts with SLFRF funds awarded comply with federal regulations and communicate any changes to the appropriate Department staff, as needed. We will review the status of the Department's corrective action during the next audit.

2024-020: The Department of Commerce did not have adequate internal controls to ensure compliance with suspension and debarment requirements for the Coronavirus State and Local Fiscal Recovery Funds.

We recommended the Department establish and document internal controls sufficient to prevent and detect noncompliance with the suspension and debarment requirements.

The Department disagreed with the finding. We reaffirmed our finding, noting that while we appreciate the Department's Internal Control Office assisting its programs with documenting its

internal controls and believe it will help strengthen the Department in future years, it was evident this documentation did not exist at its program levels during the audit period. We will review the status of the Department's corrective action during the next audit.

2024-054: The Department of Commerce did not have adequate internal controls over and did not comply with federal requirements to ensure subawards for the Low-Income Home Energy Assistance Program (LIHEAP) are clearly identified as subawards.

We recommended the Department establish policies and procedures and provide training for staff to ensure subawards are clearly identified as such to subrecipients. In addition, we recommended the Department consider incorporating the contracts unit when reviewing draft contracts and subawards.

The Department acknowledged the finding and for all future contracts, the LIHEAP will ensure the applicable contract templates are used to include the federal recipient type and all of the requirements for pass-through entities. We will review the status of the Department's corrective action during the next audit.

2024-038: The Department of Health did not have adequate internal controls over and did not comply with suspension and debarment requirements for the Epidemiology and Laboratory Capacity for Infectious Diseases program.

We recommended the Department establish adequate internal controls to ensure it completes the required suspension and debarment checks before entering into contracts with subrecipients and contractors that will receive \$25,000 or more in federal funds.

The Department agreed with the finding and stated that during the COVID pandemic, it operated under a competitive procurement waiver in order to expedite funding to critical partners throughout the state. Efforts to accelerate contracts, combined with the misperception that Educational Service Districts (ESDs) are an extension of the Office of Superintendent of Public Instruction, prompted the decision to use an Interagency Agreement and no suspension and debarment check was performed at the time. The Department stated they have corrected this error moving forward with ESD contracts. We will review the status of the Department's corrective action during the next audit.

2024-040: The Department of Health did not have adequate internal controls over and did not comply with fiscal monitoring requirements for the Epidemiology and Laboratory Capacity for Infectious Diseases program.

We recommended that the Department:

- Ensure all subrecipient contracts are identified correctly and include the appropriate templated language
- Identify and track all subrecipients
- Strengthen internal controls to ensure that fiscal monitoring is completed timely for all subrecipients

The Department stated it will evaluate current processes to ensure compliance with fiscal monitoring requirements for the ELC program. The Department noted during the COVID pandemic, DOH operated under a competitive procurement waiver in order to expedite funding to critical partners throughout the state. Efforts to accelerate contracts combined with the misperception that Educational Service Districts (ESDs) are an extension of the Office of Superintendent of Public Instruction, prompted the decision to use an Interagency Agreement and therefore some fiscal monitoring reviews were not performed. DOH implemented and corrected this error moving forward with ESD and vendor contracts as of January 2024, the middle of the next audit cycle. Therefore, the corrections will not be reflected in contracts executed prior to that time frame.

2024-074: The Health Care Authority did not have adequate internal controls over and did not comply with managed care financial audit requirements.

We recommended the Authority:

- Implement policies and procedures over obtaining properly audited financial reports
- Update MCO contracts to require audits of financial statements that are conducted in accordance with GAAP and GAAS
- Establish consistent processes to conduct and fully complete audits of encounter data and financial data at least once every three years

The Authority partially concurred with financial report recommendations. The Authority accepted financial statements prepared in accordance with SAP during the fiscal year but also implemented contract changes as described in the corrective action plan from the SFY23 finding. The Authority partially concurred with periodic audit recommendations. The Authority was in material compliance during the period under review but concurs that the initial financial audit was completed after December 2020. Moving forward, the Authority has controls in place to ensure periodic audits are completed within the required timelines.

Performance Audits

During fiscal year 2025, our Office issued one performance audit report that contained contracting issues.

*Health Care Authority*⁵

On October 28, 2024, our Office issued a performance audit report that contained contracting issues. This performance audit found the state Health Care Authority (HCA) and contracted managed care organizations (MCO) are taking key steps to prevent fraud and to ensure they are using accurate data about patient care and its costs.

To recover premiums unnecessarily paid to MCOs, we recommended the HCA:

⁵ <https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1035630&isFinding=false&sp=false>

- Amend HCA's contracts and processes with the MCOs to allow the state to recover premiums for concurrent enrollees later determined to be resident in another state

To address the need for additional ways to identify concurrent enrollments, we recommended the HCA:

- Amend HCA's contracts and processes to require MCOs to identify instances when that MCO's enrollment records show the same person is enrolled in more than one state's Medicaid program, and then to inform these states that someone is concurrently enrolled in their Medicaid programs.

HCA partially concurred with the first recommendation and will meet with the contracted actuary and MCOs to determine whether amending the contract to recover premiums for concurrent enrollees is in the best interest of the Medicaid program. The HCA said this work would be completed by March 30, 2025. If applicable, HCA will submit amendments to the contracts by January 1, 2026.

HCA concurred with the second recommendation and will evaluate the impact of the reporting and submit a contract amendment to require MCOs to identify instances when enrollment records show the same person is enrolled in more than one state's Medicaid program. The HCA said this work would be completed by July 31, 2025.

Fraud and Whistleblower Audits

During fiscal year 2025, our Office did not issue any fraud or whistleblower investigative reports that contained findings related to contracting issues.

ATTORNEY GENERAL'S OFFICE

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

Sincerely,



Pat McCarthy
State Auditor



Nick Brown
Attorney General