



Washington State Auditor's Office

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Accountability Audit Report Military Department

For the period July 1, 2013 through June 30, 2014

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Washington State Auditor

June 25, 2015

Major General Bret Daugherty, the Adjutant General
Military Department

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for Department operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the Department's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

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AUDIT SUMMARY

Results in brief

In most areas we audited, Department operations complied with applicable requirements and provided adequate safeguarding of public resources. The Department also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we identified areas in which the Department could make improvements.

We recommended the Department:

- Ensure staff with adequate technical knowledge of the E911 statewide services review invoices to ensure charges are accurate and approve all telecommunications bills prior to making payments.
- Ensure changes made to the contract, services, or equipment are tracked and monitored.
- Notify telecommunications companies promptly when services are no longer needed.
- Improve written policies and procedures over the E911 invoice review process.

These recommendations were included in our report as a finding.

About the audit

This report contains the results of our independent accountability audit of the Military Department from July 1, 2013 through June 30, 2014.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the Department's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Purchase Cards
- E911 statewide services

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2014-001 The Military Department does not have adequate internal controls over payments for the Washington State Enhanced 911 services program.

Background

The Washington State Military Department oversees the Washington State Enhanced 911 (E911) Program. The program is funded by state and county E911 excise taxes. The Department's role is to support the coordination and management of the enhanced 911 emergency communications systems for all counties in the state. In 2009, the Department entered into a contract to upgrade the aging 911 network. This contract had multiple phases and required continual changes of services as upgrades occurred. The Department also had to monitor the needs of each county to ensure correct service levels. To accomplish this, the Department communicates with telecommunications companies, notifying them when services need to begin, end, or change in any county.

In addition to upgrading the network over the past five years, the Department also pays the statewide monthly invoices from the telecommunications companies. The Department compares the up to 800 pages of support to the total invoiced amount, assigns account coding and approves the payments. In fiscal year 2014, the Department paid approximately \$12 million to telecommunications companies for E911 statewide services.

It is the responsibility of the Department to verify services were received and were properly billed prior to payment authorization. The Department must have a high level of specialized knowledge to ensure changes to service level are correct and these changes are then reflected in the bills. Also, the Department must constantly monitor the continually changing service needs as the upgrades to 911 service progressed.

Description of Condition

We reviewed the Department's process for ensuring proper payments were made for E911 statewide services and found:

- The Department did not have an adequate process in place to ensure all charges were accurate on monthly bills.

- Department staff did not have the specialized technical knowledge required to sufficiently perform the review of the monthly bills.
- The Department did not have an adequate process in place to track network and other service changes.
- The Department did not have a method to confirm billing matched services provided by the vendor in each county.

Cause of Condition

The Department did not have the expertise in place to fully understand the complex nature of the E911 contract and its multiple phases. Consequently, the Department did not have a sufficient process in place to inform the telecommunication companies that changes to services or equipment needed to be made. The staff member reviewing the bill did not have the expertise to ensure the Department was only paying for services and equipment needed for statewide E911 services. Management was not monitoring to ensure all network and circuit changes occurred timely and were reflected in the monthly invoices.

The Department also lacks detailed written policies or procedures for tracking network changes and reviewing the monthly bills to ensure accurate payments.

Effect of Condition

The Department made overpayments for E911 services that were not detected. During the audit period the Department began to more closely review prior invoices with more knowledgeable staff and stated it has recovered \$314,371 for services that were not received or not needed. An additional \$3,000 in payments was identified as an overpayment, but was not recoverable because the Department did not notify the vendor of the required service change in a timely manner.

The amount of additional overpayments cannot be identified until the Department more accurately determines the services needed for each county and performs a more thorough review of the other invoices they have paid. Additional public funds dollars are at risk until the Department establishes sufficient internal controls.

Recommendation

The Department hired a new billing specialist in December 2013 that has been reviewing the monthly bills in increasing detail as she has become more knowledgeable. They have also hired a dedicated E911 program IT specialist

with technical knowledge who is creating a statewide circuit inventory. In addition, the Department is in the process of creating a database to include all changes to service, a form to route service changes, and an updated desk manual.

We recommend the Department:

- Ensure staff with adequate technical knowledge of the E911 statewide services review invoices to ensure charges are accurate and approve all telecommunications bills prior to making payments.
- Ensure changes made to the contract, services, or equipment are tracked and monitored.
- Notify telecommunications companies promptly when services are no longer needed.
- Improve written policies and procedures over the detailed E911 invoice review process.

Department Response

Beginning in fiscal year 2014, the State E911 Coordinator's Office began analysis of all E911 telecommunications billing to align individual vendor line item costs with authorized and validated network components. To date, numerous billing discrepancies have been identified and communicated to multiple vendors as a result this new process. The Department remains in negotiations with vendors to recoup all identified overcharges to include authorized interest penalties.

Additionally in fiscal year 2014, the Department recruited the necessary additional technical and fiscal staff to manage all aspects of E911 telecommunications billing, to implement sufficient internal controls, and ongoing tracking of all network and service changes. Currently, the E911 Office is developing detailed written procedures to ensure continuity of the ongoing invoice review processes already underway.

To date, the Department has implemented all recommendations presented by the Auditor's Office, and continues to track and rectify all billing discrepancies as they are identified.

Auditor's Remarks

We thank the Department for its cooperation and assistance throughout the audit. We will review the status of the Department's corrective action during our next audit.

Applicable Laws and Regulations

RCW 43.88.160 Fiscal management – Powers and duties of officers and agencies, states in part:

The governor, through the director of financial management, shall devise and supervise a modern and complete accounting system for each agency to the end that all revenues, expenditures, receipts, disbursements, resources, and obligations of the state shall be properly and systematically accounted for. The accounting system shall include the development of accurate, timely records and reports of all financial affairs of the state. The system shall also provide for central accounts in the office of financial management at the level of detail deemed necessary by the director to perform central financial management. The director of financial management shall adopt and periodically update an accounting procedures manual.

The Office of Financial Management's *State Administrative and Accounting Manual* (SAAM), states in part:

85.32.10 Agency responsibilities:

It is the responsibility of the agency head, or authorized designee, to certify that all expenditures/expenses and disbursements are proper and correct.

Agencies are responsible for processing payments to authorized vendors, as defined in Subsection 85.32.15, providing goods and services to the agency. Goods and services include but are not limited to products, services, materials, equipment, and travel reimbursements.

Agencies are to establish and implement procedures following generally accepted accounting principles. At a minimum, agencies are also to establish and implement the following:

1. Controls to ensure that all expenditures/expenses and disbursements are for lawful and proper purposes and recorded in a timely manner (refer to Chapter 20 of this manual for guidance related to internal control procedures),

2. Procedures to ensure prompt and accurate payment of authorized obligations, and
3. Procedures to control cash disbursements.

85.32.20 Expenditure Authorization

85.32.20.a Goods and services are not to be ordered, contracted for, or paid for unless they are provided by authorized vendors and within the limitations prescribed by the Department of Enterprise Services, Contracts and Legal Division (RCWs 43.19.190 and 39.29.065), or other statute.

85.32.20.b Prior to payment authorization, agencies are to verify that the goods and services received comply with the specifications or scope of work indicated on the purchase or contract documents. Authorized personnel receiving the goods and services are to indicate the actual quantities received, services provided, deliverable submitted, etc. Refer to Chapter 20 for guidance related to internal control procedures.

85.32.20.c Agency heads or authorized designees are responsible for authorizing all expenditures/expenses.

Section 20.15.30.a Who is responsible for internal control?

The agency head or authorized designee is ultimately responsible for identifying risks and establishing, maintaining, and reviewing the agency's system of internal control. If the agency head delegates this responsibility, the designated person should have sufficient authority to carry out these responsibilities. Normally, this person is a senior agency manager who does not serve in the internal audit function.

Section 20.15.40.c Control Activities

Control activities help ensure risk responses are effectively carried out and include policies and procedures, manual and automated tools, approvals, authorizations, verifications, reconciliations, security over assets, and segregation of duties. These activities occur across an agency, at all levels and in all functions, and are designed

to help prevent or reduce the risk that agency objectives will not be achieved.

Managers set up control activities to provide reasonable assurance that the agency and business unit objectives are met. An example of a control activity is something as simple as listing tasks assigned to staff members and then periodically checking the list to verify that assignments are completed on time. Refer to Section 20.25 for further discussion of control activities.

Section 20.15.40.e Monitoring

Things change and, by monitoring the risks and the effectiveness of control measures on a regular basis, an agency can react dynamically to changing conditions.

Monitoring evaluates the effectiveness of an agency's internal controls and is designed to ensure that internal controls continue to operate effectively. Monitoring is effective when it leads to the identification and correction of control weaknesses before they materially affect the achievement of the agency's objectives.

An agency's internal control is most effective when there is proper monitoring, results are prioritized and communicated, and weaknesses are corrected and followed up on as necessary.

There are two types of monitoring: ongoing and periodic. Ongoing monitoring occurs in the course of operations. It includes tasks such as supervisory reviews of reconciliations, reports, and processes. Periodic monitoring includes tasks such as periodic internal audit sampling and annual reviews of high-risk business processes. Internal control deficiencies uncovered by monitoring should be reported to higher levels of management.

RELATED REPORTS

Financial

We perform an annual audit of the statewide basic financial statements, as required by state law (RCW 43.09.310). Our opinion on these financial statements is included in the Comprehensive Annual Financial Report (CAFR) prepared by and available from the Office of Financial Management.

The CAFR reflects the financial activities of all funds, organizations, institutions, agencies, departments and offices that are part of the state's reporting entity. That report is issued by the Office of Financial Management in December of each year and can be found at www.ofm.wa.gov.

A summary of the audit for the period ending June 30, 2014, can be found at: [http://www.sao.wa.gov/resources/Documents/2014 CAFR Summary Report.pdf](http://www.sao.wa.gov/resources/Documents/2014_CAFR_Summary_Report.pdf)

Federal programs

In accordance with the Single Audit Act, we annually audit major federal programs administered by the state of Washington. Rather than perform a single audit of each agency, we audit the state as a whole. The results of that audit are published in a report issued by the Office of Financial Management in March of each year.

A summary of the audit for the period ending June 30, 2014, can be found at: [http://www.sao.wa.gov/resources/Documents/2014 SWSA Summary.pdf](http://www.sao.wa.gov/resources/Documents/2014_SWSA_Summary.pdf)

INFORMATION ABOUT THE DEPARTMENT

The Washington Military Department has five major operational divisions: the state's Emergency Management Division, Army National Guard, Air National Guard, the Washington Youth Academy and State Services. These divisions utilize state and federal resources to perform homeland defense, homeland security, and emergency mitigation, preparedness, response and recovery activities.

The Department's mission is to minimize the impact of emergencies and disasters on people, property, environment, and the economy of Washington State and the region; provide trained and ready forces for state and federal missions; and provide structured alternative education opportunities for at-risk youth. In January 2009, the Department began operating the Washington Youth Academy, a state-run residential and post-residential program for 16-19 year old youth who have dropped out of high school or are at risk of dropping out.

The Department is based at Camp Murray and operates facilities across the state. State funds are used to manage the properties, as well as support the Washington National Guard, statewide emergency management planning and programs and administrative activities of the Department. The federal government directly funds the military operations of the Air and Army National Guard and provides grant funds to the state for maintenance of facilities. The Department of Homeland Security provides federal grants for disaster preparedness, mitigation and recovery. In the 2013-2015 biennium, the operating budget for the Department was approximately \$313 million with a capital budget of approximately \$112 million. For the same period, the Department had nearly 334 full-time employees.

Contact information related to this report

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Information current as of report publish date.

Audit history

You can find current and past audit reports for the Military Department at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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