

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 identify the services needed 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.