

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **2015-001 The Washington State Center for Childhood Deafness and Hearing Loss lacked adequate internal controls over its local fund cash receipts.**

#### *Background*

State law (RCW 72.40.015) describes the objectives of the agency. The Washington State Center for Childhood Deafness and Hearing Loss (Center) provides an integrated approach to learning and development for students that range from pre-kindergarten to 21 years of age. The Center provides educational and consultative services to children up to 22 years of age in collaboration with local school districts across Washington. Students come from all areas of the state to attend the Washington School for the Deaf to participate in a variety of academic and residential programs.

The Center has established three local bank accounts for its business operations. The Revolving account is used for general deposits, such as monies generated by cafeteria and student store sales and is remitted to the state treasury. The Pupils Funds account is maintained in a fiduciary trust by the Center for individual student deposit accounts. The Betterment account is used for student events, athletics, field trips and student enrichment. During state fiscal year 2015, the Center receipted approximately \$756,000 in local funds through these three accounts.

On a daily basis, funds are collected and reconciled with cash receipt records and local account deposit slips in the Business Office. Deposits are made once a week and are uploaded into the Center's accounting system for the Pupils and Betterment accounts. Revolving account funds receipted for deposit to the State Treasurer are also made weekly through the Treasury Management System. Monthly bank reconciliations are prepared to ensure the book and bank balances agree each month.

#### *Description of Condition*

We found the Center has not implemented adequate internal controls over its local fund cash receipts. Specifically, the Center:

- Has not established written policies and procedures over its local fund accounts and cash receipting processes.

- Has not adequately segregated employee responsibilities. For example, one Center employee is responsible for receipting, preparing and making bank deposits, reconciling accounts and issuing payments.
- No independent reviews are performed for monthly bank reconciliations or other daily receipting activities.

Additionally, the Center does not have a daily deposit waiver from the Office of the State Treasurer that authorizes weekly deposits of local fund accounts. We reviewed the daily cash receipts for the three accounts for the first two weeks of October 2014 and found five instances where state treasurer funds from the Revolving account were held for more than 24 hours and were not deposited timely in accordance with the State Administrative and Accounting Manual (SAAM).

### ***Cause of Condition***

The Center has limited staffing positions and is financially restricted in their ability to employ additional business office staff to assist in fiscal and administrative duties.

### ***Effect of Condition***

By not having adequate internal controls in place, public funds are at a higher risk of theft, misuse or abuse. The Center is also not fully compliant with required state policies.

### ***Recommendation***

We recommend the Center:

- Establish internal policies and procedures that establish an adequate segregation of duties and system of monitoring over daily cash receipting.
- Make local fund deposits timely, or obtain a waiver from the Office of the State Treasurer.

### ***Department's Response***

*The Center currently has a cash handling and receipting policy and procedure. The CDHL Board of Trustees is in the process of reviewing and updating all agency policies. We anticipate completion of all policies by end of fiscal year 2018. The business office policies have been prioritized for immediate review.*

*Prior to small agency consolidation in 2011, the Center managed all business transactions for the agency. Upon small agency consolidation, the business office staffing was reduced by three and a half FTE. When the Center restored business services in spring of 2014, the agency had budget capacity to fill two positions. The Center is committed to put in place a dual-process system of control to monitor and reconcile all fiscal transactions.*

### ***Auditor's Remarks***

We appreciate the Center's commitment to resolving these matters. We will follow-up on the Center's corrective action during our next scheduled audit.

### ***Applicable Laws and Regulations***

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

This section sets forth the major fiscal duties and responsibilities of officers and agencies of the executive branch. The regulations issued by the governor pursuant to this chapter shall provide for a comprehensive, orderly basis for fiscal management and control, including efficient accounting and reporting therefor, for the executive branch of the state government and may include, in addition, such requirements as will generally promote more efficient public management in the state...

(4)(a) Develop and maintain a system of internal controls and internal audits comprising methods and procedures to be adopted by each agency that will safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies for accounting and financial controls. The system developed by the director shall include criteria for determining the scope and comprehensiveness of internal controls required by classes of agencies, depending on the level of resources at risk.

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

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, states in part:

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.

#### Section 85.50.10 Deposit of treasury and treasury trust receipts

- a. Deposit intact each day all cash receipts for treasury and treasury trust accounts collected on the preceding day as prescribed in RCW 43.01.050 unless a specific written waiver is granted by the Office of State Treasurer (OST)...
- b. Except as provided in RCW 39.58.080, all treasury and treasury trust receipts must be deposited in a public depository located in this state.

#### Section 85.50.20 Deposits of local receipts

- a. Cash receipts for deposit in local accounts, established pursuant to RCW 43.188.195 or other statutory provision, are to be deposited intact each day for the collections of the preceding day refer to Subsection 85.65.12 for an illustrative entry unless:
  - A specific written waiver is granted by the Office of Financial Management, or
  - Total cash receipts on hand (exclusive of change accounts) are under \$500. However regardless of the amount on hand, local account receipts are to be deposited weekly.
- b. Local funds are to be deposited in public depositories located in this state...

#### Section 85.50.40 Reconciliation of cash receipts and deposits, states in part:

- a. Daily, cash is to be counted and reconciled with the appropriate records reflecting the day's transactions. All differences are to be investigated to ascertain the reason for the discrepancy...

- c. Accounts maintained in commercial institutions or credit unions, including petty cash accounts, are to be promptly reconciled with agency records on a monthly basis. The balance shown on the bank statement may not agree with the agency's book balance.

Variations can occur because of outstanding checks, deposits in transit, bank service charges, or other adjustments. Adjusting entries may be required when entries appear on the bank statement without corresponding entries in the agency's books. Adjusting entries, if necessary, are to be promptly prepared and recorded in the agency's records.

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **2015-002 The Washington State Center for Childhood Deafness and Hearing Loss lacked adequate internal controls over and did not comply with state policies related to credit cards.**

#### *Background*

The Washington State Center for Childhood Deafness and Hearing Loss (Center) provides an integrated approach to learning and development for students that range from birth to 22 years of age. The Center provides through Outreach activities, a range of services from direct service to consultation including program review to local school districts, students and families. The Center also provides direct educational services at the Washington School for the Deaf including residential services for students who live outside the greater Vancouver area. Educational services include providing free appropriate public education in the least restrictive environment for students enrolled at the Washington School for the Deaf.

The Center has 24 general credit cards and 13 corporate travel cards. Center employees must complete a request form before making a purchase or request purchases be made by the business office. The form is filled out by the requesting employee and must be pre-approved by a supervisor or the Center's director.

Employees explained that the following process for credit cards is used at the Center:

- After goods and services are purchased, original receipts or invoices are attached to the request forms.
- Supervisors approve the purchases and the documents are remitted to the business office.
- The supporting documentation is reviewed and reconciled and transactions are entered in the Center's accounting records by the fiscal analyst.

In state fiscal year 2015, the Center used credit cards to make more than 1,700 purchases totaling \$928,550.

### *Description of Condition*

We examined 51 credit card transactions totaling approximately \$273,000 and found:

- One purchase that cost \$149 included alcohol for a self-supporting fundraiser for the Conference of Educational Administrators for Schools and Programs for the Deaf (CEASD). Credit cards cannot be used to purchase alcohol.
- Six purchases totaling \$46,927 were not supported by adequate documentation to show meals with meetings had advance approval and did not include lists of who the meals were paid for.
- Four purchases made at restaurants totaling \$670 were not supported by itemized receipts. Although itemized receipts are not explicitly required by state policies, they are a best practice for meal purchases.
- Ten purchases totaling \$47,297 were not pre-approved.
- One purchase that cost \$20,544 was accounted for in the wrong fiscal year.

We also found that four purchases of gift cards totaling \$600 were reimbursed by the Center's Betterment local fund account. Gift cards were issued as rewards to students with good behavior, thank you gifts for volunteers, and prizes for the Center's Transition Fair program. State policies do not permit credit cards to be used to purchase gifts.

The Center did not establish adequate internal controls related to credit cards. Specifically:

- The Center did not maintain sufficient internal policies and procedures over credit cards, which is required by the Office of Financial Management.
- Credit cards were kept in a safe. However, four employees have access to the safe - including the Center employee who reconciles the bank account and issues payments. This employee also records purchases in the Center's accounting records. No secondary review or separation of duties has been established.
- Credit Card User Agreement Forms were not completed by employees who used the Center's general credit cards to purchase goods and services.



- Of the 13 corporate travel cards used during the audit period, one employee's credit card user agreement form was not on-file.

### ***Cause of Condition***

The Center had limited staffing positions and was financially restricted in their ability to employ additional business office staff to assist in fiscal and administrative duties.

### ***Effect of Condition***

By not having adequate internal controls in place, public funds are at a higher risk of theft, misuse, or abuse. The Center also failed to fully comply with required state policies.

### ***Recommendation***

We recommend the Center:

- Update written internal policies and procedures over credit cards.
- Adequately segregate employee duties or perform a secondary review of purchases.
- Ensure employee credit card user agreement forms are completed and on-file.
- Obtain adequate documentation to support that purchases were made in compliance with state policies.

### ***Department's Response***

*The Center has a current policy to address use of state purchasing and travel card. The policy is outdated and does not address requirements associated with recent statewide procurement changes. The CDHL Board of Trustees is in the process of reviewing and updating all agency policies. We anticipate completion of all policies by end of fiscal year 2018. The business office policies have been prioritized for immediate review.*

*The Center did experience an unauthorized purchase of alcohol during a fundraising event. Upon discovery, the agency immediately sought resolution and self-disclosed the error to the Office of Financial Management and to the Governor's office. While the purchased was transacted using a state purchasing card, the expense was ultimately paid for by CEASD.*

### *Auditor's Remarks*

We appreciate the Center's commitment to resolving these matters. We will follow-up on the Center's corrective action during our next scheduled audit.

### *Applicable Laws and Regulations*

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(4)(a) Develop and maintain a system of internal controls and internal audits comprising methods and procedures to be adopted by each agency that will safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies for accounting and financial controls. The system developed by the director shall include criteria for determining the scope and comprehensiveness of internal controls required by classes of agencies, depending on the level of resources at risk.

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

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.

#### Section 45.20.20.a Internal Controls

An agency should establish internal controls to address the use of the purchase card as a means of expending state funds. The following is the minimum level of controls acceptable:

- Maintaining a list of all cardholders, card custodians, and designated card users in the agency.
- Card users shall be given a copy of the agency purchase card policies and procedures, should sign a card user agreement form, and should complete training prior to a purchase card being issued and used.
- All cards should be ordered by and delivered to the agency program administrator for distribution to card users.
- Promptly recording, properly classifying, and promptly reconciling all transactions.
- Assigning key duties and responsibilities to ensure a proper separation of duties.
- Safeguarding purchase cards and account numbers against loss, theft, and unauthorized use. Cards should be kept by the cardholder or card custodian in a secure (locked) location when not in use.
- Agencies utilizing department cards should create and maintain a department card log to track card use. Designated card users should check out and check in the card on a department card log and describe the business purpose for each use in order to make a purchase.
- Making a reasonable attempt to physically recover and destroy purchase cards from terminating or reassigned employees.

- Setting spending limits for card users.
- Reconciling and approving card statements at least monthly.

#### Section 45.10.50 Unacceptable use of purchase cards

Unacceptable uses include, but are not limited to:

- Cash advances.
- Purchases in excess of the limits authorized for the card.
- Gifts/donations.
- Splitting purchases to circumvent the daily or monthly purchase limits on a card, or to avoid competitive bidding limits or purchasing authority limits.
- Purchases between internal departments within an agency, unless prior written approval is received from the Office of Financial Management (OFM) based on the requirements in Subsection 40.40.10.
- Except as noted below, purchases between state agencies. For interagency payments, the preferred payment method is Inter-Agency Payment (IAP). Journal vouchers may also be used to transfer funds between state agencies. Refer to Subsection 85.36.20. Exceptions to this are as follows:
  - When prior written approval is received from OFM based on the requirements in Subsection 40.40.10; or,
  - When the paying and/or receiving account is a local account, and the receiving agency has agreed to accept the inter-agency purchase card payments. Refer to Subsection 45.10.40.
- Prepayments unless otherwise authorized by statute or rule. Refer to Subsection 45.20.35.

- Purchases from any merchant, product, or service normally considered to be inappropriate use of state funds, including, but not limited to:
  - Items for personal use.
  - Materials or services from any member of the card user's immediate family.
  - Equipment, materials, services, or supplies restricted by state statutes, rules, policies, procedures, guidelines or contractual agreements.
  - Alcoholic beverages or liquor licenses, unless permitted by statute or rule.

#### Section 45.10.70.c Agency program administrator

The agency program administrator is the person responsible for management and oversight of the purchase card program within the agency, and is responsible for the following:

- Managing the purchase card program within the agency.
- Developing and enforcing agency policies and procedures for using the purchase card, including disciplinary procedures related to unauthorized use of cards and card renewal procedures. The agency policies and procedures should meet the minimum requirements of the statewide policies and procedures contained in this chapter. State ethics laws should also be considered when developing agency policies.
- Establishing and maintaining the purchase card reporting structure/hierarchy for the agency and ensuring proper separation of duties. For example, a card user may not be the reviewer or approving official for their own transactions.

- Reviewing purchase card applications and determining who within the agency should receive a card. For agencies utilizing department cards, this also includes designating card custodians.
- Ensuring that a card user agreement form has been signed by both the card user and appropriate approving official before issuing the card, and maintaining copies of the signed agreements in the agency's files.
- Maintaining a list of current cardholders, card custodians, and designated card users that are authorized to use cards.
- Obtaining cards from the issuing bank and distributing new and reissued cards to agency employees.
- Providing training to approving officials, cardholders, card custodians, and designated card users in the management, security, and use of the card.
- Reviewing the agency purchase card program at least annually to ensure that proper procedures are being followed.
- Ensuring card users satisfy documentation requirements for purchases.
- Closing card accounts as necessary, and collecting and destroying cards upon employee reassignment or termination.

#### Section 70.15.10 Reimbursement for meals with meetings

- a. RCW 43.03.050(3) provides for reimbursement for meals, for certain business meetings (includes conferences, conventions, and formal training sessions) involving elective and appointive officials, and state employees. Additionally, other statutes may authorize

agencies to provide reimbursement for meals for other individuals regardless of travel status...

- b. The agency head or authorized designee may authorize reimbursement for the allowable cost of meals (refer to Subsections 10.40.40 and 10.90.20) for elective and appointive officials and state employees regardless of travel status, and without regard to the Three Hour Rule of Subsection 10.40.50 (1). This authority is intended for use when the agency requires a person to attend a meeting where business meals are served, and where:
- The purpose of the meeting is to conduct official state business or to provide training to state employees or state officials; and
  - The meals are an integral part of the business meeting or training session, and
  - The meeting or training session takes place away from the employee's or official's regular workplace, and
  - The agency obtains a receipt for the actual costs of the meals with meetings, and
  - The agency head or authorized designee approves payment for the meals in advance of the meeting by defining in the agency internal policies and procedures (Subsection 10.10.10) those meetings where attendance by agency employee(s), official(s) or others as authorized by statute, and reimbursement for the meals regardless of travel status, is advantageous to the state.

Approvals must be in writing (Subsection 70.15.30). One-time approvals for recurring meetings can be made at the time of the initial request.