



Washington State Auditor's Office

Government that works for citizens

Accountability Audit Report **Military Department**

For the period July 1, 2014 through June 30, 2015

Published September 15, 2016

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Washington State Auditor's Office

September 15, 2016

Major General Bret Daugherty, The Adjutant General, Director
Military Department
Tacoma, Washington

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,

A handwritten signature in blue ink that reads "Troy X. Kelley".

TROY KELLEY
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:

- Perform monitoring visits at counties to ensure reimbursement requests are supported by adequate documentation and only allowable costs are paid.
- Develop Division specific policies and procedures over state grantee monitoring.
- Improving written policies and procedures over the E911 invoice review process.
- Ensuring services billed and paid for include only those services that can be reconciled to a contract term, pricing schedule, or allowable tariff.
- Continuing to work with the vendor to recover overpayments.

These recommendations were included in our report as findings.

About the audit

This report contains the results of our independent accountability audit of the Military Department from July 1, 2014 through June 30, 2015.

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:

- E911 statewide services
- E911 county services
- Emergency Services

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2015-001 The Military Department did not establish adequate internal controls over payments for the Washington State Enhanced 911 county services program.

The Washington State Enhanced 911 (E911) Program was established in 1991 through a voter referendum that directed enhanced 911 emergency communications systems to be available statewide. The State E911 Coordination Office (SECO) is located within the Emergency Management Division of the Washington Military Department. The SECO contracts with counties and the Washington State Patrol (WSP) to ensure that the Washington State Enhanced 911 county assistance program is operational and available throughout the state.

The SECO is funded by state 911 excise taxes to assist counties that are not able to implement E911 solely with their own excise tax collections. It distributes the money to counties and the WSP as a grant, and reimburses expenses after the counties or the WSP has paid the original invoice.

Counties and the WSP submit reimbursement requests monthly to the SECO. The E911 program procedures do not require detailed supporting documentation to be included with the reimbursement requests. The Department has not established a formal policy, but has a desk manual which recommends Financial Coordinators visit all counties each year and review documentation to ensure all reimbursements are properly supported. The desk manual does not recommend visits to the WSP.

The Department reimbursed approximately \$13 million to counties and the WSP for E911 county services in fiscal year 2015.

Description of Condition

In fiscal year 2015, the Department did not perform any visits to counties to review supporting documentation for reimbursements.

Also, the Department did not establish a county contract monitoring policy.

Cause of Condition

The Department asserted it did not have sufficient staffing resources to monitor county grant contracts during the audit period.

Effect of Condition

By not performing monitoring visits to verify the accuracy of county reimbursement requests, the Department is at a higher risk of making improper payments.

Recommendation

We recommend the Department:

- Perform monitoring visits at counties to ensure reimbursement requests are supported by adequate documentation and only allowable costs are paid.
- Develop Division specific policies and procedures over state grantee monitoring.

Department's Response

We believe the statement/finding, "The Military Department did not establish adequate internal controls over payments for the Washington State Enhanced 911 county services program", (Specifically; that the State E911 Coordination Office's (SECO) E911 County Assistance Program (ECAP) failed in our responsibilities by failing to perform monitoring visits in 2015) to be not completely accurate for the following reasons:

In the years prior to, and subsequent to SFY2015, SECO did perform 'Monitoring visits'. Additionally, SECO performs vigorous information reviews of County requests for reimbursement-on a monthly basis-before reimbursements being processed by our office. It is worth noting that even though ECAP was not performing site monitoring visits during this timeframe, several layers of contractual deliverables and cross-check procedures were (and are) still in place to assure grant funds were being expended IAW RCW, WAC and SECO policies.

While obviously desirable, 'Monitoring visits' are not specifically required. During this period, a management decision was made to suspend monitoring visits in lieu of higher-priority needs due to Disaster Activation (equal to 86 work days) and staffing at 50%.

These two factors resulted in ECAP staff being unable to conduct regular contract assistance/monitoring visits without failing to perform the higher priority required functions of managing the ECAP properly (those specifically called-out in RCW 38.52.545).

This 50% staffing condition has since been corrected with a plus up in State E911 Coordination Office's (SECO) staff to include the ECAP program, and regular contract monitoring visits were resumed in SFY2016 and have continued into SFY2017.

Auditor's Remarks

We thank the Department for its cooperation and assistance throughout the audit. While we understand management had competing priorities, no monitoring visits were performed during the audit period.

We reaffirm our finding and 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, states in part:

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

85.32.20 Expenditure Authorization, states in part:

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.

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.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.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2015-002 The Military Department did not have adequate internal controls over payments for the Washington State Enhanced 911 statewide 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 E911 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 six years, the Department also pays the statewide monthly invoices from the telecommunications companies. The Department compares up to 800 pages of support to the total invoiced amount, assigns account coding, and approves the payment. In fiscal year 2015, the Department paid approximately \$12 million to telecommunications companies for E911 statewide services.

The Department is responsible for verifying that services were received and were properly billed prior to making payments. 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 monitor the continually changing service needs as the upgrades to 911 service progress.

In our fiscal year 2014 audit, we reported the Department lacked adequate internal controls over the payments for E911 statewide services.

Description of Condition

We reviewed the Department's process for ensuring proper payments were made for E911 statewide services payments and found the Department's process was still not adequate to ensure all charges were accurate on monthly bills.

Specifically, the Department did not reconcile the individual line item payments for existing accounts to contract terms and conditions.

However, since our last audit, the Department has made improvements to its processes. For example, when network or other service changes took place, the Department established a notification process so the vendor would stop providing the service and the billing office would stop paying for the service.

Cause of Condition

Due to the timing of the 2014 audit report issued, the Department's corrective action plans were not fully implemented during the audit period.

Effect of Condition

We examined E911 statewide payments for three months, which included three existing accounts, totaling \$2.1 million and one new account totaling \$45,000. We found some payments were made for services that were no longer needed and others were made using incorrect rates. The total overpaid amount could not be determined until the Department gathers additional information from the vendor.

Recommendation

We recommend the Department continue to implement its corrective action plan by:

- Improving written policies and procedures over the E911 invoice review process.
- Ensuring services billed and paid for include only those services that can be reconciled to a contract term, pricing schedule, or allowable tariff.
- Continuing to work with the vendor to recover overpayments.

Department's Response

Following the audit visit, it was determined that the payment rates determined to be incorrect during the audit, were in fact correct. The contract did not correctly list the optional lower payment schedule for reduced service charges. This administrative oversight was promptly corrected by the vendor.

Auditor's Remarks

During our audit, we found some payments were made for services that were no longer needed and others were made using incorrect rates. The total overpaid amount could not be determined until the Department gathers additional information from the vendor.

We reaffirm our finding and 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 43.193.190 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.

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

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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.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Military Department July 1, 2014 through June 30, 2015

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the Military Department. The State Auditor's Office has reviewed the status as presented by the Department.

Audit Period: July 1, 2013-June 30, 2014	Report Ref. No: 1014540	Finding Ref. No: 2014-001
Finding Caption: The Military Department does not have adequate internal controls over payments for the Washington State Enhanced 911 services program.		
Background: During the 2014 fiscal year, the Department lacked adequate internal controls over payments for the Washington State Enhanced 911 services program to ensure the Department only paid for services received. The Department did not have the necessary technical or fiscal staff to understand the very complex contract for telecommunications. E911 statewide services billings were not verified with authorized and validated network components and pricing as listed in the contract. As a result, the Department paid for services that were not received and for services at the wrong rates.		
Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="text-align: center;"><input type="checkbox"/> Fully Corrected</div> <div style="text-align: center;"><input checked="" type="checkbox"/> Partially Corrected</div> <div style="text-align: center;"><input type="checkbox"/> Not Corrected</div> <div style="text-align: center;"><input type="checkbox"/> Finding is considered no longer valid</div> </div>		
Corrective Action Taken: <i>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.</i> <i>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.</i>		

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 to include:

- Staff with adequate technical knowledge of the E911 statewide services review invoices ensuring charges are accurate and approve all telecommunications bills prior to making payments.*
- Ensuring changes made to the contract, services, or equipment are tracked and monitored.*
- Notifying telecommunications companies promptly when services are no longer needed.*
- Improved written policies and procedures detailing the E911 invoice review process.*

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, 2015, can be found at: <http://www.sao.wa.gov/resources/Pages/AnnualReports.aspx>

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, 2015, can be found at: <http://www.sao.wa.gov/resources/Pages/AnnualReports.aspx>

INFORMATION ABOUT THE DEPARTMENT

The Washington State Military Department has five major operational divisions: Army National Guard, Air National Guard, Emergency Management, Washington Youth Academy and State Services. These divisions utilize state and federal resources to perform homeland defense, homeland security, emergency mitigation, preparedness, response and recovery activities. The Department has a strong culture of service. 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 a new high school for at-risk youth called the Washington Youth Academy. This program is funded under the auspices of the National Guard Youth Challenge Program. Established under authority of both federal and state law, the Program is 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 2015-2017 biennium, the operating budget for the Department was approximately \$349 million with a capital budget of approximately \$79 million. For the same period, the Department had nearly 340 full-time employees.

Contact information related to this report	
Address:	Military Department Camp Murray TA 20 Tacoma, WA 98430-5000
Contact:	Rick Woodruff, Accounting Manager
Telephone:	(253) 512-8068
Website:	www.mil.wa.gov

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.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
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Website	www.sao.wa.gov