

## 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*

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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?

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#### 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.

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