

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2015-001 The Department of Social and Health Services did not have internal controls to ensure medical benefit payments for individual providers were accurate and supported.

Background

The Department of Social and Health Services (DSHS) pays individual providers who deliver personal care services to Aging and Long Term Support Administration (AL TSA) and Developmental Disabilities Administration (DDA) clients. These individual providers are represented by the Service Employees International Union Healthcare 775 NW (SEIU). The Department and the SEIU established an agreement that states DSHS will pay for medical benefits for each individual provider that is actively working. In fiscal year 2015, the Department paid the SEIU trust \$2.80 for every eligible hour worked by individual providers. According to the agreement, the SEIU trust determines if individual providers are eligible to receive healthcare benefits.

Individual providers are required to track total monthly hours worked on standard timesheet forms. During the audit period, providers reported their time worked by phoning in or submitting invoices to the Department.

At the end of each month the Department calculates its payment to the SEIU trust by multiplying the total number of eligible hours paid to individual providers by the applicable rate. In fiscal year 2015, the Department paid over \$123 million in medical benefit payments to the SEIU trust. The funding for these payments is covered approximately fifty percent by Medicaid and fifty percent by state funds.

Both the AL TSA and DDA administrations report on the accuracy of individual provider hours reported on a yearly basis. They accomplish this by Home & Community Services Quality Assurance (HCS QA) performing an annual timesheet review and reporting back to management on the results.

Description of Condition

We found the Department did not have internal controls to ensure payments made to the SEIU trust for individual provider medical benefits were accurate and supported.

We randomly selected and requested records for 90 individual provider timesheets that supported payments totaling \$38,290 made to the SEIU trust and found:

- Two instances when timesheets did not support the number of hours paid to individual providers.
- Thirty-four instances (38 percent) when there were no timesheets from individual providers to support the payments.

We examined the HCS QA annual timesheet review process. Due to sampling methodology used, a portion of the population was not tested; which may have included additional exceptions.

We also found that DDA and ALTSA were not reporting overpayments that were detected during the review to staff responsible for making SEIU trust payments so adjustments could be made.

Cause of Condition

The Department did not ensure that hours claimed by individual providers were supported by timesheets, which are the basis for the medical trust payment. In March of 2016, the Department implemented a new payment system that allows individual providers to report their hours electronically.

HCS QA's annual review process identified potential issues. However, due to the sampling methodology used, the Department did not test a subset of the sample to determine if further action was needed.

When overpayments in hours were identified, the results were not communicated so adjustments could be made to the monthly medical trust payment.

Effect of Condition

The Department is at a high risk of making overpayments to the SEIU trust.

We examined \$38,290 in payments and found the Department paid \$196 that were not allowable and \$14,437 that were not supported by timesheets. We used a statistical sampling method to select the payments examined. When we project the error rate to the population of payments we estimate the Department paid approximately \$1.2 million in unallowable payments and paid approximately \$66 million more that was not adequately supported.

The table below summarizes the results of our examination:

	Actual	Projected	Projected State Dollars	Projected Federal Dollars
Unallowable payments	\$196	\$1,213,398	\$606,699	\$606,699
Unsupported payments	\$14,241	\$65,990,159	\$32,995,079	\$32,995,079
Total	\$14,437	\$67,203,557	\$33,601,778	\$33,601,778

The Department is also at risk of making improper medical trust payments when issues identified by the HCS QA timesheet review are not communicated to management and adjustments are not made for overpayments that are identified.

Recommendation

We recommend the Department establish internal controls over its payments to the SEIU trust for individual provider health care benefits. The internal controls should include the establishment of policies and procedures and be designed to ensure the amounts paid are supported by the actual hours worked by individual providers.

We further recommend the Department establish procedures to ensure adjustments are made to monthly payments to the SEIU trust to account for any overpayments made to individual providers.

Department’s Response

The Developmental Disabilities and Aging & Long-Term Support Administrations both concur with this finding.

Condition 1: *The Department did not ensure hours claimed by individual providers were supported by timesheets.*

The department has developed a process to ensure all hours claimed are supported by timesheets. The department will continue work with Individual Providers and clients to verify hours identified as unsupported in this report were actually provided. The final questioned costs should be adjusted to reflect only those hours where verification is not obtained.

Effective March 1, 2016, IPOne became the payment system used to pay Individual Providers. Within IPOne, timesheets are stored electronically and will only pay the number of hours identified in the electronic payment system. This

prevents the provider from receiving payment for more or less hours than what was reported.

Aging & Long-Term Support Administration's staff followed up with the 18 Individual Providers who did not submit the requested timesheets. Time sheets were obtained from eight Individual Providers and it was verified that hours were provided as claimed by an additional seven Individual Providers. Overpayments were submitted for the remaining three findings. The final questioned cost figure will be based upon only those hours that were not verified as provided.

Condition 2: *Due to the sampling methodology used, the Department did not test a subset of the sample to determine if further action was needed.*

Effective immediately, the Aging & Long-Term Support Administration will change its sampling methodology to only request the number of timesheets needed for a statistically valid sample.

Condition 3: *When overpayments in hours were identified, the results were not communicated so adjustments could be made to the monthly medical trust payment.*

The Department is developing internal controls designed to ensure the amount paid to the SEIU trust is adjusted for overpayments as follows:

Effective February 2017, overpayments will be created in IPOne by the adjustment of a previous timesheet. The new adjusted timesheet contains a reversal and a replacement section. The reversal section reverses the units and amounts from the original timesheet and the replacement section records the updated units and amounts. When the calculation for the Health Care Trust takes place, all timesheets paid during the period of the calculations are used and amount due to the Health Care Trust is based on all positive and negative timesheet entries.

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 in a future 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.

RCW 74.39A.095 Case management services—Agency on aging oversight—Plan of care—Termination of contract—Rejection of individual provider, states in part:

(1) In carrying out case management responsibilities established under RCW 74.39A.090 for consumers who are receiving services under the medicaid personal care, community options programs entry system or chore services program through an individual provider, each area agency on aging shall provide oversight of the care being provided to consumers receiving services under this section to the extent of available funding. Case management responsibilities incorporate this oversight, and include, but are not limited to:

(a) Verification that any individual provider has met any training requirements established by the department;

(b) Verification of a sample of worker time sheets until the state electronic payment system is available for individual providers to

record their hours at which time a verification of worker time sheets may be done electronically;

(c) Monitoring the consumer's plan of care to verify that it adequately meets the needs of the consumer, through activities such as home visits, telephone contacts, and responses to information received by the area agency on aging indicating that a consumer may be experiencing problems relating to his or her home care;

(d) Reassessing and reauthorizing services;

(e) Monitoring of individual provider performance; and

(f) Conducting criminal background checks or verifying that criminal background checks have been conducted for any individual provider. Individual providers who are hired after January 7, 2012, are subject to background checks under RCW 74.39A.056

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.

The 2013-2015 Collective Bargaining Agreement between the state of Washington and Service Employees International Union Healthcare 775NW Article 10, Compensation Comprehensive Health Care Benefits, states in part:

10.1 Coverage

The Employer agrees to make periodic contributions on behalf of all home care workers covered by this Agreement to the SEIU 775 Multiemployer Health Benefits Trust Fund ("Trust") in the amount specified in Section 10.2 below.

If required to contribute to the cost of health care benefits through a payroll deduction, eligible home care workers shall provide written authorization before receiving coverage.

10.2 Contributions

The Employer shall contribute two dollars and sixty cents (\$2.60) per Department-paid hour worked by all home care workers covered by this Agreement to the Trust, effective July 1, 2013. Effective July 1, 2014 the Employer shall contribute two dollars and eighty cents (\$2.80) per Department paid hour worked by all home care workers covered by this Agreement to the Trust. Department-paid hours shall not include consumer participation hours, training hours, paid time off or vacations . . .

[NOTE: The following paragraphs of Article 10.2 will become effective upon implementation of a new payroll system in accordance with Article 13.]

Contributions required by this provision shall be paid to the Trust in the month following the month in which service hours are paid. Once the payroll vendor has been chosen by the State pursuant to Article 13, the parties will meet to determine the specific date by which the contribution will be paid to the Trust. Contributions shall be transmitted together with a remittance form as may reasonably be required by the Trust or their designee.

Eligibility for health care benefits shall be determined solely by the Trust.

The Trust shall determine the appropriate level of contribution, if any, by eligible home care workers. Ongoing costs for deduction of home care worker premiums for health care shall be paid by the Employer. At least thirty (30) days notice of changes in deduction amounts must be given to allow the Employer to implement requested changes

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2015-002 The Department of Social and Health Services did not have adequate internal controls to ensure payroll for nursing staff at Western State Hospital was accurate and supported.

Background

Western State Hospital, managed by the Department of Social and Health Services, is one of two state-owned psychiatric hospitals for adults in Washington. The Hospital operates on an annual budget of more than \$160 million and is staffed by over 1,800 employees, which includes approximately 1,200 nursing staff. The Hospital paid approximately \$51 million to nursing staff during fiscal year 2015.

Federal regulations require the Hospital to provide 24 hour medical coverage. Management ensures this level of coverage is met by scheduling three separate shifts each day. The Hospital uses a system called Scheduler to monitor coverage for each shift in its wards. Each shift is required to have the following staff:

- Nursing supervisor to oversee ward coverage;
- Charge nurse to oversee nursing staff and patient care; and
- Nursing staff to provide direct patient care

To track nursing staff time and attendance, the supervisor completes a ward timesheet at the beginning of the shift for nursing staff on each ward they are responsible for. This time is based on scheduled shifts not actual hours worked. In addition, overtime eligible employees are required to complete an employee timesheet (time and attendance activity record) each pay period. The timesheets are reviewed and approved by their supervisor.

The Department's Consolidated Institutional Business Services (CIBS) is responsible for processing time and attendance for nursing staff. CIBS receives monthly unit timesheets, leave slips and Hospital overtime authorization forms each pay period and enters the information into the Department's payroll system.

Key Watcher is a system used to track keys in several wards on campus. When an employee arrives, they log into the system to obtain a set of keys for their ward. When an employee leaves, they must also log into the system to return their set of keys.

Description of Condition

The Department did not have adequate internal controls to ensure payroll for nursing staff at Western State Hospital was accurate and supported. We found the Hospital's payroll process was inconsistent and paid hours were not always substantiated by employee timesheets.

We judgmentally selected and examined pay periods for 169 nursing staff to determine if the reported payroll was accurate and supported.

We found:

Ward timesheets are based primarily on scheduled hours and not actual hours worked.

Nursing supervisors complete ward timesheets at the beginning of the shift based on scheduled hours, not actual hours worked.

We found some instances where hours recorded on ward timesheets did not agree to the payroll system. For example, some employees had more than one ward timesheet and none of the ward timesheets matched what was recorded in the payroll system. We also found instances where the ward timesheets were missing, so we were unable to determine what information was used when entering data into the payroll system.

Time and attendance staff said manual adjustments are made at times after nurse supervisors submit their ward timesheets; however, if those adjustments are made after payroll is processed, it could result in errors.

The payroll system is not reconciled to employee timesheets.

Federal regulations require that all overtime-eligible nursing staff complete an employee timesheet. Almost all of the 1,200 nursing staff at the Hospital are overtime-eligible.

Our preliminary examination of pay periods for ten overtime-eligible nursing staff found four timesheets were missing. Time and attendance staff said that staff timesheets were not used to generate payroll and that timesheets are often not submitted.

Because the Department was not able to provide us with reliable payroll documents, we were unable to determine if employees were paid only for actual hours worked.

Overtime is not recorded on ward or employee timesheets.

When eligible employees work overtime, they complete an overtime approval slip that must be submitted to their supervisor for review and approval.

The actual overtime worked by employees is not recorded on ward or employee timesheets. After supervisor approval, the overtime forms are submitted directly to time and attendance staff.

Key Watcher

Some nursing staff work on wards with the Key Watcher system. Although Key Watcher is not a timekeeping system, it does retain information on staff arrival and leave times.

We examined 1,722 nursing shifts from wards that use the Key Watcher system to determine if staff submitted a leave slip when they did not work their scheduled hours. We found 112 instances (6.5 percent) of the shifts we reviewed when electronic access records indicate employees did not work their scheduled hours.

Hospital management agreed that the results of our examination in this case were concerning and planned to follow-up with staff.

Cause of Condition

The Department does not have written policies or procedures describing how nursing payroll should be processed and approved. Additionally, the roles and responsibilities over time and attendance processing for both nursing staff and supervisors were not well defined.

Management did not ensure that all required nursing staff submitted timesheets and leave slips, or that they were accurate and complete.

Effect of Condition

The Department is at a higher risk of making improper payroll payments.

Recommendation

We recommend the Department improve internal controls over its payroll process for nursing staff. Specifically, we recommend the Department:

- Develop policies and procedures for nursing staff time and attendance.
- Ensure unit supervisors prepare monthly unit timesheets based on actual hours worked by confirming hours at the end of each shift.
- Ensure staff complete required time and attendance activity records.
- Ensure nursing staff complete leave slips when scheduled hours are not worked.
- Ensure supervisors review the accuracy of time and attendance records.
- Reconcile time and attendance records and leave slips to the data in the payroll system.

Department's Response

The Department concurs with this finding.

Western State Hospital administration will develop written policies and procedures for nursing department time and attendance staff that includes the necessity to report actual hours worked.

Administrative duties will be moved from the Registered Nurse Two and Registered Nurse Three positions whose focus is patient care, to the newly added Ward Program Administrators. This change in duties will be written in the new procedures which will include confirming hours worked at the end of each shift.

The procedures will also instruct staff to include any overtime worked on their Time and Attendance Activity Record (TAAR). The supervisor will record the overtime on the timesheet so each document reflects all hours worked.

To ensure compliance with the new procedures, policy will identify corrective action to be taken to address non-compliance. In addition, directors will be ensuring supervisors are reviewing time and attendance records for accuracy.

Upon the implementation of the Leave Tracker attendance system or similar system, time and attendance records will be reconciled to leave slips.

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 in a future 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:

Section 20.15.30.a Who is responsible for internal control?

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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.

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.

Collective Bargaining Agreement for Washington Federation of State Employees (WFSE) effective July 1, 2013 through June 30, 2015 states in part:

6.8 Positive Time Reporting – Overtime-Eligible Employees

Overtime-eligible employees will accurately report time worked in accordance with a positive time reporting process as determined by each agency.

DSHS Time and Attendance Activity Record Instructions, DSHS 03-458

This form (DSHS 03-458) is required as developed in meeting the minimum required data collection for positive time recording per US Department of Labor. Overtime eligible employees must positively account for all time compensated, to include accurately reporting actual hours worked. The employee must sign and the supervisor must sign in agreement that the data recorded is true and accurately reflects the employees compensated time for the pay period.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2015-003 The Department of Social and Health Services did not have adequate internal controls in place to ensure payments made under the involuntary treatment act were allowable and properly accounted for.

Background

Since 1989, the Department of Social and Health Services (DSHS) has contracted with Regional Service Networks (RSNs) to provide mental health services to its clients. Each RSN is responsible for serving eligible individuals in their service area. During the audit period, 11 RSNs contracted with DSHS and were paid each month for services provided to eligible clients.

Because RSNs do not have their own financial systems to process payments, DSHS allows health care providers to use the state's payment management system (ProviderOne). Since RSNs are paid upfront for these services, the Department is responsible for making sure it is properly reimbursed by RSNs.

One of the mental health programs covered by RSNs is the Involuntary Treatment Act. Washington's Involuntary Treatment Act (ITA) allows for individuals to be committed by a court to a mental hospital or institution against their will for a limited time period. These involuntary commitments are meant to provide for the evaluation and treatment of individuals who meet the criteria for ITA, which are:

- Present with a likelihood of serious harm to themselves or others resulting from a mental illness or substance use disorder.
- Refuse or are unable to enter treatment on their own.

The Department separately accounts for all ITA expenditures. The RSNs are responsible for the majority of the expenditures that must be reimbursed to DSHS. Ancillary costs, such as transportation, pharmacy and professional fees are paid directly to providers and are incurred outside of the normal contract with RSNs.

The Department paid approximately \$49 million for ITA expenditures in state fiscal year 2015. This included \$2.7 million for ancillary costs.

Description of Condition

The Department did not have adequate internal controls in place to ensure:

- Expenditures paid under the involuntary treatment act ancillary code were allowable and properly accounted for to ensure DSHS is only paying for expenses it is responsible for.
- RSNs reimbursed the Department within thirty-days in accordance with regional service network agreements.

We randomly selected and examined 59 ITA ancillary expenditures, which cost \$14,462, and found:

- 50 where the Department could not provide evidence to support if it was responsible for covering treatment costs or if these costs should have been paid for by RSNs or the Health Care Authority.

We also examined one significant expenditure that cost \$15,543. The expenditure was for a Hepatitis C medication improperly paid with ITA funds. Department staff said this expenditure should have been paid for by the Health Care Authority.

We examined all 132 reimbursement requests DSHS made to the 11 RSNs during the audit period and found 39 (30 percent) when an RSN reimbursed DSHS at least two months late. Six of the RSNs were at least five months late in reimbursing the Department with one RSN being more than 18 months late.

Cause of Condition

The Department did not perform a detailed review of ancillary expenditures to ensure it only paid for costs it was responsible for. When asked why no reviews were performed, staff said they were following past practices. Staff were not adequately trained to know what expenditures should be accounted for as ancillary costs.

Department staff responsible for billing the RSNs had not developed policies and procedures to ensure the terms of regional support network agreements were followed.

Effect of Condition

The Department paid \$25,894, accounted for as ancillary costs that may have been the responsibility of RSNs or the Health Care Authority. Because we used a valid statistical sampling method to select the transactions examined, we estimate the total amount of payments at risk to be approximately \$1.4 million.

By not ensuring RSNs comply with the terms of Regional Support Network agreements and make reimbursements timely, the Department's cash flow is negatively impacted.

Recommendation

We recommend that the Department develop adequate policies and procedures to ensure that:

- They monitor treatments accounted for as ancillary costs to ensure DSHS is only paying for expenses they are responsible for.
- RSNs submit reimbursements in a timely manner in accordance with the Regional Support Network agreements.

Agency's Response

The Department concurs with this finding.

The Department agrees that there is not adequate documentation available anymore for Involuntary Treatment Act ancillary costs paid by the Behavioral Health Administration (BHA) historically. The Department will work with BHA, the Health Care Authority program and fiscal staff to create proper documentation. In collaboration, this group will ensure Provider One is properly coded and will test and spot check these claims on a regular basis and investigate those that look erroneous.

Further, the Department will create procedures to ensure timely reimbursement from Regional Support Networks (RSN), now Behavioral Health Organizations (BHO), to comply with contractual reimbursement timelines. Communications with BHOs will be documented and if reimbursements are not paid when appropriate, BHA will explore reduction in payments or send to the Office of Financial Recovery for collections.

Auditor's Concluding 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 scheduled audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 Communicating Deficiencies in Internal Control, Fraud, Noncompliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements, and Abuse states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 935, as follows:

.11 For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows:

Deficiency in internal control over compliance. A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in *operation* exists when a properly designed control does not operate as designed or the person performing the control

does not possess the necessary authority or competence to perform the control effectively.

Material noncompliance. In the absence of a definition of material noncompliance in the governmental audit requirement, a failure to follow compliance requirements or a violation of prohibitions included in the applicable compliance requirements that results in noncompliance that is quantitatively or qualitatively material, either individually or when aggregated with other noncompliance, to the affected government program.

Material weakness in internal control over compliance. A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.

Remote. The chance of the future event or events occurring is slight.

Probable. The future event or events are likely to occur.

Significant deficiency in internal control over compliance. A deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

(4) In addition, the director of financial management, as agent of the governor, shall:

(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.

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

RCW 71.05.150 Detention or involuntary outpatient evaluation of persons with mental disorders – Procedures states in part:

(1)(a) When a designated mental health professional receives information alleging that a person, as a result of a mental disorder: (i) Presents a likelihood of serious harm; (ii) is gravely disabled; or (iii) is in need of assisted outpatient mental health treatment; the designated mental health professional may, after investigation and evaluation of the specific facts alleged and of the reliability and credibility of any person providing information to initiate detention or involuntary outpatient evaluation, if satisfied that the allegations are true and that the person will not voluntarily seek appropriate treatment, file a petition for initial detention or involuntary outpatient evaluation.

Regional Service Network agreement with DSHS section 5.5 states in part:

If the Contractor elects to use the Medicaid Management Information System (MMIS) system for inpatient claim processing, DBHR, or its designee, will bill the Contractor on a monthly basis for claims paid on behalf of the RSN. The Contractor has 30 days from receipt of the inpatient claim bill to pay the costs assessed.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2015-004 The Department of Social and Health Services Developmental Disabilities Administration did not have adequate internal controls to ensure residential services and support allowances were allowable and supported.

Background

The Department of Social and Health Services (DSHS) serves over 3,900 clients with developmental disabilities living independently throughout the state. In an effort to avoid institutional-based care, and to increase their client's sense of personal independence and fulfillment, the Department contracts with private supported living agencies to assist clients to live independently in their communities. Each client pays for their own rent, utilities, food, and other necessary living expenses.

Supported living agencies are private companies that provide clients, who would otherwise be institutionalized, with personalized amounts of instruction and support. This support can include an array of services, including managing client finances, shopping and paying bills on behalf of the client.

When a client does not have sufficient resources to pay for essential living expenses or routine expenses associated with establishing and/or maintaining a residence, a supported living agency can request a reimbursement from the Department to cover the expenses that were paid on behalf of the client. These expenses may include start-up items such as rent, security deposits, furniture or other household items, damages to the residence caused by the client, or an absent roommate's share of joint expenses, such as rent and utilities.

Providers are required to complete a Residential Allowance Request form and provide justification and supporting documentation that substantiates the need for reimbursement. The Field Services Administrator or designee and/or the Regional Administrator must approve or deny all reimbursement requests.

In fiscal year 2015, the Department spent over \$1.1 million for approximately 2,500 residential services and support allowances.

Description of Condition

The Department's review process was not effective to ensure residential support allowances were adequately supported and allowable.

We examined 102 residential support allowance reimbursements, totaling \$119,283, and found:

- Documentation for 17 payments, totaling \$15,469, did not contain sufficient justification to support the payment.
- Three payments, totaling \$4,483, were not supported due to missing documentation at the time of the audit.
- Nine payments totaling \$11,857 were not properly approved in accordance with Department policy.
- Three payments, totaling \$1,059, were for cash advances, rent exceeding the allowable portion, and premium cable charges, which are not allowable according to Department policy.

Cause of Condition

The Department did not follow its own policies related to obtaining required approval prior to authorizing payment.

In addition, the policies and procedures in effect during the audit period did not provide clear guidance to staff assigned with reviewing requests. This required staff to rely on their own judgment in approving or denying each request. As a result, supporting documentation was not always requested or retained by Department staff when conducting its reviews.

Effect of Condition

By not thoroughly reviewing adequate supporting documentation for all allowance requests, the Department is at a higher risk of making unallowable payments.

Recommendation

We recommend the Department establish and follow adequate policies and procedures for residential services and support allowances to ensure they are allowable and supported.

Department's Response

The Department concurs the:

- *Nine payments totaling \$11,857 were not properly approved in accordance with policy, and*
- *Three payments totaling \$1,059 did not meet policy standards.*

The Department does not concur with the:

- *Seventeen payments totaling \$15,469 for not having sufficient justification, and*
- *Three payments totaling \$4,483 for not having documentation.*

Per DDA Policy, the supported living agency is required to submit additional information to the Resource Manager upon request. The policy does not require all receipts or lease agreements, be submitted for each transaction.

The Department believes the supported living agencies had submitted sufficient information on the RAR forms to the Department's resource managers for the 20 payments the auditors state did not have sufficient justification or no documentation. Approvals for payments are based on the resource manager's review of the RAR forms. The Department believes these 20 exceptions/payments appear to be an inaccurate interpretation of the policy.

Auditor's Remarks

We thank the Department for its cooperation and assistance throughout the audit.

We worked closely with the Department to ensure that all identified exceptions were processed in accordance with Department policies. We determined final exceptions identified were not processed in accordance with these policies to ensure proper approval and back up documents were requested and retained.

We reaffirm our finding and will review the status of the Department's corrective action in a future audit.

Applicable Laws and Regulations

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

(1) Governor; director of financial management. 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. Any agency maintaining its own accounting and reporting system shall comply with the updated accounting procedures manual and the rules of the director adopted under this chapter. An agency may receive a waiver from complying with this requirement if the waiver is approved by the director

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

20.15.40 There are five interrelated components of an internal control framework: control environment, risk assessment, control activities, information and communication, and monitoring. These components make up the minimum level of internal control an agency needs to have in place and are the basis against which internal control is evaluated.

To implement the framework, management develops the detailed policies, procedures, and practices to fit their agency's operations, and ensures that they are built into and are an integral part of operations. If an agency considers the framework components in its planning efforts and builds them into its daily processes, the agency will be poised to achieve the maximum benefit for the lowest cost.

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.

The Department's Residential Services and Supports Allowances policy 6.11 states, in part:

PROCEDURES:

A. Start-Up Allowance:

2. Residential allowance requests must be submitted to the Resource Manager (RM) using DSHS 06-125, Residential Allowance Request. Include the following information on the form:

- a. An itemized list of the necessary purchases and estimated cost;
4. The service provider files the original purchase receipts in the client's file and submits copies of the receipts to the RM.
6. Requests for start-up allowances exceeding \$1,500 must be accompanied by a written justification for the additional items and expense.
7. The Regional Administrator or designee must approve or deny all ETP requests.

B. Insufficient Income Allowance:

2. The RM evaluates the need for the allowance using the following criteria:

- a. Allowable expenses include the full cost of rent and utilities, the base rate for telephone service, basic cable, the cost of public transportation to essential services, and a standard regional allowance for food, personal care products, and cleaning supplies; and

- b. Request for allowance of any other expenses must be by ETP
3. Upon request, the service provider will submit additional documentation to the RM, including:
- c. Receipts to verify expenses claimed on the Residential Allowance Request. If a receipt is not available, document the expense in the client file.
4. The RM determines the allowance amount based on the information above, using the calculation formula on the regional request form submitted by the provider.

C. Roommate Vacancy Allowance:

- 1. The amount of a roommate vacancy allowance is determined as the total portion of the fixed monthly expenses that would normally be paid by a roommate.

E. Field Services Administrator Approval

All allowance requests must be reviewed and approved by the Field Services Administrator or designee. Approval is contingent upon the availability of funding within the region.

The Department's Client Damage Reimbursement policy 6.16 states, in part:

POLICY:

- B. The request must be for a specific client and for a specific incident.

PROCEDURES:

- A. The service provider must submit the completed DSHS 06-125, Residential Allowance Request, to the Resource Manager. The Resource Management Administrator (RMA) will make the decision on the request.
- B. Damage reimbursement requests exceeding \$1,500 must be sent to the Central Office Community Residential Services Program Manager. Only the Deputy Assistant Secretary or

designee may approve any damage reimbursement request exceeding \$1,500.

C. Include or attach to the reimbursement request the following documents:

1. A reference to the relevant incident report; and
2. Unless it is an imminent health or safety concern, at least one (1) written estimate from a:
 - i. Licensed or Bonded contractor; or
 - ii. Bonded service repair person; or
 - iii. Retail store carrying the item to be replaced.
4. Damages exceeding \$1,500 must have at least two (2) written estimates.

E. The service provider must maintain complete reimbursement and payment records, including receipts for payment of damage repairs, receipts for reimbursement amounts received from the client, and insurance payments.