

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2017-001 The Department of Social and Health Services was unable to ensure payments made to a vendor were properly accounted for and adequately supported.

Background

The Department of Social and Health Services (Department) serves over 37,000 clients who receive personal care services in their homes. Services include assisting clients with everyday tasks such as bathing, dressing, shopping and managing medication. The goal of the program is to support clients in their homes so they can continue to live in their communities and avoid institutional care.

Clients receive a set number of personal care hours each month based on a Department assessment. About 45,000 individual providers contract with the Department to provide personal care services and are represented by Service Employees International Union 775 (Union). Clients are responsible for hiring and dismissing employees and managing their caregiver's daily routines. For collective bargaining purposes only, individual providers are considered Department employees, and the Union bargains with the state for wages and benefits. The Department is responsible for paying individual providers, associated payroll costs and employee benefits.

In 2013, the Department contracted with a vendor to develop a payroll system and provide payroll services to individual providers. The system, known as Individual ProviderOne (IPOne), began issuing payments to individual providers in April 2016. The payments are funded both by state dollars and a federal Medicaid grant.

The Department pays the vendor a "per member, per month" fee based on the number of provider timesheets processed during the month. The vendor may also charge the Department for call-center hours that support individual providers with payroll questions and issues, and for postage costs involved with communicating with individual providers. During calendar year 2017, the Department paid the vendor over \$28.5 million for these services.

The vendor is responsible for developing and managing the payroll system, paying individual providers at the accurate rate and complying with federal and state tax requirements. These tax requirements include preparing, filing and paying taxing authority returns and making timely federal tax deposits on behalf of the Department. The vendor is also responsible for calculating and submitting payments to Union trusts for employee health care, retirement and training fringe

benefits. During calendar year 2017, the Department paid the vendor over \$1 billion to fund wage payments to individual providers, payroll tax payments to taxing authorities, and the Union trusts to administer health, retirement and training benefits for individual providers.

In the Department's fiscal year 2015 accountability audit, we reported in a finding that payments to the Union trust for healthcare benefits were not adjusted to account for overpayments made to individual providers. In its corrective action plan, the Department said IPOne's implementation would address this issue.

Description of Condition

The Department was unable to ensure payments it made to the vendor were properly accounted for and adequately supported. The Department requested data and documentation from the vendor that it needed to reconcile what it paid to the vendor with what the vendor paid individual providers, taxing authorities and the Union trusts. The vendor did not respond with enough information for the Department to complete its reconciliations.

For this audit, we partnered with the Department to request data and supporting documentation from the vendor so our Office could perform an independent review. The vendor provided some of the information we requested, but its response was incomplete.

Using the available information, we completed a cash basis reconciliation between what the Department paid to the vendor and what the vendor paid to individual providers for wages, taxing authorities and Union trusts during calendar year 2017.

Payment reconciliations

We found the vendor over-requested and the Department overpaid \$987,088 for wages, benefits and payroll taxes during calendar year 2017. Of that amount, over \$750,000 was attributable to Federal Insurance Contribution Act (FICA) refunds and adjustments.

Uncashed checks

In some instances, the vendor issued paper checks that went uncashed by individual providers. Federal regulations require states to return the Medicaid-funded portion of uncashed checks to the grantor after 180 days.

We found a total of \$376,726 in uncashed checks that were over 180 days old as of December 31, 2017. Of that amount, \$210,966 was funded by Medicaid and had not been returned to the grantor.

Adjustments

In some instances, individual providers, taxing authorities and union trusts were overpaid. The Department has established a list of potentially overpaid claims, but the IPOne system has been unable to process overpayment adjustments since its implementation.

State Unemployment Taxes

As described in the Background section of this finding, individual providers are considered state employees for the purposes of collective bargaining and are eligible to receive unemployment compensation from the state Employment Security Department (ESD) if they meet certain requirements. The vendor is contractually responsible for filing quarterly State Unemployment Tax Act (SUTA) returns and paying unemployment insurance tax on behalf of the Department.

We found the vendor did not file all required SUTA returns or pay state unemployment taxes on behalf of the Department. Between April 2016 and December 31, 2017, six quarterly SUTA returns were due. As of December 31, 2017, the vendor had filed one of the six returns due and paid the associated taxes for that return. However, the vendor subsequently notified ESD that the one return it did file was inaccurate and needed to be amended.

Cause of Condition

The Department said the vendor has experienced significant staff turnover in the past few years and has not dedicated the necessary resources to provide the requested information or implement system modifications in a timely manner.

Effect of Condition

We found the Department monitored its contract with the vendor during the audit period and attempted to resolve the issues described in the finding. Department management regularly communicates with the vendor and its parent corporation in an effort to resolve the contract deficiencies.

Because quarterly SUTA returns were not filed and unemployment taxes were not paid, the state's Unemployment Insurance program might have been negatively affected.

Although the Department was monitoring its contract with the vendor, we chose to issue an audit finding because the vendor is responsible for managing a significant amount of public funds. The vendor's lack of responsiveness to the Department's

requests for information increases the risk that public funds might not be properly spent and accounted for.

Recommendations

We recommend the Department:

- Request the vendor refund the \$987,088 that it was overpaid
- Consult with its federal grantor about whether it must repay the federal portion of the uncashed checks
- Continue to work with the vendor to obtain information necessary to properly reconcile and account for public funds, and to implement system modifications
- Ensure that the vendor files SUTA returns and pays unemployment taxes for individual providers

Department's Response

The Department partially concurs with the finding.

The Department does not agree that the vendor requested and was overpaid \$987,088 for calendar year (CY) 2017. The vendor provided the Department with a reconciliation covering April 2016 through a portion of 2018. The State Auditor's Office (SAO) only verified the information for CY2017.

The overpaid amount of \$987,088 cited in the finding included \$905,951 for Federal Insurance Contributions Act (FICA) refunds for CY2017. The FICA refund cannot be accurately calculated by calendar year. Payments paid by the vendor in CY2016 and funding provided by the Department in CY2018 must be considered when calculating the total FICA refund due. Excluding FICA refunds, of the \$1 billion+ dollars paid to the vendor in CY2017 the vendor requested and the Department overpaid \$81,137.

The Department has worked with the vendor regarding the overpaid employer portion of the FICA refunds and received payment of \$847,591 for CY2016-2018, in June 2018. The Department will continue to work with the vendor to resolve the remaining current discrepancy of \$26,759.

Due to vendor staffing and system issues, we agree that the vendor has been unable to provide adequate payment reconciliation. In lieu of receiving the reconciliation from the vendor, the Department has initiated processes to obtain information directly from the taxing entities and trusts to verify payments. The Department has

also requested monthly bank statements and copies of quarterly reconciliation from the vendor in order to complete our own reconciliation of payments. In addition, the vendor is developing an automated financial reconciliation report, which is expected to be completed in the 2nd quarter of 2019.

The Department has initiated discussions with the vendor on developing the process to return the funding for the uncashed checks to DSHS and the federal portion to Medicaid. The Department will continue to work with the vendor to ensure we receive the information necessary to reconcile all payments made to the vendor, all State Unemployment Tax Act (SUTA) returns are filed, and payments are made for unemployment taxes.

The Department co-developed a plan with the vendor to implement an IPOne system process to administer overpayment adjustments. This system process will be implemented in IPOne in the 4th quarter of 2018.

The Department appreciates the acknowledgment by the State Auditor's Office that we have monitored the contract, regularly communicated with the vendor and their parent corporation, and have made multiple attempts to resolve the issues identified in the finding. The Department will continue to work with the vendor to ensure all contract obligations are met.

Auditor's Remarks

We will follow-up with the Department during our next scheduled accountability audit to determine whether the planned corrective action has resolved these matters.

Applicable Laws and Regulations

The Office of Financial Management's *State Administrative and Accounting Manual* (SAAM) 85.32 Goods and Services Expenditures, states in part:

Section 85.32.10 Agency responsibilities:

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. It is the responsibility of the agency head, or authorized designee, to certify that all expenditures/expenses and disbursements are proper and correct.

Section 85.32.40 Payment processing:

85.32.40.b Agencies are to establish procedures which verify the mathematical accuracy of all documents and ensure that charges are properly recorded to the appropriate accounts.

The Office of Financial Management's *State Administrative and Accounting Manual* (SAAM) 20.15 Internal Control Basis, states in part:

Section 20.15.50 Limitations of internal control

No matter how well designed, implemented and conducted, internal control can provide only reasonable assurance that objectives will be achieved due to limitations inherent to any system. These limitations include the following:

b. External events – achieving operational objectives may be limited by factors outside the agency's control, such as federal regulations, responsiveness of customers or program partners, and natural disasters. However, internal control should at least allow the agency to be informed of progress, or lack thereof, toward achieving such objectives.

42 CFR 433.40 Treatment of uncashed or cancelled(voided) Medicaid checks, states in part:

(c) Refund of Federal financial participation (FFP) for uncashed checks –

(1)General provisions. If a check remains uncashed beyond a period of 180 days from the date it was issued; i.e., the date of the check, it will no longer be regarded as an allowable program expenditure. If the State has claimed and received FFP for the amount of the uncashed check, it must refund the amount of FFP received.

(2)Report of refund. At the end of each calendar quarter, the State must identify those checks which remain uncashed beyond a period of 180 days after issuance. The State agency

must refund all FFP that it received for uncashed checks by adjusting the Quarterly Statement of Expenditures for that quarter. If an uncashed check is cashed after the refund is made, the State may file a claim. The claim will be considered to be an adjustment to the costs for the quarter in which the check was originally claimed. This claim will be paid if otherwise allowed by the Act and the regulations issued pursuant to the Act.

(3) If the State does not refund the appropriate amount as specified in paragraph (c)(2) of this section, the amount will be disallowed.

RCW 50.24.010 Payment of contributions—Amount of wages subject to tax—Wages paid by employers making payments in lieu of contributions not remuneration, states in part:

Contributions shall accrue and become payable by each employer (except employers as described in RCW 50.44.010 who have properly elected to make payments in lieu of contributions and those employers who are required to make payments in lieu of contributions) for each calendar year in which the employer is subject to this title at the rate established pursuant to chapter 50.29 RCW . . .

Contributions shall become due and be paid by each employer to the treasurer for the unemployment compensation fund in accordance with such regulations as the commissioner may prescribe, and shall not be deducted, in whole or in part, from the remuneration of individuals in employment of the employer. Any deduction in violation of the provisions of this section shall be unlawful.

The 2017-2019 Collective Bargaining Agreement between the State of Washington and Service Employees International Union Healthcare 775NW Article 9, Comprehensive Health Care Benefits, states in part:

9.1 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 9.2 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.

9.2 Contributions

The Employer shall three dollars and forty-eight cents (\$3.48) per Department-paid hour worked by all home care workers covered by this Agreement to the Trust, effective July 1, 2017. Effective July 1, 2018 the Employer shall contribute three dollars and fifty-five cents (\$3.55) per Department-paid hour worked by all home care workers covered by this Agreement to the Trust one cent (\$.01) of which shall be used in accordance with Article 27

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2017-002 The Department of Social and Health Services did not have adequate internal controls to ensure background checks were performed and documented in accordance with Department policy.

Background

The Department of Social and Health Services (Department) provides social services to clients through eight administrations, including the Juvenile Rehabilitation Administration (Juvenile Rehabilitation) and the Developmental Disabilities Administration (Developmental Disabilities).

The Department requires employees and volunteers to submit to a background check before working with youths and vulnerable adults. If the background check comes back with a record, Department policy states that an authorized staff member must assess and document an applicant's character, competence and suitability (CCS). Policy states that documentation of this review must include the basis for the suitability determination and the name, title and signature of the person performing the review.

The Department also requires each administration to determine how frequently each staff member or volunteer must pass a new background check. For instance, Juvenile Rehabilitation requires a background check every five years, whereas, Developmental Disabilities does not require employees and volunteers who work at a state facility to pass subsequent background checks.

We examined documentation at the following three facilities to determine if the Department followed its own background check policies: Woodinville and Green Hill, which are under Juvenile Rehabilitation, and Fircrest, which is under Developmental Disabilities.

Description of Condition

Woodinville and Green Hill

We found the Department did not establish adequate internal controls to ensure background checks were completed and a CCS assessment was properly documented before staff worked with youths.

We examined supporting records for 85 employees and volunteers working for the Woodinville and Green Hill facilities and found:

- One instance when a subsequent background check for an employee was not performed within five years as Department policy required
- 23 instances when the CCS assessment was not documented to show why the staff or volunteers were approved to work with youths.

Fircrest

We examined supporting records for 68 employees, students and volunteers working at Fircrest and found the Department had performed background checks on all 68.

Cause of Condition

Juvenile Rehabilitation management did not adequately monitor their facilities to ensure staff knew of the requirements for completing and documenting a CCS assessment.

Effect of Condition

By not following internal policy for completing and adequately documenting a CCS assessment, the Department increases the risk that individuals with disqualifying backgrounds might work with youths and vulnerable adults.

Recommendations

We recommend the Department:

- Perform timely background checks
- Ensure each administration follows Department policy by performing and adequately documenting a CCS assessment

Department's Response

The Department does not concur with the finding.

The Department has established adequate internal controls to ensure background checks are completed and CCS assessments are properly documented.

All background checks were completed. While one "renewal" background check was seven months late at Green Hill, the initial check for the employee was completed timely and resulted in a "no record" letter. In addition, this one employee had a total of eight background checks done within 15 years, all that resulted in a "no record" letter.

We would also like to make clear that out of the 24 instances mentioned in the ‘Condition,’ only one of these was an employee from the Woodinville facility, the rest were with Green Hill School.

The State Auditor’s Office was informed by Department staff that before Administrative Policy 18.63, Employee Background Check Requirements, was put into place on May 19, 2011, a verbal CCS assessment about the offense was the practice in which the Superintendent or Community Facility Administrator discussed the issue with the employee with a record. If the Superintendent or Community Facility Administrator decided the employee would be hired, they would sign and date the record letter as documentation of the assessment. We would also like to clarify:

- While the Department agrees CCS assessment forms, emails or other personnel records were not used for those background checks reviewed by the auditors, a CCS assessment form has been used for all employees with a criminal offense for the last year and half at Green Hill and Woodinville.*
- As long as it is not a disqualifying crime, an employee with a record is allowed to be employed.*

In regards to the “Effect of Condition” and the statement, “increases the risk that individuals with disqualifying backgrounds might work with youths and vulnerable adults,” we do not believe this is a true statement. For those background checks reviewed by the auditors that were listed as disqualifying, it should be noted background checks at that point in time which contained errors or were filled out incorrectly by employees, were automatically labeled as disqualifying by the Background Check Central Unit. Of the 23 instances where a CCS assessment form was not completed, five were labeled as disqualifying. Further review by the Department shows all five contained errors by the applicant. Each of the five applicants provided documentation at the time of their background check completion to clear any and all issues prior to their employment.

Given the facts that no employees had disqualifying crimes and every employee with a record letter had a verbal one-on-one CCS review with the Superintendent or Community Facility Administrator to determine if they would be suitable for hiring, there was at no time any youth or vulnerable adult who was at risk.

Our concern with this finding is that it reads as if the Department does absolutely nothing with an employee who receives a “record” letter from his or her background check. This is a completely inaccurate portrayal, as it does not represent the entire process.

Auditor's Concluding Remarks

Of the 23 instances we found when the CCS assessment was not documented, 21 were from Green Hill and two were from Woodinville.

As the Department states in its response, beginning on May 19, 2011, verbal assessments were no longer acceptable. In all 23 instances, the background checks occurred after that date. The Department's policy states that documentation of these reviews must include the basis for the suitability determination and the name, title and signature of the person performing the review. The documentation of the basis for suitability determination was not present in the files we examined.

During fieldwork, we also visited Fircrest and found all CCS assessments were adequately documented in accordance with the Department's policy.

We reaffirm our finding and will follow-up with the Department in a future accountability audit to determine if the planned corrective action has resolved these matters.

Applicable Laws and Regulations

Administrative Policy No. 18.63 – Employee Background Check Requirements, states:

Character, competence, and suitability (CCS) means the documented assessment of the capability of an employee or applicant to work or serve in a department-covered position after review of the employee or applicant's criminal convictions, pending charges, and civil adjudication proceedings.

Department-covered position means a position designated to have:

- Unsupervised access to vulnerable adults, juveniles, and children; or
- Access to the internal databases in the Background Check Central Unit and the Division of Disability Determination Services.

C. Overall Expectations of Appointing Authorities

Appointing Authorities must:

3. Conduct a background check, review the result, and complete a character, competence and suitability assessment

as described in Guideline 14 prior to allowing unsupervised access or determining the applicant/employee is suitable to hold a department-covered position including:

- a. Department employees
- b. Applicants for employment
- c. Volunteers and student interns

E. Character, Competence and Suitability Review

Appointing authorities must assess and document an applicant/employee's character, competence and suitability (CCS) to work or serve in a department-covered position when applicant/employee's background information is not automatically disqualifying.

Implementing Administrative Policy 18.63, Human Resources Division: Guidelines for Conducting Employee Background Checks, states

Guideline 14 – What is required when reviewing background information?

To review background information, the appointing/hiring authority must:

- C. Review and compare the background result against the Secretary's list of Crimes and Negative Actions when considering an applicant/employee for unsupervised access to vulnerable people.
- D. Determine if any reported crimes or negative actions deny an applicant/employee from holding a department-covered position.
- E. Research reports of "unknown" information to determine if the applicant/employee is suitable to hold a department-covered position.
- F. Conduct a character, competence and suitability assessment to determine if the applicant/employee is suitable to hold a department-covered position.

Guideline 16 – Are character, competence and suitability assessment/reviews required?

The appointing/hiring authority must conduct a character, competence and suitability (CCS) assessment/review to determine if the applicant/employee is an appropriate candidate for a department-covered position.

Guideline 17 – What is included in a character, competence and suitability assessment/review?

- A. Assessment of the character, competence and suitability of an applicant/employee should include:
 - a. Date of review.
 - b. Purpose of the background check
 - c. Position, title, duties and assigned position number
 - d. Statement that the applicant/employee reviewed his/her background information and confirmed or disputed the accuracy.
 - e. If disputed, documentation of agreed action by applicant/employee and timeline to correct information.
 - f. Statement that the applicant/employee's background information is not automatically disqualifying.
 - g. Documentation of review:
 - i. Reported and self-disclosed convictions.
 - ii. Time-limited crimes with an elapsed time limit on the Secretary's List.
 - iii. Reported and self-disclosed negative actions.
 - iv. Basis for suitability determination and recommendation.

- v. Name, title and signature of person completing the character, competence and suitability assessment/review.
 - vi. Name, title, and signature of person approving the recommendation (as required by appointing/hiring authority).
- B. Documentation of the review must be filed and retained according to the department retention Schedule Series 106.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2017-003 The Department of Social and Health Services Developmental Disabilities Administration did not have adequate internal controls to ensure residential allowance requests were allowable and supported.

Background

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

Supported-living agencies are private companies that give clients who would otherwise be institutionalized personalized instruction and support. This support can include an array of services, such as managing client finances, shopping and paying bills on a client's behalf.

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 reimbursement from the Department to cover the expenses it paid on the client's behalf. 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 must complete a Residential Allowance Request form and provide justification and supporting documentation that substantiate 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 2017, the Department spent over \$1.6 million for about 3,300 residential allowance requests.

In the fiscal year 2015 audit, we reported the Department did not have adequate controls to ensure residential allowance requests were allowable and supported. In its corrective action plan, the Department said it updated its Residential Allowance Request forms and created instructions to help supported living agencies request these funds. The Department also said it developed training to ensure the process was understandable and the supported-living agencies complied with Department policy.

Description of Condition

We found the Department did not fully implement its planned corrective actions to ensure residential allowance requests were allowable and supported.

We examined 86 residential allowance reimbursements, totaling \$43,713, and found:

- Eight payments, totaling \$2,759, were not adequately supported due to missing documentation to support clients' essential expenses.
- Two payments were unallowable because the Department paid \$529 more than the amount the client needed.

Cause of Condition

The Department did not fully implement its corrective action plan that was submitted in response to the fiscal year 2015 finding. Specifically, the Department:

- Did not update the request form or create instructions to help the supported-living agencies complete allowance requests
- Did not require supported-living agencies to take the training it established

Because the Department did not effectively implement its planned corrective action, we do not consider the matter resolved.

Effect of Condition

By not adequate internal controls in place, the Department increases its risk of making unallowable and unsupported payments.

Recommendation

We recommend the Department fully implement its planned corrective actions. This should include requiring supported-living agencies to take the Department's established training.

Department's Response

The Department partially concurs with the finding.

In regards to the ten payments:

- *The Department disagrees with the finding on eight of the ten payments. The Department believes these eight requests totaling \$2,759 were fully reviewed and appropriately approved and that payments were essential client expenses.*
- *The Department concurs with the findings on the remaining two payments,*
 - *One was for an allowable expense. The full amount of the rent and the calculation for the payments for rent. Part of the payment for rent was made by the guardian and part was made through the RAR process.*
 - *The other payment was made by an inaccurate calculation which led to a higher reimbursement than the client needed. However, DDA expects the balance to be used by the client.*

The Department disagrees with the auditor's "Cause of Condition."

- *The RAR request form, instructions, processes and policy were reviewed. Training occurred at the quarterly regional providers meetings available to all providers and department staff throughout 2016.*
- *Supported living agencies were also given agency specific training when requested or indicated. The following trainings occurred during 2016 and 2017:*
 - *Twelve supported living agencies were provided training by Department resource management staff in 2016.*
 - *During 2017, supported living agencies, resource management teams and resource managers were offered and attended training on eight different occasions throughout the year.*
- *In addition to the corrective action plan, the Department provided extensive training to both regional staff and providers. As well, Policy 16.11, Residential Services and Supports Allowances, was updated and became effective during July 2017.*

The Department will continue to review the request form and determine if revisions are needed. Trainings will also continue to be offered to supported living agencies.

Auditor's Concluding Remarks

Although the Department reviewed the form, it did not update it or develop instructions for providers. While the Department made training available to providers, it was not required and many providers did not take the training. We reaffirm our finding and will follow-up with the Department during our next scheduled accountability audit to determine whether the planned corrective action has resolved these matters.

Applicable Laws and Regulations

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

20.15.20 Roles and responsibilities

Agency management is responsible for the agency's operations, compliance and financial reporting objectives. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management. That said, every state employee has a role in effecting internal control. Roles vary in responsibility and level of involvement, as discussed below.

Given agency structure and size, individuals may assume multiple roles. However, care should be taken to address the increased risk that may result from the concentration of responsibilities.

20.15.20.d Agency management at all levels is responsible for internal control under their span of control. Management is responsible to communicate to agency employees their explicit or implicit control activity duties. In addition, agency management should provide channels outside normal reporting lines so agency employees can report noncompliance, problems in operations, and illegal acts.

Management is also responsible to convey the importance of internal control to all employees both by what they say and what they do. If management is willing to override controls, then the message that internal control is not important will be conveyed to employees.

20.15.40 Internal control components and principles

The following five components and 17 principles together represent a comprehensive system of internal control. This subsection presents a summary of each of the five components and the principles relating to each component. For further details, refer to each component's section.

20.15.40.c Control Activities

Control activities are policies, procedures, techniques, and mechanisms that help ensure that risks to the achievement of an agency's objectives are mitigated. Control activities are performed at all levels of the agency, at various stages within business processes, and over the technology environment.

There are three principles relating to control activities.

10. Management designs control activities to achieve its objectives and respond to risks.
11. Management designs its information systems and related control activities to achieve its objectives and respond to risks.
12. The agency implements control activities through policies and procedures.

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

A. Start Up Allowance

1. For all other clients, approved start-up allowances are limited to a maximum of \$1,500 per person for necessary expenditures.
 - a. Residential allowance requests must be submitted to and approved by the RM prior to making purchases. Include the follow information:
 - ii. The amount of available income and resources

B. Insufficient Income Allowance

1. The service provider submits a request using DSHS 06-125, Residential Allowance Request, indicating the

amount of the client's regular income and ongoing expenses.

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 of telephone service, basic cable, the cost of public transportation to essential services, and allowable costs for food, personal care products, essential clothing, and cleaning supplies,
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. Housemate Allowance

2. When a housemate allowance is needed, the amount of this allowance is determined by the total portion of the fixed monthly expenses that would normally be paid by the absent housemate(s) unless or until the household is reconfigured for the number of clients in the household.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2017-004 The Department of Social and Health Services did not have adequate internal controls to ensure overtime at Green Hill School was properly authorized and supported.

Background

The Department of Social and Health Services (Department) provides social services to clients through eight administrations; two of these include the Juvenile Rehabilitation Administration (Juvenile Rehabilitation) and the Developmental Disabilities Administration (Developmental Disabilities). Green Hill School, managed by Juvenile Rehabilitation, is one of three state-owned, juvenile rehabilitation facilities in Washington. The facility houses about 168 people ranging from 16 to 21 years old.

Green Hill has 237 employees who are covered by two collective bargaining agreements that outline the requirements and responsibilities of the State and the employees. The facility must be staffed 24 hours a day. If the Department cannot fill Green Hill's three daily shifts using employees' regular scheduled times, it approves employees to work overtime.

The Department does not have overtime policies for employees covered by collective bargaining agreements; instead, it relies on the requirements in the agreement. The agreements require employees who work overtime to have prior authorization before doing so. The Department has established an Overtime Request and Authorization form to document employee overtime approvals, which a supervisor must sign in advance.

The Department paid about \$433,000 in overtime benefits to 311 employees during state fiscal year 2017.

Description of Condition

The Department did not have adequate internal controls to ensure overtime at Green Hill School was properly authorized and supported.

We randomly selected and examined 59 overtime payments, totaling \$22,366, and found 15 instances, totaling \$4,660, when an Overtime Request and Authorization form was not present for part or the entire shift.

Cause of Condition

The Department did not ensure staff at Green Hill School, who worked overtime, received prior authorization. Staff were instructed to pay the employee for the hours submitted on their timesheet, even when Overtime Request and Authorization forms were not completed.

Effect of Condition

By not ensuring employees have prior authorization for overtime, the Department increases its risk of making unauthorized payments.

We used a statistical sampling method to select the payments examined. When we project the error rate to the population of overtime payments, we estimate the Department paid about \$129,054 that was not adequately supported.

Recommendations

We recommend the Department

- Approve overtime in advance in accordance with its collective bargaining agreement
- Train managers and staff to ensure employees know the requirement that Overtime Request and Authorization forms be signed in advance.

Department's Response

The Department does not concur with this finding.

Overtime is handled two different ways at Green Hill:

- *During Business Hours: Overtime authorizations are approved by either of the three Associate Superintendents at Green Hill. Each of these Associates are responsible for specific units and the overtime that occurs.*
- *After Business Hours: If overtime is needed, staff from a unit call the security office located at Green Hill and speak to the Administrative Officer of the Day (AOD). All of these overtime conversations, either face-to-face, over the phone, or via email, are logged in the AOD log. The AOD is the designee to approve overtime during non-business hours. Before any overtime is approved, the AOD performs the following:*
 - *Other units are contacted to find out if they may have available staff who could fill in, therefore avoiding overtime charges.*

- *On-call employees are called to find out if they can make it in, again, this would avoid overtime charges.*
- *If no other staff are available on campus and if an on-call employee can't make it in, overtime is then approved. This approval can be found in the AOD log book and entries from the AOD log book are reviewed every Monday.*

Additionally, overtime occurs at Green Hill for reasons such as, a high vacancy rate of positions, required human resource and Academy training, and emergency off campus transports.

While all overtime forms may not have been filled out, if overtime was performed, it will be found in the AOD logs or it will be found on individual employee timesheets. All employees who are allowed to work overtime are required to use the agency's timesheet system, Leave Tracker. If an employee has over 40 hours for the week in Leave Tracker, his or her supervisor check the unit's log where the overtime occurred to ensure the employee was on site. Once the occurrence is confirmed, the employee's timesheet is approved.

Lastly, Green Hill is a 24/7 facility. While controls have been put in place, such as having the AOD approve and log overtime, pre-approving overtime at a 24 hour facility has challenges. Staff are required to go home when they are sick or they may call in sick five or ten minutes before their shift starts. When this occurs, these positions have to be filled – juveniles' living areas require a certain number of staff to be on hand throughout the day, not just from eight to five.

Whether an overtime form was used or not, the Department knows all overtime at Green Hill was approved.

Auditor's Remarks

The information described in the Departments response was not communicated to audit staff during the course of the audit. Had the Department made available the existence of the AOD log during the audit we would have reviewed it as part of our testing to determine if approvals were present.

During fieldwork, we also visited facilities in Fircrest and Woodinville and found all overtime requests were adequately documented.

We reaffirm our finding and will follow-up with the Department in a future accountability audit to determine if the planned corrective action has resolved these matters.

Applicable Laws and Regulations

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

20.15.20 Roles and responsibilities

Agency management is responsible for the agency's operations, compliance and financial reporting objectives. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management. That said, every state employee has a role in effecting internal control. Roles vary in responsibility and level of involvement, as discussed below.

Given agency structure and size, individuals may assume multiple roles. However, care should be taken to address the increased risk that may result from the concentration of responsibilities.

20.15.20.d Agency management at all levels is responsible for internal control under their span of control. Management is responsible to communicate to agency employees their explicit or implicit control activity duties. In addition, agency management should provide channels outside normal reporting lines so agency employees can report noncompliance, problems in operations, and illegal acts.

Management is also responsible to convey the importance of internal control to all employees both by what they say and what they do. If management is willing to override controls, then the message that internal control is not important will be conveyed to employees.

20.15.40 Internal control components and principles

The following five components and 17 principles together represent a comprehensive system of internal control. This subsection presents a summary of each of the five components and the principles relating to each component. For further details, refer to each component's section.

20.15.40.c Control Activities

Control activities are policies, procedures, techniques, and mechanisms that help ensure that risks to the achievement of an agency's objectives are mitigated. Control activities are performed

at all levels of the agency, at various stages within business processes, and over the technology environment.

There are three principles relating to control activities.

10. Management designs control activities to achieve its objectives and respond to risks.

11. Management designs its information systems and related control activities to achieve its objectives and respond to risks.

12. The agency implements control activities through policies and procedures.

Collective Bargaining Agreement Council 28 Washington Federation of State Employees, Article 7 states in part;

7.2 Overtime-Eligibility and Compensation

Employees are eligible for overtime compensation under the following circumstances:

- B. Full-time overtime-eligible shift employees who have prior approval and work more than their scheduled shift will be compensated at the overtime rate. A part-time overtime-eligible shift employee will be paid at this or her regular rate of pay for all work performed up to forty (40) hours in a workweek and paid at the overtime rate for authorized work of more than forty (40) hours in a work week.