

Washington State Auditor's Office
Accountability Audit Report

**Department of Social and Health
Services**

Audit Period
July 1, 2009 through June 30, 2010

Report No. 1005061

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WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

February 14, 2011

Ms. Susan Dreyfus, Secretary
Department of Social and Health Services

Report on Accountability

We appreciate the opportunity to work in cooperation with your Department to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role to advocate for government accountability and transparency and to promote positive change.

Please find attached our report on the Department of Social and Health Services' accountability and compliance with state laws and regulations and its own policies and procedures. Thank you for working with us to ensure the efficient and effective use of public resources.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Audit Summary

State of Washington Department of Social and Health Services

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of the Department of Social and Health Services from July 1, 2009 through June 30, 2010.

We evaluated internal controls and performed audit procedures on the activities of the Department. We also determined whether the Department complied with state laws and regulations and its own policies and procedures.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. The following areas were examined during this audit period:

- Contract requirements
- Contract monitoring
- Payroll overpayment identification, tracking and collection
- Office of Financial Recovery receivables, write-offs and collections
- Duplicate payments

RESULTS

In most areas, the Department complied with state laws and regulations and its own policies and procedures.

However, we identified conditions significant enough to report as findings:

- The Department of Social and Health Services does not prevent payroll overpayments or consistently identify, track or pursue collection of them, resulting in loss of public funds.
- The Department of Social and Health Services overpaid \$70,761 for client support and services and risks making overpayments in the future.
- The Department of Social and Health Services did not comply with state contracting laws and its own policies to ensure public funds were used appropriately.

Related Reports

State of Washington Department of Social and Health Services

FINANCIAL

We perform an annual audit of the statewide basic financial statements, as required by state law (RCW 43.09.310). Our opinion on these financial statements is included in the Comprehensive Annual Financial Report (CAFR) prepared by and available from the Office of Financial Management. The CAFR reflects the financial activities of all funds, organizations, institutions, agencies, departments and offices that are part of the state's reporting entity. That report is issued by the Office of Financial Management in December of each year and can be found at www.ofm.wa.gov.

FEDERAL PROGRAMS

In accordance with the Single Audit Act, we annually audit major federal programs administered by the state of Washington. Rather than perform a single audit of each agency, we audit the state as a whole. The results of that audit are published in a report issued by the Office of Financial Management in March of each year.

OTHER REPORTS

During the current audit period, the State Auditor's Office issued multiple reports pursuant to the State Employee Whistleblower Act (Chapter 42.40 RCW) and Citizen Hotline referrals, and a report on a misappropriation of funds. Those reports are available on our website, www.sao.wa.gov.

Description of the Department

State of Washington Department of Social and Health Services

ABOUT THE DEPARTMENT

The mission of the Department of Social and Health Services is to improve the quality of life for individuals and families in need. The Department works to help people achieve safe, self-sufficient, healthy and secure lives.

The Department spends over \$10 billion a year, which represents approximately one-third of the state budget. Department resources, most of which flow through the general fund, are composed of approximately 56 percent federal funds and 44 percent state funds. Annually, the Department provides services for 2.1 million people, one-third of the state's population.

The Department is divided into five administrations: Medicaid Purchasing Administration, Economic Services Administration, Children's Administration, Aging and Disability Services Administration and Juvenile Rehabilitation Administration. The Department currently has approximately 17,600 employees.

DEPARTMENT CONTACT INFORMATION

Address: Department of Social and Health Services
P.O. Box 45802
Olympia, WA 98504

Phone: (360) 902-8400

Website: www.dshs.wa.gov

AUDIT HISTORY

We audit the Department annually. During the past five audits, we reported several areas of concern.

In addition, we audit several federal programs, including Medicaid, at the Department annually. Those audit reports can be found on our website, www.sao.wa.gov.

Schedule of Audit Findings and Responses

State of Washington Department of Social and Health Services

- 1. The Department of Social and Health Services does not consistently prevent, identify, track or pursue collection of payroll overpayments, resulting in loss of public funds.**

Background

The Department processes approximately \$1.1 billion in yearly payroll for more than 18,000 employees. During the normal payroll processing cycle, errors may occur that result in employees being overpaid.

Once a payroll overpayment is identified, Department payroll staff enters the details on the employee's record within the payroll system. The overpayment will remain in the system until staff enter a repayment plan or collect the money from the employee. Fifteen payroll processing locations throughout the Department maintain logs to monitor repayment.

If an employee leaves the Department with a remaining balance due, payroll staff deducts it from the final check. If the final check is not enough to cover the balance due, or if overpayments are identified after the final check is released, the Department forwards the overpayments to its Office of Financial Recovery (OFR) for further collection efforts.

In order to determine whether the Department has adequate controls to prevent the loss of public funds due to employee payroll overpayments, we reviewed controls in three areas:

- Overpayment prevention
- Overpayment identification and tracking
- Overpayment collection

Overpayment Prevention

Our audit found that from June 16, 2009 through February 15, 2010, the Department posted overpayments totaling \$295,732. We selected 113 employees with overpayments of \$500 or more for review. These overpayments totaled \$241,531. The uncollected balance on these overpayments is \$113,458. We determined these overpayments occurred for the following reasons:

Reason For Overpayments	Number of employees	Amount	Uncollected Amount	Percent Uncollected
1. Late leave without pay slips	50	\$71,078	\$23,236	33%
2. Late personnel action forms	20	\$41,761	\$15,110	36%
3. Data entry error	12	\$14,127	\$2,652	19%
4. Wrong salary entered	12	\$59,082	\$45,700	77%
5. Standby pay entry error	7	\$21,773	\$11,560	53%
6. Incorrect annual pay increase date	5	\$9,560	\$2,792	29%
7. Recovering assault benefits	3	\$18,242	\$9,580	53%
8. Receiving holiday pay while on leave without pay	3	\$4,707	\$2,828	60%
9. Hours reported in error	1	\$1,201	\$0	0%
TOTALS	113	\$241,531	\$113,458	47%

Cause

We found overpayments due to late forms (1 and 2 in the table) occurred because Department policy does not require supervisors to submit payroll or personnel action forms during current payroll periods. The Department does not clearly communicate when the forms are to be sent to the payroll offices for processing and does not verify all forms are processed in the payroll system.

We found overpayments due to data entry errors (3 in the table) occurred because no one reviews the information for accuracy prior to payroll processing.

We found the remaining overpayments (4-9 in the table) occurred because staff does not have general knowledge regarding how mistakes can occur. For example, we found overpayments occurred because:

- Timekeeping staff did not understand that holiday pay should be removed for employees on leave without pay.
- Salary increase dates were established in the system incorrectly.
- Standby pay was incorrectly entered as an hourly rate instead of a daily rate because staff was unaware of a policy change.
- Salaries for employees who have been approved for assault pay were not coded correctly. Employees who are not working because they were assaulted at an institution are paid by submitting leave slips. When the assault claim is approved and paid to the employee by the Department of Labor and Industries, Social and Health Services restores the leave balance for the employee.

Overpayment Identification and Tracking

During the audit we looked for overpayments the Department had not identified. We compared employees' positions and salaries established in the payroll system to the associated job class description and salary as established by the state's Department of Personnel. We found 12 employees who were receiving incorrect salaries (three were overpaid, eight were underpaid and one would have been overpaid if not on leave without pay).

We reviewed the Department's reconciliation process to determine if it accurately records, tracks and monitors overpayments. We compared the 2009 and 2010 overpayment reports generated by the payroll system to the manual logs maintained at four payroll processing locations. Based on our overpayment analysis, we chose the four highest risk locations to review the reconciliation process. If the overpayments are not recorded in the payroll system, collection activity may not be initiated. If the overpayments are not listed on a log, collection activity cannot be tracked to ensure overpayments are collected in full since the payroll system does not track repayment activity. We found:

- We tested 71 overpayments identified and recorded by Department staff in the payroll system during fiscal year 2009. Fifty of these overpayments totaling \$27,622 were not listed on the overpayment logs.
- We tested 100 overpayments identified and recorded by Department staff in the payroll system during fiscal year 2010. Sixty-three of these overpayments were not listed on the overpayment logs.
- Six overpayments, totaling \$10,460, were recorded on one log, but were not recorded in the payroll system.
- At the Headquarters payroll office and the Western State Hospital payroll office, multiple identified overpayments had not been investigated or posted to the payroll system or any overpayment log.
- One payroll location did not keep a log of overpayments prior to July 1, 2009.

Cause

Until recently, the Department used a passive process to identify overpayments. The Department recently began an active but limited process to identify overpayments.

The Department does not reconcile the employee overpayment information between the payroll system and the overpayment logs. The reconciliation process is time consuming and requires the payroll staff to:

- Verify all identified overpayments are recorded in both places.
- Verify that repayments set up through payroll deduction have occurred since the system cannot deduct repayments if the employee does not have sufficient earnings.
- Record repayments made through payroll deduction on the overpayment log.

- Monitor to ensure repayment.
- Forward uncollectible overpayments to the Office of Financial Recovery.

Overpayment Collection

Based on our overpayment testing at four payroll offices, we expanded our overpayment collection testing to eight payroll offices and the Office of Financial Recovery. Payroll offices are responsible for collecting on overpayments from current employees. The Office of Financial Recovery is responsible for collecting overpayments from former employees.

Payroll Offices

We reviewed 90 overpayments at eight payroll offices that Department staff identified and recorded during fiscal years 2009 and 2010. Of those, we found no collection action for 60, totaling \$34,343.

At the Headquarters payroll office, we reviewed 47 overpayments of more than \$1,000 each that occurred during 2006, 2007 and 2008 that were shown on the Headquarters overpayment logs. Of those, we found 26, totaling \$58,589, with no collection action in 2009 or the first three months of 2010.

At the Headquarters payroll office we also found a 2007 overpayment log showing 76 uncollected overpayments and 66 overpayments of unknown collection status.

At Fircrest School, we found no collection activity for four out of 11 overpayments listed on its log.

At the Special Commitment Center, we found no collection activity for eight out of 12 overpayments listed on its log.

At Western State Hospital, we found no collection activity for 15 out of 21 overpayments listed on its log.

Office of Financial Recovery

We tracked 210 payroll overpayments identified by the payroll offices as of August 2009 that should have been sent to the Office of Financial Recovery for collection. We found 111 of these overpayment notices, totaling \$136,427, had not been received there.

The Office did receive 99 overpayment notices totaling \$99,390. Of those, 29 overpayments, totaling \$18,234, were collected and three, totaling \$9,352, were on repayment plans.

For the 67 remaining, 35 overpayments, totaling \$40,421, the Office took no collection action during the audit period. Thirty-two overpayments totaling \$31,383 were written off as uncollectible.

Payroll Overpayment Write-Offs

State law allows the Department to write off debts if it determines pursuing collection is not cost-effective. The Department acts as its own collection agency.

If an employee leaves the Department with an overpayment balance owing, Financial Recovery management stated it tries to find out if that individual was hired by another state agency. If so, the Department notifies that agency and forwards the debt owed.

Office management stated they have not established a standard on when to write off former employee debts. We were told at least two letters informing the former employee of the debt owed are sent. If the former employee does not contact the Office, the debt is then written off.

We performed audit procedures to see if overpayments written off might have been collected without significant cost. First, we compared former employees with debts written off in fiscal year 2009 or 2010 to current payroll records for all state employees. We identified four former employees who returned to Department employment after overpayments, totaling \$1,925.02, had been written off.

Cause

The Department claims it does not have adequate payroll office staff to track all overpayments and establish timely repayment plans. Because reconciliations between the overpayment logs and the payroll system are not completed in a timely manner, overpayment balances that should be forwarded for collection are not identified.

The Office of Financial Recovery does not believe it is cost effective to use an outside collection agency.

Effect of Condition

In the past two fiscal years, the Department wrote off over \$111,000 in payroll overpayments. In addition, the Department has more than \$177,000 in recorded overpayments that are over one year old, significantly reducing the chances of collection. The total balance the Department has recorded as of June 30, 2010, is \$672,787.

Recommendation

We recommend the Department:

- Require payroll forms to be submitted in a timely manner to help prevent overpayments. The Department should monitor to ensure this occurs.
- Provide training and other resources to staff that enter payroll data to ensure they understand and follow payroll rules and regulations.
- Continue to develop processes for identifying overpayments and provide training to staff concerning the cause, how to track them and issues surrounding collection.

- Assess its reconciliation processes to determine the resources needed to accurately and effectively perform it.
- Assess its overpayment collection processes and efforts and consider consulting with other agencies on efficient and cost effective collection methods to help increase recovery. Best practices for debt collection are available in our report No. 1000012, *Collection of State Debt*, issued on August 12, 2008.

Department's Response

The Department concurs with this finding. We have taken several steps in the prevention, identification, tracking, and collection of Payroll Overpayments.

Prevention

The Department's Management team works closely with Appointing Authorities to emphasize the importance of timely submission of payroll forms as well as leave slips and timesheets.

The Department HQ Payroll staff communicates regularly with Time Keepers, Human Resource staff, and Payroll Processing staff to help insure timely and accurate information and guidance is provided with regard to processing documents and requirements.

The Department has worked closely with the Department of Personnel and will continue to work with its agency partners to implement HRMS changes and improvements to assist in the prevention of overpayments. Once such change was to implement and edit preventing the number of hours input from being greater than the number of hours in a day.

The HQ Payroll staff are now generating and distributing a series of reports each pay cycle exit to help Time Keepers and Processors review and identify possible anomalies to prevent them before Payroll runs.

A series of Payroll Posting Reports is manually generated during the payroll exit process to identify any employee with less than 12 hours of pay. If the holiday pay is the only payment attempting to pay, the HQ Payroll staff will change the holiday pay to LWOP in an effort to prevent the overpayment.

The HRMS Processing Unit in the Human Resources Division is responsible for the input of all PA40's for headquarters and field personnel actions. Human Resources staff in the institutions input personnel actions for institution staff. The HRMS Processing Unit uses an audit process to review every PA40 that comes through to ensure accurate data. The audit is around ensuring the correct actions types are selected, correct job classes and salary ranges are identified and correct for the action. If there is an error on the form, the form is sent back to the program for revision to ensure the correct entries will be input into the system to eliminate the possibility of overpayment or underpayment. Once the entries are input into HRMS, they are again audited for accuracy. There are varying levels of review processes used by Human Resources staff responsible for HRMS input in the institutions. Human Resources intends to review its audit processes to identify possible enhancements which will allow for greater efficiencies and assurance

that all positions and employees are correctly coded to reduce the possibility of error, as well as to ensure consistency in practice across the organization.

Identification and Tracking

An updated process has been implemented to run a report verifying all 3,231 overpayment codes newly input to the HRMS System. The report is run each payroll and distributed to the Payroll Processor for review and to insure the overpayment has been logged and repayment has been established to begin after 30 days. This will help to eliminate late requests for repayment as processors must send the overpayment notifications to employees prior to the upcoming payroll and set up the collection at the time notification is sent. If the employee appeals the overpayment or requests a different repayment plan, the initial repayment is then modified. The collection report (identified below) also helps ensure the overpayment log correctly reflects overpayment and collection.

Collection

A collection report is generated after each payroll identifying collections (from active employees). This report is used to update the overpayment logs with the collection activity. One Processor from headquarters will be assigned this task each month and will communicate to other Processors and the Supervisor when a collection has been made and the overpayment is not registered in the overpayment log. This process is intended to reconcile system activity to the overpayment log to assure collections are being made for active employees.

For employees who have separated, a monthly process has been implemented to ensure overpayments for employees who have separated are referred to the Office of Financial Recovery (OFR) within 30 days. A list of these overpayments is sent to the applicable Payroll Processor with a response deadline. The Processor is to update the overpayment log once the OFR referral has been made and then e-mail the Payroll Processing Supervisor when complete. The Supervisor will then review the log and follow up with any Processor not responding to insure each item is being worked.

The Office of Financial Recovery, following documented policy and procedure manuals, makes several attempts to solicit voluntary payments from former employees. OFR also sends monthly statements to the last known address of former employees. If the statement is returned, staff reviews the account to determine whether to locate the former employee or turn off the statement before making the decision to write off the debt. If a former state employee refuses to repay a debt, OFR lacks specific statutory authority to pursue any collection actions.

Auditor's Remarks

We thank the Department for its response and the steps it is taking to prevent future occurrences.

Applicable Laws and Regulations

State Administrative and Accounting Manual (SAAM) 25.80.15, Recovery methods, states:

Debts due the state for overpayment of wages may be recovered by the agency in several ways:

1. The employee can agree to pay back the overpayment through a voluntary wage deduction (or, by cash or personal check).
2. The agency can assign the debt to a collection agency.
3. The agency can engage in an involuntary wage action.
4. The agency can bring an action against the employee in court.

If the overpayment involves an employee covered by a collective bargaining agreement, the recovery methods in the collective bargaining agreement should be followed.

State Administrative and Accounting Manual (SAAM) 25.80.20, Preliminary overpayment procedures - represented employees, states:

When an agency determines that an employee covered by a collective bargaining agreement has been overpaid wages, the agency is to provide written notice to the employee. The notice should include the amount of the overpayment, the basis for the claim, and the rights of the employee under the collective bargaining agreement. Refer to the Administrative and Accounting Resources at <http://www.ofm.wa.gov/policy/payroll.htm> for a sample notice. Any dispute relating to the occurrence or amount of the overpayment shall be resolved using the procedures in the collective bargaining agreement.

State Administrative And Accounting Manual (SAAM) 25.80.25, Recouping an overpayment through a payroll deduction - represented employees, states:

If the final result of an overpayment resolution process prescribed by a collective bargaining agreement is that an overpayment has occurred, the payroll deduction to repay the overpayment shall happen over the period prescribed in the collective bargaining agreement.

The agency and employee can agree to a term that is more or less than the term of the overpayment provided in the collective bargaining agreement; however, the agency cannot deduct more than the amount provided by the agreement in any pay period without prior consent of the employee. Deductions from wages shall continue until the entire overpayment debt is retired.

State Administrative And Accounting Manual (SAAM) 25.80.30, Preliminary overpayment procedures - non-represented employees, states:

When the agency believes that a wage overpayment has occurred involving an employee not covered by a collective bargaining agreement, it should collect information and have a preliminary discussion with the employee about the overpayment. During this preliminary discussion, the agency should inform the employee about the availability of the administrative hearing process should the agency and employee be unable to agree that an overpayment has occurred. If the agency and

employee agree an overpayment has occurred, the agency should attempt to reach agreement with the employee as to the amount of the overpayment, and how the employee will pay it back.

An agency and employee may agree to terms that are acceptable to both parties. If the employee agrees to reimburse the agency by payroll deduction, a signed written authorization must be obtained before commencing deductions from the employee's payroll. Or, an ex-employee and agency could agree that the ex-employee will reimburse the state for the overpayment by making a specific number of payments over a certain amount of time. Any repayment agreement should be memorialized in writing and signed by both parties with a copy provided to each.

If the agency and employee fail to come to an agreement or the employee begins a repayment process but does not complete it, the agency may then use a collection agency or involuntary wage deduction following the due process requirements in Subsections 25.80.40 or 25.80.50.

At this point, it is important that the agency consider the overpayment amount and estimated costs to obtain a recovery for each remedy option available. If the agency has any questions concerning legal rights and responsibilities, the questions should be directed to the agency's assigned Assistant Attorney General.

State Administrative And Accounting Manual (SAAM) 25.80.40, Use of collection agencies to recoup a wage overpayment - nonrepresented employees, states:

RCW 19.16.500 allows state agencies to contract with licensed collection agencies to collect a public debt on behalf of the state. However, no wage overpayment recovery can be assigned to a collection agency except under the following circumstances:

- The agency was not successful in obtaining an agreement for the recovery of an overpayment during the preliminary actions described in Subsection 25.80.30 and the employee has failed to ask for additional review of the agency's decision.
- The agency has followed the due process procedures listed below:
- The agency has attempted to notify the employee that a debt is owed. The best method by which an agency can do this is to personally hand the employee a letter detailing the overpayment that has occurred.
- The agency has notified the employee that the debt may be turned over to a collection agency for collection if the debt is not paid and no request for review or administrative hearing is made by the employee. This statement should probably be included in a letter that the agency gives the employee.

- Thirty (30) days have elapsed since the employee was notified of the debt or decision, whichever is later.

Refer to Subsection 85.54.50.d regarding use of collection agencies.

State Administrative And Accounting Manual (SAAM) 25.80.95, Agency internal control system to prevent overpayments-represented and nonrepresented employees, July 1, 2007, states:

All agencies are to maintain an effective system of internal controls to prevent salary and wage overpayments as much as possible. All employees and all agency staff who affect the pay process in an agency including those who approve payroll, enter time, work with personnel actions, calculate payroll, produce payroll, or distribute payroll are responsible to assist in achieving an overall effective system of control to produce accurate timely payrolls.

State Administrative And Accounting Manual (SAAM) 25.80.80-Employee termination from state with balance owing, represented and nonrepresented employees, July 1, 2007, states:

Per RCW 49.48.200, any overpayment amount still outstanding at termination shall be deducted from the earnings of the final pay period. If the final earnings do not permit recovery of the total amount owed, the agency may follow the requirements of Subsection 25.80.40 and turn the debt over to a collection agency. If overpayment is discovered after the employee leaves the state's employ, the agency that overpaid the employee may, following the due process procedures in Subsection 25.80.40, turn the debt over to a collection agency.

Schedule of Audit Findings and Responses

State of Washington Department of Social and Health Services

2. The Department of Social and Health Services overpaid \$70,761 for client support and services and risks making overpayments in the future.

Background

The Department of Social and Health Service's Social Services Payment System (SSPS) processes almost \$2 billion in payments for client services each year. Approximately 4,000 caseworkers in the Children's, Aging and Disabilities Services and Economic Services administrations use SSPS to authorize payments to more than 78,000 providers of services to more than 290,000 clients.

During previous audits, we identified duplicate payments processed through SSPS totaling \$116,912.17 in fiscal year 2005, \$66,079.42 in fiscal year 2006, \$88,230.42 in fiscal year 2007 and \$153,860.67 in fiscal year 2008.

Description of Condition

We analyzed all transactions processed through SSPS from July 1, 2009 through December 31, 2009 to identify possible duplicate payments. We looked for multiple payments to the same providers for the same service and multiple payments to the same client for the same pay period. We identified 7,409 potentially duplicate payments and randomly selected 504 of those to determine if the payments were appropriate.

After review of supporting documentation, we found that 131 of the payments, or 26 percent, were duplicates.

Administration	Number of Payments reviewed	Number of duplicate payments	Dollar amount of overpayment identified
Children's	138	70	\$27,751.05
Aging and Disability	261	42	\$39,438.87
Economic Services	105	19	\$3,571.39
TOTAL	504	131	\$70,761.31

Cause of Condition

The Department relies on internal controls that do not identify all potentially inappropriate payments. Controls in place are primarily detective controls, which are not as effective as preventive controls.

Effect of Condition

The Department overpaid \$70,761 for client support and services and risks making overpayments in the future. We reviewed only 7 percent of all potentially duplicate payments identified, so it is likely the actual amount of overpayments is much higher.

Recommendation

We recommend the Department establish controls designed to prevent duplicate payments in addition to detecting potential duplicate payments after the fact.

Department's Response

This finding involves several administrations within the Department. All concur with the finding.

Economic Services Administration

Economic Services Administration (ESA) concurs this finding. We agree we do not have adequate internal controls to prevent duplicate authorizations before issuing payments. DSHS Child Care program staff and DSHS Information Technology Solutions staff are currently researching options that will assist in preventing duplicate payments through automation.

ESA has controls in place to detect potential duplicate payments after authorizations have been made. Supervisors review and work the Duplicate Payment Report (40N51) monthly to identify duplicate payments, and when warranted, staff corrects the case and completes an overpayment. ESA utilizes three additional safeguards: (1) running algorithms to identify duplicate payments; (2) Quality Assurance (QA) attendance reconciliation (QA pulls a random sample of Working Connections Child Care {WCCC} cases to compare child care authorizations to attendance records and the payments issued); and (3) WCCC supervisors and lead workers perform a 1% audit of SSPS payments monthly. Overpayments are written on duplicate payments found during any of these reviews. ESA has developed report training for supervisors, stressing payment accuracy. The first round of training was completed June 30, 2009.

ESA concurs with the 19 duplicate payment exceptions identified in the report. Overpayments have been established for each of the exceptions.

Aging and Disability Services Administration

Aging and Disability Services Administration (ADSA) concurs with this finding.

We will review the identified duplicate payments to determine if there are selection criteria that could be used to develop a report that efficiently identifies duplicate payments to providers for the same service in the same month, and to clients for multiple payments in the same month.

Children's Administration

The Children's Administration (CA) concurs with the finding. CA implemented a new case management system, FamLink, in January 2009, which has within it algorithms that are designed to identify overpayments. These overpayments must be manually reviewed by staff in order to process a correction. Significant workload has impacted our ability to address identified overpayments and subsequent corrections to them.

We are currently working on a project to address all outstanding overpayments identified by FamLink and a process to better coordinate this effort with field staff.

Each of the overpayments identified during this audit have been reviewed and for those confirmed to be overpayments a request has been sent to the Office of Financial Recovery for collection. This collection process will automatically return any federal funds involved in the overpayment.

Auditor's Remarks

We thank the Department for its response and the steps it is taking to establish and follow internal controls.

Applicable Laws and Regulations

RCW 43.88.160 (4) requires that the director of the Office of Financial Management (OFM), as an agent of the governor:

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 the classes of agencies, depending on the level of resources at risk. Each agency head or authorized designee shall be assigned the responsibility and authority for establishing and maintaining internal audits following the standards of internal auditing of the Institute of Internal Auditors . . .

Section 20.15.40.e Monitoring states in part:

An agency's internal control is most effective when there is a proper monitoring control environment, results are prioritized and communicated, and weaknesses are corrected and followed up on as necessary.

Schedule of Audit Findings and Responses

State of Washington Department of Social and Health Services

3. **The Department of Social and Health Services did not comply with state contracting laws and its own policies to ensure public funds were used appropriately.**

Background

In fiscal year 2010, the Department processed approximately 28,000 new contracts and amendments and paid providers approximately \$7 billion for client services, personal services and purchased services.

The Department is required to enter into contracts with providers and monitor those contacts to ensure it provides quality services to Washington citizens and that public funds are being used appropriately. Employees in each administration are responsible for executing and monitoring these contracts.

The Department must enter into written contracts that have clearly defined terms, expectations, and payment obligations to ensure it receives quality services and what it paid for. The Department's policies on contract monitoring require a risk assessment and performance plan for each contract; monitoring of contractor performance; and all contract monitoring information to be recorded in the Agency Contract Database (ACD). This database assists the Department with monitoring the quality of services clients receive and lowering the risk of inappropriate or unallowable payments.

Description of Condition

We reviewed a sample of 545 providers who received payments during fiscal year 2010 for client services, personal services or purchased services to determine if the Department had a contract with each. We found the Department did not have contracts with 20 client service providers, totaling \$775,321.93, as noted below:

Provider Contract Review

Administration	No. of Providers Reviewed	No. of Missing Contracts	Total Fiscal Year 2010 Expenditures
Juvenile Rehabilitation	48	12	\$300,845.57
Health and Recovery Services	175	0	
Children's	42	0	
Aging and Disability Services	100	0	
Economic Services	117	0	
Vocational Rehabilitation	63	8	\$474,476.36
TOTALS	545	20	\$775,321.93

From the contracts identified above, we reviewed a sample of 162 to determine if the Department has a risk assessment and performance plan for each and has monitored them. Establishing a risk assessment and performance plan is critical to identifying risks such as poor client services or noncompliance with state and federal regulations and terms and conditions in contracts associated with a service provider and determine how to mitigate those risks. Proper risk assessment and performance plans allow the Department to allocate monitoring resources effectively.

We found no risk assessment or performance plan for 24 contracts. For seven others, not all monitoring activities such as site visits were complete.

The ACD is a risk management tool to assist the Department in identifying riskier providers. Its usefulness depends on the quality of data Department staff records in it. We reviewed 155 contracts to determine whether monitoring activities were recorded in the ACD. We found 107 instances in which they were not.

Contract Monitoring Review

Administration	Contract Files Reviewed	Missing Risk Assessment and Performance Plan	Incomplete Monitoring	Monitoring Not Recorded In ACD
Juvenile Rehabilitation	23	None	None	20
Health and Recovery Services	50	1	None	26
Children's	18	None	3	13
Aging and Disability Services	21	21	None	21
Economic Services	26	None	None	13
Vocational Rehabilitation	24	2	4	14
TOTALS	162	24	7	107

Cause of Condition

The lack of centralized contract oversight at the Department allowed one administration to incorrectly interpret the requirements without detection. Juvenile Rehabilitation Administration management believed that medical services did not require contracts, even though other administrations correctly obtained contracts.

The Division of Vocational Rehabilitation management did not properly monitor to ensure it had written contracts for all services.

Aging and Disability Services did not complete any performance plans due to miscommunications between field office program coordinator staff and headquarter program managers. Each believed the other was responsible for completing the plans.

Department administrative policy does not provide clear guidance on what monitoring to record and when to record it.

Effect of Condition

Allowing providers to render services without a written contract that has clearly defined terms, expectations and payment obligations puts the Department at risk of receiving substandard services or not receiving what it paid for.

Without proper risk assessment and performance plans the Department might not be able to identify any emerging problems with providers and reduce fiscal and program risk in a timely manner, if at all. Allocation of scarce monitoring resources cannot best be made without a proper risk assessment and performance plan for every provider.

Recommendation

We recommend the Department provide proper training on state contracting requirements and Department contract policies to ensure the Department is getting what it pays for.

Department staff should follow policies and prepare a risk assessment and performance plan for each provider to ensure staff monitoring resources are used effectively.

We further recommend the Department ensure contract monitoring activities are recorded in the ACD.

Department's Response

This finding involved several administrations within the Department.

Aging and Disability Services Administration

Aging and Disability Services Administration (ADSA) concurs with this finding.

ADSA created a workgroup to address the miscommunication between headquarter program managers and field office program coordinators. This workgroup is responsible for revision and/or development of program risk assessments for each contracted service; revision and/or development of contractor risk assessment and monitoring plans for each contracted service; and written procedures. Written procedures will describe in detail who is to do what and when.

Training will be provided via GoTo meetings to ensure all pertinent staff has the opportunity to attend. ADSA, DDD Compliance and Monitoring Unit will incorporate contract file review into their work plans to ensure contractor risk assessments and monitoring plans are properly conducted and recorded.

Children's Administration

The Children's Administration (CA) concurs with the areas of this finding that pertain to CA contracts.

To meet the Department's Administrative Policy 13.11 on contract monitoring, Children's Administration will clarify with contract managers/monitors the department's expectations regarding entries in the ACD. This will be accomplished through training by teleconference/WebEx and by distribution of the CA Monitoring Guidelines (currently

under review). The training and guidelines will cover which monitoring activities are entered in the ACD, how often entries are made, and the degree of specificity of detail. Follow up will be implemented after the training to check entries in the ACD.

Division of Vocational Rehabilitation

The Division of Vocational Rehabilitation (DVR) partially concurs this finding.

For the section addressing Client Service Payments without Contracts we are coordinating with Central Contract Services, OFM, and the Attorney General's Office, to examine client service payments without contracts in the ACD and identify the necessary steps to meet OFM and DSHS policy.

For the section of the finding on Missing Risk Assessments and Incomplete Monitoring Activities DVR concurs that 2 of the 24 contracts reviewed had missing risk assessments or monitoring activities at the time of the audit.

DVR does not concur that 4 of the contracts had incomplete monitoring activities. At the time of the audit, all 4 contracts identified had completed risk assessments and monitoring activities entered in the ACD.

DVR does not concur that 14 of the contracts were not recorded in the ACD. At the time of the audit, 8 of the 14 contracts had complete monitoring activities and were recorded in the ACD. For the remaining 6 contracts, monitoring had not occurred at the time of the audit however, these activities are schedule to occur during the spring of 2011.

Economic Services Administration

Economic Services Administration (ESA) concurs with this finding that monitoring for 13 contracts, although completed, was not recorded in the ACD. ESA will revise and implement changes to the contract monitoring plan to clarify what information should be included in the on-site monitoring report and logged into the ACD.

Juvenile Rehabilitation Administration

Juvenile Rehabilitation Administration (JRA) concurs with the finding. We intend to work with staff to:

Develop contracts with the providers identified in the audit who have expended over \$1,000, as well as explore ways to ensure we have contracts in place with other providers who render services to youth; and

Ensure staff is aware of the DSHS monitoring policy, which includes recording contract monitoring activities in the ACD.

Medicaid Purchasing Administration

Medicaid Purchasing Administration (MPA) concurs with this finding.

There were five instances of monitoring not being recorded in the ACD and one instance of a contract not having a risk assessment completed.

An automated Risk Assessment and Monitoring Plan System (RAMP) was created for the development of risk assessments and monitoring plans in response to an audit finding and corrective action plan system for The Division of Behavioral Health & Recovery/Mental Health in 2007 and was required to get assessments and plans into its contract files by October 1, 2007. The Division of Behavioral Health & Recovery/Chemical Dependency and Medical Assistance (MA) were required to use the RAMP system by July 1, 2008.

The RAMP system is set up in parts that take the user through the sequence established in Administrative Policy 13.11. That sequence goes as follows:

- *Part One – Identify and Describe Service*
- *Part Two – Service Level Assessment*
- *Part Three – Service Risk Response Strategies*
- *Part Four – Contractor Group Risk Assessment*
- *Part Five – Contract Monitoring Plan*

To date, the following Service Level and Contractor Assessments have been completed in the RAMP system:

Division	RAMP Service Level Completed	RAMP Contractor Assessments Completed
Division of Behavioral Health & Recovery/Mental Health	171	478
Division of Behavioral Health & Recovery/Chemical Dependency	129	423
Medical Assistance	107	535

During the past 2 years, the Contracts Office has performed reviews of various contracts for each of the divisions listed above. The purpose of the review is to verify that a RAMP Assessment was performed and then compare what was supposed to be measured vs. the recorded measurements in the ACD.

Auditor's Remarks

We thank the Department for its response and the steps it is taking to prevent future occurrences.

Applicable Laws and Regulations

State Administrative And Accounting Manual (SAAM) 15.40.15.e states in part:

The contract is fully executed when all authorized parties have signed it . .
 . contracts must be signed by the parties before work begins

State Administrative And Accounting Manual (SAAM) 15.40.50 states in part:

In almost all instances, written contracts must be signed by both parties before work can begin under the contract.

State Administrative and Accounting Manual (SAAM) 16.20.15, states in part:

All client service contracts, regardless of dollar amount, require a written document specifying the agreement between the agency and the contractor.

Required elements in a client service contract are . . . Signatures of all responsible parties . . .

State Administrative and Accounting Manual (SAAM) 16.10.20 states in part:

The contractor must provide direct services to agency clients for the contracts to be classified as client service contracts. Direct service means the contractor is in direct contact with the individual client as part of providing the client service.

Department of Social and Health Services Administrative Policy No. 13.11, Section A. states in part:

Administrations must conduct a risk assessment for each individual contract.

Administrations must develop an appropriate monitoring plan for each contracted service.

Department of Social and Health Services Administrative Policy No. 13.11, Section B states in part:

Staff responsible for monitoring contractor performance must enter into the Agency Contract Database (ACD) monitoring activities as specified in the respective plans.

Status of Prior Audit Findings

State of Washington Department of Social and Health Services

The status of findings contained in the prior years' accountability audit reports of the Department of Social and Health Services is provided below:

1. The Department of Social and Health Services Children's and Economic Services administrations paid foster care and child care providers who had not cleared background checks.

Report No. 1003750, dated June 7, 2010

Background

State law requires adoptive parents, foster care providers and child care providers to have a criminal background check completed prior to the Department placing a child in their home.

Children's Administration administers the foster care and adoption programs. In fiscal year 2009, the Department paid about \$94 million to foster care providers and about \$81 million to adoptive parents and support service providers.

The Economic Services Administration determines the eligibility and processes payments for in-home and relative child care providers. The Department paid about \$44 million to child care providers during fiscal year 2009.

Individuals seeking to adopt must undergo one background check. In-home and relative child care providers must have a background check every two years and foster care providers every three years.

Some individuals are paid for foster care services such as transportation and respite care even though children are not placed with them. These providers also are required to undergo background checks.

Since August 2000, Department staff has submitted requests for background checks to the Department's Background Check Central Unit (BCCU). The requests and the results are tracked in a database.

In our audits of fiscal years 2003 through 2009, we reported the Department was not complying with criminal background check requirements. The number of exceptions noted have ranged from less than five to almost 30, and have included individuals with no evidence of a cleared background check, background checks not re-performed periodically as required, and criminal activity identified through background checks without apparent follow up by the Department.

Status

Follow up deferred to 2011.

2. **The Department of Social and Health Services does not adequately monitor access to critical systems to prevent unauthorized access or misuse.**

Report No. 1003750, dated June 7, 2010

Background

Information technology managers should establish system access privileges that restrict users to only those functions needed to perform their jobs. Properly configured access privileges help enforce the segregation of incompatible duties and minimize the risk of loss, misappropriation and/or unauthorized changes to the system.

System access controls are enhanced when access authorizations are approved by management, documented and kept on file for review.

The Department uses many computer systems. Most of these systems contain highly sensitive or confidential information and can be used to initiate and approve social services and payments for clients and providers.

We reported concerns over the Department's critical system access controls during our audits of fiscal years 2008 and 2009. We reviewed system access controls for the Electronic Jobs Automated System (eJAS), the Automated Client Eligibility System (ACES), the Support Enforcement Management System (SEMS), the Social Service Payment System (SSPS), and the Electronic Agency Contracts Database (EACD). Many of these systems are used by other entities, including the Employment Security Department, Area Agencies on Aging, county prosecutors, the Social Security Administration and Indian tribes. Some of this access limits users to reading the data; in other cases users have full system capabilities.

Additionally, we reviewed access for the Human Resource Management System (HRMS). This system processes human resource and payroll information and contains confidential data for nearly 20,000 Department employees statewide.

Status

Follow up deferred to 2011.

3. **Western State Hospital does not have adequate internal controls at the Local Funds Office to prevent unauthorized access or misuse of the patient funds or the petty cash funds.**

Report No. 1003750, dated June 7, 2010

Background

Western State Hospital is one of three Mental Health Division institutions administered by the Department of Social and Health Services. The Hospital has more than 2,000 employees and provides services to more than 850 patients.

The Hospital's Local Funds Office manages trust accounts on behalf of patients. The Hospital has a fiduciary responsibility to safeguard all property belonging to the patients during their stay at the Hospital. Patient funds on deposit at February 28, 2009 totaled \$763,221 and mostly were kept in five local bank accounts. The Office keeps \$20,000 in cash on hand to meet cash withdrawal requests made by the patients.

The Hospital also maintains a petty cash account of \$9,100: \$200 cash in the security office for emergency needs on weekends or after hours and \$8,900 in a separate local bank account.

The Local Funds Office receipts, pays out and monitors the patient funds and the petty cash account.

We reviewed this area for adequate controls because of the risks of misuse or loss associated with cash receipting functions.

Status

Follow up deferred to 2011.

4. The Department of Social and Health Services does not perform timely reconciliations of the State Payroll Revolving Account, resulting in losses and errors.

Report No. 1003750, dated June 7, 2010

Background

In July 2006, the Department began using the state's new Human Resource Management System (HRMS) to process payroll. The new system posed challenges such as a shortened time frame for processing and increased data entry. It also meant extra tasks for users, such as monthly reconciliations of the payroll account.

The Department processes approximately \$1.1 billion in yearly payroll for more than 18,000 employees. During the payroll processing cycle, errors may occur resulting in employees being paid more than they earned.

The Department needs to reconcile payroll accounts in a timely manner to identify errors and ensure inappropriate payments are recovered. State regulations require the Department to reconcile payroll funds monthly.

Status

Follow up deferred to 2011.

5. The Department of Social and Health Services' Economic Services Administration systems are vulnerable to misappropriation and inappropriate data changes.

Report No. 1001539, dated June 1, 2009

Background

The Department's Economic Services Administration administers the Electronic Jobs Automated System (eJAS) and the Support enforcement Management System (SEMS).

SEMS is used to manage collection and payment of approximately \$670 million in child support. Approximately 1,100 Department employees and 350 to 400 workers in county prosecutors' offices use the system.

eJAS is a Web-based case management system for more than 50,000 families who participate in the WorkFirst and Food Assistance Employment and Training programs. The system records, tracks and reports on clients' participation in job search and retention. It also issues vouchers for support services and automated payments for transportation assistance to WorkFirst clients. In fiscal year 2008, WorkFirst support service expenditures were more than \$5 million.

The system supports 5,500 users including staff from the Department, the Employment Security Department, the Department of Community, Trade and Economic Development, the State Board of Community and Technical Colleges, Indian tribes and community-based service providers.

Our fiscal year 2003 audit, we found internal control weaknesses related to eJAS. During our fiscal year 2008 audit, we found weaknesses related to eJAS and SEMS.

Status

Follow-up work is in process and will be completed in 2011.

6. The Department of Social and Health Services internal controls over provider payments are not adequate, resulting in misappropriations totaling approximately \$230,000.

Report No. 1001539, dated June 1, 2009

Background

The Department uses computer systems to establish client and provider eligibility for social service programs and to authorize and generate payments. The Social Service Payment System (SSPS) is the primary provider payment system for non-Medicaid programs. It is used by approximately 2,000 Economic Services Administration and Developmental Disabilities Division social workers to authorize payments in excess of \$800 million annually to more than 45,000 providers.

During our fiscal year 2008 audit, we focused on more than \$283 million in child care provider payments and more than \$511 million in developmental disability client provider payments.

Our audit examined the internal controls the Department has in place to prevent and detect misappropriation and errors. Examples of preventive controls are separation of duties, proper authorization of transactions, adequate documentation and physical control over assets.

Detective controls are designed to provide evidence that an error or loss has occurred. Examples are reviews, analyses, reconciliations and audits. In order to be effective, these controls need to be carefully designed and appropriately used.

Both are essential to an effective internal control system.

Status

Follow-up work is in process and will be completed in 2011.



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Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

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