



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Department of Health

For the period July 1, 2021 through June 30, 2022

Published October 2, 2023

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**Office of the Washington State Auditor
Pat McCarthy**

October 2, 2023

Umair Shah, Secretary
Department of Health
Olympia, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for Department operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

Attached is our independent audit report on the Department's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and value your cooperation during the audit.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, Department operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above, we identified areas where the Department could make improvements. These recommendations are included with our report as a finding.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

About the audit

This report contains the results of our independent accountability audit of the Department of Health from July 1, 2021 through June 30, 2022.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

This audit was conducted under the authority of RCW 43.09.310, which requires the Office of the Washington State Auditor to examine the financial affairs of all state agencies. Our audit involved obtaining evidence about the Department's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the year ended June 30, 2022, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Management of small and attractive assets
- Cash receipting processes
- Use of Universal Vaccine restricted funds
- Payments for meals with meetings for employees

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Department of Health July 1, 2021 through June 30, 2022

2022-001 The Department of Health did not have adequate internal controls over and did not comply with state requirements and its own policies related to small and attractive assets.

Background

The State Administrative and Accounting Manual (SAAM) requires state agencies to define non-capitalized assets they consider particularly vulnerable to loss as “small and attractive” and implement policies to protect and control the use of such assets.

The SAAM also requires agencies to designate an inventory officer, perform risk assessments periodically, control issuance of tag numbers, and conduct a complete physical inventory of assets at least every two years to reconcile what is physically on hand to the inventory records.

The Department of Health (Department) has a decentralized inventory process in which multiple groups maintain their own inventory lists. The Department’s purchasing group tracks non-IT small and attractive assets using a handwritten list, using sequentially numbered asset tags. The Department’s Information Technology (IT) group tracks IT related small and attractive assets in a computer database, using sequentially numbered asset tags issued at four separate locations. When IT assets are ready to be disposed, Department policy requires employees to complete a Computer Component Transfer Request form, then send it to the IT group. When IT assets are lost or stolen, Department policy requires employees to complete an Internal Property Transfer Request form, and the policy also calls for the Office of the State Auditor to be notified.

In response to a 2018 accountability audit finding, the Department formed an asset management group whose role was to update the asset management policies and procedures and perform an inventory of Department assets. In January of 2020, the Department’s response to the COVID-19 pandemic required a diversion of Department resources, which put the asset management update process on hold. In April 2022 the group reconvened, and in December 2022 the Department started to perform a physical inventory. As of June 2023, this inventory had not been completed. The Department has not reconciled the physical inventory with the inventory records.

In fiscal year 2022, Department records showed 3,792 assets on its small and attractive asset inventory – including 3,593 IT assets, 181 cell phones and 18 non-IT Assets.

Description of Condition

The Department did not have adequate internal controls over and did not comply with state requirements and its own policies related to small and attractive assets.

Specifically, we found the Department:

- Last updated its small and attractive assets policy in 2008, and the policy does not reflect the Department's current business practices
- Has not conducted a periodic risk assessment over assets since 2008
- Has not completed a physical inventory since 2015
- Did not include all required information on the asset tags of all assets selected for testing
- Did not provide the required missing or disposal documentation for assets listed as missing or removed from inventory
- Could not find two of the ten cell phones we selected for testing. Department officials said that the phones were put into surplus without recording the serial numbers. Without the serial numbers it is impossible to verify the status of the phones.
- Did not provide any documentation to verify that the physical asset matches the inventory listing for all 25 sampled small and attractive assets
- Did not include three out of the five assets selected by physical verification on the asset list

This issue was reported as a finding in the Department's fiscal year 2018 accountability audit.

Cause of Condition

Management did not ensure the Department complied with state and Department policies and procedures.

Effect of Condition

Without ensuring adequate internal controls over assets are not in place, public resources are at a higher risk of loss, misuse, and abuse.

Recommendation

We recommend the Department:

- Update its small and attractive asset policy to reflect current business practices
- Complete a periodic risk assessment
- Complete the reconciliation of the December 2022 physical inventory
- Perform a physical inventory every other year as required
- Ensure asset tags contain all required information
- Ensure required disposal documentation are completed and retained as required

Department's Response

The Department appreciates the opportunity presented in this report to continue to update our asset management policy, processes, and procedures to ensure they are in alignment with state policies and standards and will review the recommendations as we move forward in our process.

Auditor's Remarks

We thank the Department for its cooperation and assistance throughout the audit. We will review the status of the Department's corrective action during our next audit.

Applicable Laws and Regulations

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

30.20.20 When to capitalize assets

30.30.20.a How capital assets should be marked

30.40.20 Small and attractive assets

30.40.30 Capital asset inventory system requirements

30.45.10 - Physical inventory frequency

30.45.20 - Who should conduct and verify the physical inventory?

30.45.40 - Physical inventory reconciliations

30.45.50 - Retaining physical inventory records

35.10.25 Agency responsibilities

35.10.70 Retaining inventory records

35.10.75 Lost or stolen property



STATE OF WASHINGTON
DEPARTMENT OF HEALTH
*1610 NE 150th Street
Shoreline, Washington 98155*

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Audit Period: July 1, 2018 through June 30, 2020	Report Ref. No.: 1029637	Finding Ref. No.: 2020-001
Finding Caption: The Department of Health lacked adequate internal controls for ensuring compliance with state regulations for providing meals to employees and training attendees.		
Background: State agencies can purchase meals in certain circumstances. All meals that state agencies provide must meet the requirements and per diem guidelines outlined in the State Administrative and Accounting Manual (SAAM). Per diem is the maximum amount of money an agency is allowed to spend on a person for a single meal, based on the time of the meal and location. The SAAM prohibits reimbursement for meal expenses incurred at the traveler's official work station or official residence, except in limited circumstances. One of these circumstances is when the agency head determines that employees performing critical agency functions during an emergency situation must remain at their work stations. During a declared state of emergency in Washington state, the Department of Health (Department) activates its Incident Management Team (IMT). The Department will often provide meals to staff, volunteers, interns, contractors and other agencies that help with emergency response. When the Department purchases goods and services for IMT-related activities, employees are required to complete the WA Resource Request Form (213 RR). The logistics section chief must approve the request to help coordinate how the agency will acquire the goods or services, and the finance section chief reviews the request for necessity and reasonableness. The Department activated the IMT on Jan. 19, 2020, which was the date of the first known case of COVID-19 in Washington. The Department works with other organizations and experts to protect and improve the health of all people in Washington by providing health and safety information, education and training sessions. The Department often provides meals during these sessions for participants. The Department must obtain pre-approval to serve meals during these events, which includes providing the names of the state organizations or people attending the meeting. This		

requirement also applies to conferences, conventions and formal training sessions. Office of the Washington State Auditor sao.wa.gov Page 6

During fiscal year 2020, the Department purchased meals both before and after it activated the IMT. From July 2019 to December 2019, the Department spent approximately \$67,000 on meals. The IMT was not active during this time, and the Department was following its normal operating policies and procedures. When the Department activated the IMT on January 19, 2020, the Incident Commander authorized the purchase of meals, snacks and light refreshments for the IMT employees. From January 2020 through June 2020, the Department spent over \$438,000 on meals.

Status of Corrective Action: (check one)

☐ Fully Corrected ☐ Partially Corrected ☒ Not Corrected ☐ Finding is considered no longer valid

Corrective Action Taken:

The Department is still in the process of drafting an addendum to its meals with meetings policy for leadership review and approval and strengthening its review process to ensure purchased meals follow SAAM guidelines and requirements. We anticipate these items to be resolved by December of 2023.

Audit Period: July 1, 2016 through June 30, 2018	Report Ref. No.: 1024307	Finding Ref. No.: 2018-001
Finding Caption: The Department of Health did not have adequate internal controls to ensure it followed state requirements and its own policies related to small and attractive assets.		
Background: <p>The State Administrative and Accounting Manual (SAAM) requires state agencies to define non-capitalized assets they consider particularly vulnerable to loss as “small and attractive” and implement policies to protect and control the use of such assets.</p> <p>SAAM also requires agencies to designate an inventory officer, perform risk assessments periodically, control issuance of tag numbers, and conduct a complete physical inventory of assets at least every two years to reconcile what is physically on hand to the inventory records.</p> <p>The Department of Health (Department) has a decentralized inventory process in which multiple groups maintain their own inventory lists. The Department’s Information Technology (IT) group tracks IT related small and attractive assets in a computer database, using sequentially numbered asset tags issued at four separate locations. The Department’s purchasing group tracks non-IT small and attractive assets using a handwritten list, using sequentially numbered asset tags. When IT assets are ready to be disposed, Department policy requires a Computer Component Transfer Request form to be completed and forwarded to the IT group. When IT assets are lost or stolen, Department policy requires an Internal Property Transfer Request form to be completed and the Office of the State Auditor to be notified.</p> <p>In fiscal year 2018, Department records showed 4,019 assets on its IT small and attractive asset inventory – including 3,461 computers, tablets, and printers – and 30 assets on its non-IT small and attractive assets inventory.</p>		
Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between;"> <div> <input type="checkbox"/> Fully Corrected </div> <div> <input type="checkbox"/> Partially Corrected </div> <div> <input checked="" type="checkbox"/> Not Corrected </div> <div> <input type="checkbox"/> Finding is considered no longer valid </div> </div>		
Corrective Action Taken: <i>The Department is in the process of strengthening the internal controls around small and attractive assets to ensure SAAM guidelines and requirements are met. We anticipate these items to be resolved by March of 2024.</i>		

RELATED REPORTS

Financial

We also 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 Annual Comprehensive Financial Report (ACFR). The ACFR reflects the financial activities of all funds, organizations, agencies, departments and offices that are part of the state's reporting entity. The results of that audit are published in a report 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, usually in March of each year.

Performance audits

Initiative 900, approved by voters in 2005, gives the State Auditor's Office the authority to conduct independent performance audits of state and local government entities. Performance audits may include objective analysis on ways to improve program performance and operations, reduce costs and identify best practices.

We issued the following performance audit reports, which are available on our website, <http://portal.sao.wa.gov/ReportSearch>:

- I-1163: Evaluating the Relevance of Required Training for Long-Term Care Workers
- Prescription Monitoring Program: Evaluating system processes and program oversight
- Nursing Care Quality Assurance Commission – Opportunities are Present to Support Efforts by the Commission to Speed Licensing
- Washington Medical Commission – Opportunities Are Present to Support the Commission's Continued Efforts to Improve Timelier Licensing and an Efficient Disciplinary Process

INFORMATION ABOUT THE DEPARTMENT

The mission of the Washington State Department of Health (DOH) is to work with others to protect and improve the health of all people in Washington State. DOH accomplishes the mission by leading changes in policies, systems and environments to prevent illness and injury, promote healthy families and communities and encourage healthy lifestyles. To achieve this mission the agency focuses on places where people live, learn, work, recreate, seek healthcare, and worship. DOH works closely with many local government agencies, tribal governments and non-profit organizations across the state. Partnering with boards and commissions the Department oversees the licensing and certification of 83 different types of health professionals who serve the citizens of Washington.

Although the Department supports the Washington State Board of Health, the Board is an independent body that provides a forum for people interested in helping develop public health policy. The Board provides leadership on statewide health issues by promoting policies that protect and improve the public's health. The Secretary of Health is appointed by the Governor and agency authority is contained in state law (RCW 43.70.020).

The Department's main office is located in Tumwater with additional offices in Shoreline, Kent, Spokane and Richland. The Department has approximately 1,886 employees. DOH receives funding from state appropriations, license fees and federal grants. In total, it receives approximately \$621 million annually. Of that amount, approximately \$292 million is from federal sources, \$75 million is from the state general fund and \$253 million is from various fees.

Contact information related to this report

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Information current as of report publish date.

Audit history

You can find current and past audit reports for the Department of Health at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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