



## STATE OF WASHINGTON

October 24, 2024

The Honorable Jay Inslee  
Governor of Washington  
P.O. Box 40002  
Olympia, WA 98504-0002

The Honorable Members of the Legislature  
110 Legislative Building  
Olympia, WA 98504-0600

Dear Governor Inslee and Members of the Legislature:

State law (RCW 39.26.220<sup>1</sup>) requires the State Auditor and Attorney General to annually give the Governor and the policy and fiscal committees of the Legislature a collaborative report on state agency contract audit and investigative findings, enforcement actions and status of the state agency resolution.

This letter serves as our report of findings and actions taken on audits issued in fiscal year 2024 (July 1, 2023 – June 30, 2024).

### **STATE AUDITOR'S OFFICE**

#### *Compliance and Accountability Audits*

During fiscal year 2024, our Office issued one compliance and accountability audit that contained findings related to contracting issues.

#### *Washington Asparagus Commission*<sup>2</sup>

On July 31, 2023, our Office issued an accountability report for the Washington Asparagus Commission (Commission) that contained a finding that the agency did not have adequate internal controls to ensure it complied with state laws related to research and administrative contracts. We recommended the Commission:

1. Improve oversight of its contracted management company to ensure it maintains documentation to support contracts and expenditures.

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<sup>1</sup> <https://app.leg.wa.gov/RCW/default.aspx?cite=39.26.220>

<sup>2</sup> <https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1033071&sp=false&isFinding=false#page=6>

2. Establish written policies and procedures for preventing potential conflicts of interest when awarding contracts.
3. Comply with DES procurement and risk assessment requirements.
4. Ensure it retains documentation to demonstrate compliance with state law and its own rule for evaluating Washington State University's facilities when awarding research projects.

The Commission did not agree with the issues outlined in the finding. Commodity commissions are not required to submit corrective action plans to the Office of Financial Management. We will follow up on these matters with the Commission during its next scheduled audit.

### *Financial and Federal Audits*

During fiscal year 2024, our Office issued one federal audit report that contained findings related to contracting issues.

#### *Department of Health*<sup>3</sup>

On June 6, 2024, our Office issued our annual single audit report for Washington state. This report covered the fiscal year that began on July 1, 2022, and ended June 30, 2023. The report included a finding that the Department of Health (Department) did not have adequate internal controls over and did not comply with suspension and debarment requirements for the Epidemiology and Laboratory Capacity for Infectious Diseases program.

We recommended the Department establish adequate internal controls to ensure it completes the required suspension and debarment checks before entering into contracts with contractors and subrecipients that will receive \$25,000 or more in federal funds.

The Department agreed with the finding and stated during the COVID pandemic that it operated under a competitive procurement waiver in order to expedite funding to critical partners throughout the state. Efforts to accelerate contracts, combined with the misperception that Educational Service Districts (ESDs) are an extension of the Office of Superintendent of Public Instruction, prompted the decision to use an Interagency Agreement and no suspension and debarment check was performed at the time. The Department stated they have corrected this error moving forward with ESD contracts. We will review the status of the Department's corrective action during the next audit.

### *Performance Audits*

During fiscal year 2024, our Office issued two performance audit reports that contained contracting issues.

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<sup>3</sup> <https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1034932&sp=false&isFinding=false#page=0>

*Health Care Authority*<sup>4</sup>

On October 31, 2023, our Office issued a performance audit report that contained contracting issues. This performance audit found the state Health Care Authority (HCA) and contracted managed care organizations (MCO) are taking key steps to prevent fraud and to ensure they are using accurate data about patient care and its costs.

To address the need for better guidance regarding how managed care organizations ensure their encounter data is complete and accurate, we recommended:

1. Provide written expectations in the MCO contracts for conducting retrospective internal audits that compare approved and rejected encounters to their underlying claims.

To address the need for stronger contractual provisions to ensure MCOs meet program integrity expectations, we recommended:

2. Incorporate performance measures and objectives for MCO program integrity efforts, such as the new Centers for Medicare and Medicaid Services (CMS) performance measures, into the MCO contracts.

To address the opportunity for clearer contractual expectations related to MCO program integrity efforts, we recommended:

3. Set a minimum standard for conducting program integrity data analytics in the MCO contracts.

HCA concurred with recommendations one and two and partially concurred with recommendation three. HCA embraces all opportunities to improve and will review the State Auditor's Office recommendations to determine if there are benefits to incorporating them. As some of the recommendations may require additional staff or other system updates or purchases, the agency will review and determine if the return on investment warrants a request for future funds to incorporate the recommendations.

*Health Care Authority*<sup>5</sup>

On December 12, 2023, our Office issued a performance audit report that contained contracting issues. HCA's contracts with MCOs lack clear expectations and performance standards necessary for effective compliance with Medicaid blood lead testing requirements. To ensure children enrolled in Medicaid in Washington receive required tests, our recommendations fell into two main categories: creating clear and consistent guidance for providers, and implementing a monitoring process using data the state already collects to identify children who have not received a blood lead test.

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<sup>4</sup> <https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1033443&isFinding=false&sp=false>

<sup>5</sup> <https://portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1033619&isFinding=false&sp=false>

To address the need for increased analysis and monitoring to ensure the state meets the Medicaid lead testing requirement, we recommended:

1. Develop and use internal performance measures that capture and track whether all children enrolled in Medicaid – whether served by MCOs or fee-for-service providers – are receiving all required blood lead tests.
2. Update contracts with MCOs to establish clear expectations and internal performance measures and thresholds regarding Medicaid testing requirements.

HCA agreed that better alignment between the measures and requirements could be beneficial. However, that measure is established at the federal level and is not one that they have the authority to change. HCA further agreed that language in the contracts with the MCOs can be clarified around the expectations for blood lead testing. In response to these recommendations, HCA said they will:

- Provide feedback to the measure sponsor on alignment when the measure is next open for public comment.
- Convene a work group to explore the feasibility of additional utilization tracking that aligns with the Medicaid requirements.
- Update the language in the MCO contracts to clarify expectations for blood lead testing.

#### *Fraud and Whistleblower Audits*

During fiscal year 2024, our Office did not issue any fraud or whistleblower investigative reports that contained findings related to contracting issues.

#### **ATTORNEY GENERAL'S OFFICE**

The Auditor's Office did not issue any audit or investigative findings that required referrals to the Attorney General's Office for enforcement.

Sincerely,



Pat McCarthy  
State Auditor



Bob Ferguson  
Attorney General