

Agency: 357 Department of Early Learning
Decision Package Code/Title: B4 Reducing Financial Risk

Budget Period: 2015-17
Budget Level: PL - Performance Level

Recommendation Summary Text:

The Department of Early Learning (DEL) has received multiple audit findings surrounding the proper eligibility determination, reporting and cash management of its federal funds. To mitigate the potential for future audit findings, DEL requests \$165,000 in fiscal year 2017 to hire an internal auditor to assist with ensuring services and processes comply with RCW 43.88.160(4)(a). This position will conduct internal audits to find issues that need to be fixed prior to a formal audit by state and federal auditors.

Fiscal Detail

Operating Expenditures	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
001-1 General Fund - Basic Account-State		165,000	165,000
Total Cost		165,000	165,000
Staffing	<u>FY 2016</u>	<u>FY 2017</u>	<u>Annual Average</u>
FTEs	.0	1.0	.5

Package Description:

DEL has insufficient capacity to manage financial risk, which has led to audit findings that could put the continued receipt of federal awards at risk. Since the creation of the agency in 2006, the State Auditor's Office reported 18 inadequacies (known as "findings") in DEL's system of internal controls and federal grants management. A complete list of these findings is in the attached "Reducing Financial Risk-DEL Audit Findings."

DEL proposes to hire an internal auditor reporting directly to the agency director - a common reporting structure for agencies with an internal audit function. This position would be responsible for all internal audit functions including:

- Auditing, consulting, data management, investigative, and learning and development services;
- Providing leadership and technical analysis that informs and helps shape executive decisions across all operational areas and agency policies, procedures, agreements, and contracts;
- Implementing a systematic, disciplined approach to evaluate and improve the effectiveness of agency risk management, internal control, and adherence to state and federal laws, rules, regulations, and agency policies;
- Producing an annual agency audit plan, based on the output of an enterprise risk assessments;
- Maintaining and reporting on unit service efforts and accomplishments using a system of key performance metrics;
- Promoting good internal controls and accountability, including for federal awards;
- Analyzing business processes and information systems to identify driving forces, logic, structure, timings, and dependencies; and
- Managing concurrent financial, compliance, performance, and information system audit and consulting projects within tight timelines and in accordance with International Standards for the Professional Practice of Internal Auditing (ISPPA) standards (the Red Book).

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Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

DEL will receive fewer initial audit findings and fewer repeat audit findings in future years, thereby lowering the agency's financial risk and increasing public confidence in the agency's management of funds.

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

An internal auditor promotes system excellence by ensuring DEL is well managed (Goal #4 of the agency strategic plan).

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

An internal auditor supports Governor Inslee's Goal 5: Make government efficient, effective and accountable. The auditor will strengthen DEL's ability to manage risk, and review and improve agency operations in order to minimize waste and maximize value for stakeholders.

What are the other important connections or impacts related to this proposal?

Agency stakeholders will benefit from this addition because DEL will be able to improve processes, reduce risks and help meet other strategic plan goals.

What alternatives were explored by the agency, and why was this alternative chosen?

DEL looked at reassigning existing employees to do this work, but the agency lacks staff capacity within the financial services unit to perform the duties of an internal auditor, so the alternative to request funding for a full time internal auditor was chosen.

What are the consequences of adopting or not adopting this package?

Without this package, DEL will not be able to focus dedicated resources on improving processes and procedures in a timely manner to reduce the number of audit findings. The financial risk will continue to be high until employee workload allows adequate time for review and implementation of new procedures. Audit findings may increase, leading to higher federal paybacks of disallowed expenditures in future years.

What is the relationship, if any, to the state's capital budget?

None.

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What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

FTE, Salary and Benefits: 1.0 FTE WMS3 costing \$117,351 in fiscal year 2017. It is assumed the duties of the internal auditor would be to:

- Conduct internal program audits;
- Audit agreements and contracts with external service providers;
- Investigate and determine whether fraud, waste, or abuse has occurred, or is likely to occur, within the department;
- Review agency operations in order to ensure conformance with agency management policies and the effectiveness of internal control measures, in conformance with generally accepted standard for internal auditing;
- Monitor and safeguard assets;
- Ensure the accuracy and reliability of accounting data and financial reports;
- Ensure compliance with applicable state and federal laws and regulations; and
- Respond to management/employee questions regarding state ethics law.

Goods and Services: \$1,806 in fiscal year 2017 for direct goods and services for the FTE, including computer lease, communications, supplies and materials and training.

Travel: \$1,000 in fiscal year 2017 to attend necessary out of town meetings such as training or conferences .

Capital Outlay (equipment): \$6,000 in fiscal year 2017 for one time purchase of office furniture and equipment for the FTE.

Intra-Agency Reimbursements: \$38,843 in fiscal year 2017 for indirect costs for agency administration and central services, calculated at 33.10 percent of salaries and benefits ($\$117,351 \times 33.10\% = \$38,843$). This is for administration and management of the department including governance, executive management, fiscal operations, human resources, communications and outreach, government relations, and agency information technology services. It is also for agency central services including space and utilities, data processing fees and equipment leases, communications, attorney general and audit services, and other mandatory charges for services from the Department of Enterprise Services.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

All costs are assumed ongoing, except for one time office furniture and equipment expenditure in fiscal year 2017 .

<u>Object Detail</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
A Salaries And Wages		89,323	89,323
B Employee Benefits		28,028	28,028
E Goods\Other Services		1,806	1,806
G Travel		1,000	1,000
J Capital Outlays		6,000	6,000
T Intra-Agency Reimbursements		38,843	38,843
Total Objects		165,000	165,000

Reducing Financial Risk – DEL Audit Findings

The following is a list of inadequacies (“findings”) in internal controls and federal grants management as reported by the State Auditor in yearly audits of the agency since 2006, when the agency was formed.

Fiscal Year 2006

06-25: The Department of Social and Health Services and the Department of Early Learning do not have adequate internal controls over direct payments made to child care providers.

06-26: The Department of Social and Health Services and the Department of Early Learning do not have adequate internal controls in place to ensure only eligible clients receive federal child care subsidies.

Fiscal Year 2007

07-06: The Department of Social and Health Services and the Department of Early Learning do not have adequate internal controls over direct payments to child care providers.

Fiscal Year 2008

08-13: The Department of Early Learning and the Department of Social and Health Services do not have adequate internal controls over direct payments to child care providers.

08-15: The Department of Early Learning does not have adequate controls to ensure that contractors have not been suspended or debarred from working on federally funded programs.

Fiscal Year 2009

09-12: The Department of Early Learning and the Department of Social and Health Services do not have adequate internal controls over direct payments to child care providers.

Fiscal Year 2010

10-31: The Department of Early Learning and the Department of Social and Health Services do not have adequate internal controls over direct payments to child care providers.

Fiscal Year 2011

11-16: The Department of Early Learning did not comply with time and effort requirements for its Special Education Grants for Infants and Families for the Early Support for Infants and Toddlers Program.

11-23: The Department of Early Learning and the Department of Social and Health Services do not have adequate internal controls over direct payments to child care providers.

Fiscal Year 2012

12-28: The Department of Early Learning does not have adequate internal controls over direct payments to child care providers.

12-29: The Department of Early Learning did not maintain federally required documentation for \$21,328.61 in payroll costs charged to the Child Care Development Fund.

Fiscal Year 2013

13-015: The Department of Early Learning does not have sufficient internal controls to ensure reports required by the Federal Funding Accountability and Transparency Act for the Child Care Development Fund program are filed.

13-016: The Department of Early Learning does not have adequate internal controls over direct payments to child care providers.

Fiscal Year 2014

2014-014: The Department of Early Learning did not have adequate internal controls to ensure subrecipients that spend \$500,000 or more in federal dollars obtain required audits.

2014-015: The Department of Early Learning does not have adequate internal controls to ensure reports required by the Federal Funding Accountability and Transparency Act are filed accurately for the Race to the Top-Early Learning Challenge and Affordable Care Act Maternal, Infant, and Early Childhood Home Visiting programs.

2014-023: The Department of Early Learning does not have adequate internal controls over payments to child care providers for the Child Care and Development Fund program.

2014-024: The Department of Early Learning does not have adequate controls to ensure it draws Child Care and Development Fund program federal funds in accordance with the Cash Management Improvement Act.

2014-025: The Department of Early Learning does not have sufficient internal controls to ensure reports required by the Federal Funding Accountability and Transparency Act for the Child Care and Development Fund program are filed accurately.