

# Staff Response to A-133 Audit

## Auditor's Letter to the Board

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Please find enclosed a written response to the FY 2008 Audit report findings and associated corrective actions to rectify them.

The Auditor's letter to the Board also included an update on Prior Year (FY 2007) Audit Findings. These items were reported to the Board late in FY 2008 and had not been completely resolved at the time of the FY 2008. Consequently, these items also appear in the FY 2008. All items from FY 2007 and FY 2008 have been fully resolved.

A desk audit was performed by the Contract Management and Oversight Unit at DSHS after the completion of the annual A-133 Audit. The final report, which is inclusive of activities implemented in early 2009 and late 2008, found no deficiencies with our processes. These previously implemented actions and processes were not a part of the Single A-133 audit.

### **CURRENT YEAR – CONTROL DEFICIENCIES**

#### **Deficiency #1**

Cleared checks – A review of SETTRAC's financial procedures revealed that one individual had control over blank checks, enters the amount of the checks into QuickBooks, prepares the checks, and may even mail the checks. Although cleared checks are reviewed by the Treasure on a monthly basis to verify the reasonableness of expenditures, a more extensive review is needed to address the lack of segregation in the cash disbursements process.

The following process changes are currently in place:

- Admin Assistants open all of the mail.
- All invoices are reviewed and payment authorized by the Executive Director or the Administrative Director.
- Accountant pays all of the bills.
- All payments are reviewed retrospectively by the Treasurer or other Executive Committee member.
- Final financial reports are presented to the Board of Directors

#### **Deficiency #2**

Outstanding Checks – We noted that there were several old outstanding checks being carried on the monthly cash reconciliations

This deficiency has been cured by implementing of reconciling checks on a monthly basis. The Accountant manages all un-cleared checks individually to insure each is resolved in a timely basis.

#### **Deficiency #3**

Voided and Reissued Checks – We noted one disbursement check to a hospital that had been voided and reissued in FY '09 that was originally disbursed in FY '08. The voiding of the disbursement removed the amount from expense and increased cash as of

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08/31/2008. An accrual was not made to recognize the amount as an FY '08 expense. As a result, an audit adjustment was necessary to accrue the amount as of 08/31/2009.

The funds were paid in FY'08 while on a cash basis accounting system. If the funds had been encumbered in an accrual based accounting system, which is currently in place, an adjustment would not have been required. The organization has completed a transition to an accrual based accounting method.

### **Deficiency #4**

Excess HRSA Interest – In testing interest income, we noted \$9,499 in excess Bioterrorism interest received during FY '08 that was not remitted back to the State in accordance with contract requirements.

Hiring of an accountant, monthly reconciliation, and new chart of accounts allows for the interest to be adequately monitored. It is returned in a timely manner.

### **Deficiency #5**

Program Expenses – the majority of OASPR program expenses were recorded to one general account called “Contractual” instead of being recorded to the proper functional expense account (i.e., supplies, equipment, training, etc)

Hospital based equipment and supplies must be coded to “contractual” per DSHS Contract requirements. We disagree with the auditor interpretation of this as a deficiency.

### **Deficiency #6**

“Whistle Blowing” Policy – The Organization does not have a whistle blowing policy in place. Currently, this provision is recommended for non-profits by the Internal Revenue Service. The provision is similar to Section 301 in the Sarbanes-Oxley Act in which audit committees are mandated to establish procedures for receipt of complaints by employees (301.4.A) and for the confidential submission of the complain by employees (301.4.B)

A Whistle Blowing Policy will be presented to the SETTRAC BOD that will be applicable to all Board members, staff, and members..

## **CURRENT YEAR – SIGNIFICANT DEFICIENCIES**

### **Deficiency #1**

Grant Expense Reconciliations – During expense testing, we identified several grant expenditures (i.e., OASPR, RAC EMS, and Tobacco) that were incorrectly coded and recoded in QuickBooks. Furthermore, grant expenditure reports did not agree to the accounting system, indicating the reports are not reconciled to QuickBooks to ensure accurate and complete recording of transactions.

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Hiring of an accountant, monthly reconciliation, and new chart of accounts allows for the expenses to be adequately monitored.

## **PRIOR YEAR – AUDIT FINDINGS UPDATE**

The Auditor's letter to the Board included an update on Prior Year (FY 2007) Audit Findings. These items were reported to the Board late in FY 2008 and had not been completely resolved at the time of the FY 2008. Consequently, these items also appear in the FY 2008. All items in that list have been fully resolved and are discussed below.

1. Receipts – During the course of our audit we noted that one person opens the mail, records receipts, and deposits money to the bank. This allows one person to control and record cash which could lead to errors or misappropriations that could go undetected.

Auditors FY 2008 Finding – Fully corrected

2. Cleared Checks – Cleared checks are not reviewed on a regular basis to verify the reasonableness of expenditures:

Auditors FY 2008 Findings – Partially correct  
Current Status – Fully corrected – see above

3. Outstanding Checks – We notes that there were several old outstanding checks being carried on monthly cash reconciliations

Auditors FY 2008 Findings – Not corrected  
Current Status – Fully corrected – see above

4. Grant Expense Reconciliations – Grant expenditure reports not reconciled to Quickbooks to ensure accurate and complete recording of transactions in the accounting system.

Auditors FY 2008 Findings – Not corrected  
Current Status – fully corrected

5. Tobacco Administrative Expenses – Administrative expenses incurred with Tobacco grant funds exceeded the 20% allowable amount per contract requirement by \$351.

Auditors FY 2008 Findings – Fully corrected

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6. Expense Documentation – During expense testing, we noted several grant expenditures for which a vendor invoice or supporting documentation was not properly filed to support the expenditure.

Auditors FY 2008 Findings – Fully corrected

7. Voided and Reissued Checks – in the testing of net assets, we noted disbursement checks had been voided and reissued in the current year that were originally dispersed in FY 2006.

Auditors FY 2008 Findings – Not corrected  
Current Status – Fully corrected – see above

8. excess HRSA Interest – In testing income, we noted \$2,372 in excess HRSA interest received that was not remitted back to the State in accordance with HRSA contract requirements.

Auditors FY 2008 Findings – Not corrected  
Current Status – Fully corrected – see above