



## Office of the Washington State Auditor Pat McCarthy

The Honorable Jay Inslee  
Governor, State of Washington

### **REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM**

We have audited the compliance of the State of Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the State's major federal programs for the year ended June 30, 2016. The State's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

The State's basic financial statements include the Washington Health Benefit Exchange, which expended \$47,674,528 in federal awards reported under CFDA 93.525 and Valley Medical Center (UW) (legal name is King County Public Hospital District No. 1), which expended \$812,696 in federal awards. The federal awards for these two entities are not included in the Schedule of Expenditures of Federal Awards for the year ended June 30, 2016. Our audit, described below, did not include the operations of Washington Health Benefit Exchange or Valley Medical Center (UW) because they arranged for separate audits of their federal awards in accordance with the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

#### **Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the State's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit

requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the State's compliance.

### **Basis for Adverse Opinion on CFDA 93.575 – Child Care and Development Block Grant, and CFDA 93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund programs**

As described in Findings 2016-020, 2016-021, 2016-022, and 2016-023 in the accompanying Schedule of Federal Award Findings and Questioned Costs, the State did not comply with requirements regarding Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, and Special Tests and Provisions for its CFDA 93.575 Child Care and Development Block Grant and CFDA 93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund. Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to these programs.

### **Adverse Opinion on CFDA 93.575 – Child Care and Development Block Grant, and CFDA 93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund programs**

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion paragraph above, the State did not comply, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its CFDA 93.575 – Child Care and Development Block Grant, and CFDA 93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund programs for the year ended June 30, 2016.

### ***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the accompanying Schedule of Audit Findings and Questioned Costs for the year ended June 30, 2016.

### **Other Matters**

The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Findings 2016-002, 2016-003, 2016-004, 2016-005, 2016-006, 2016-007, 2016-008, 2016-009, 2016-010, 2016-011, 2016-012, 2016-013, 2016-014, 2016-015, 2016-018, 2016-019, 2016-024, 2016-026, 2016-027, 2016-028, 2016-029, 2016-030, 2016-031, 2016-032, 2016-033, 2016-034, 2016-035, 2016-037, 2016-039, 2016-040, 2016-041, 2016-042, 2016-043, 2016-044, 2016-045, 2016-046, 2016-047, 2016-048, and, 2016-049. Our opinion on each major federal program is not modified with respect to these matters.

### **State's Response to Findings**

The State's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The State's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

### **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the State is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider material weaknesses and significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Audit Findings and Questioned Costs as Findings 2016-003, 2016-004, 2016-006, 2016-007, 2016-008, 2016-009, 2016-010, 2016-011, 2016-012, 2016-013, 2016-014, 2016-015, 2016-018, 2016-019, 2016-020, 2016-021, 2016-022, 2016-023, 2016-024, 2016-025, 2016-026, 2016-027, 2016-028, 2016-029, 2016-033, 2016-034, 2016-036, 2016-037, 2016-038, 2016-039, 2016-040, 2016-041, 2016-043, 2016-044, 2016-045, 2016-049, and 2016-050 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Audit Findings and Questioned Costs as Findings 2016-016, 2016-017, and 2016-032 to be significant deficiencies.

### **State's Response to Findings**

The State's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The State's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

## Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

## REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the state of Washington as of and for the year ended June 30, 2016, and have issued our report thereon dated November 1, 2016, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the state of Washington's basic financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Pat McCarthy

State Auditor

Olympia, WA

March 23, 2016, except for the Schedule of Expenditures of Federal Awards, as to which the date is November 1, 2016

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