



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report
Employment Security Department

For the period July 1, 2015 through June 30, 2016

Published July 20, 2017

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Office of the Washington State Auditor
Pat McCarthy

July 20, 2017

Dale Peinecke, Commissioner
Employment Security Department
Olympia, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office 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.

The attached comprises our report on the Department's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

TABLE OF CONTENTS

Audit Summary	4
Summary Schedule Of Prior Audit Findings	5
Related Reports	6
Information About The Department	7
About The State Auditor's Office.....	8

AUDIT SUMMARY

Results in brief

In most areas we audited, Department operations complied with applicable requirements and provided adequate safeguarding of public resources. The Department also complied with state laws and regulations and its own policies and procedures in most areas we examined.

However, we noted certain matters that we communicated to Department management in a letter dated June 28, 2017, related to payroll, overtime. We appreciate the Department's commitment to resolving those matters.

About the audit

This report contains the results of our independent accountability audit of the Employment Security Department from July 1, 2015 through June 30, 2016.

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.

Our audit involved performing procedures to obtain evidence about the Department's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Payroll – overtime
- Travel expenditures
- Employment Services
- Administrative Account revenues

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**Employment Security Department
July 1, 2015 through June 30, 2016**

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the Employment Security Department. The State Auditor’s Office has reviewed the status as presented by the Department.

Audit Period: July 1, 2013 through June 30, 2014	Report Ref. No: 1014506	Finding Ref. No: 2014-001
Finding Caption: The Employment Security Department does not have adequate internal controls to ensure only eligible participants for Trade Readjustment Allowance receives services and benefits.		
Background: During fiscal year 2014 the Department did not have adequate internal controls to ensure only eligible participants received Trade Readjustment Allowance benefits and services. One employee made eligibility determinations for all applicants and was also responsible for entering all information into the participant management system and payment system. There was no secondary review of the information that was entered into these systems to ensure it was accurate.		
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>The Department developed new policies and procedures to improve the application eligibility review process, established secondary review and oversight to reduce errors, increase program compliance and accuracy.</i>		

RELATED REPORTS

Financial

We 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 Comprehensive Annual Financial Report (CAFR) prepared by and available from the Office of Financial Management.

The CAFR reflects the financial activities of all funds, organizations, institutions, agencies, departments and offices that are part of the state's reporting entity. That report is issued by the Office of Financial Management in December of each year and can be found at www.ofm.wa.gov.

In our fiscal year 2016 CAFR audit report, we recommended the state improve its internal controls over the processing and recording of Unemployment Insurance premium payments and wage information.

A summary of the audit for the period ending June 30, 2016, can be found at: <http://www.sao.wa.gov/resources/Pages/AnnualReports.aspx>

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 in March of each year.

During the fiscal year 2016 single audit, we reviewed the Unemployment Insurance program and found the Department did not establish adequate internal controls over its Next Generation Tax System, which led to improper computations of employer unemployment insurance tax rates.

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 separate performance audit reports: Administrative Appeals, Workforce Development System: Identifying Overlap, Duplication and Fragmentation, and Regulatory Reform: Enhancing Regulatory Agency Coordination, which are available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE DEPARTMENT

The Department of Employment Security is led by a Governor-appointed Commissioner. The Department has approximately 1,400 employees in offices across the state and operates on a biennial budget of approximately \$626 million. The Department administers Washington State's unemployment insurance program. It processed approximately \$1.2 billion in Unemployment Insurance Premium payments and approximately \$43 billion in taxable wage information from employers. The Department paid out approximately \$1 billion in Unemployment Insurance benefits to over 210,000 individuals to assist them during the transition to a new job.

Contact information related to this report

Address:	Employment Security Department P.O. Box 9046 Olympia, WA 98504-9046
Contact:	Ben Hainline, Director of Internal Audit
Telephone:	(360) 902-9276
Website:	www.esd.wa.gov

Information current as of report publish date.

Audit history

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

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov