



Washington State Auditor's Office

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Accountability Audit Report

Department of Labor and Industries

For the period July 1, 2013 through June 30, 2014

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Washington State Auditor's Office

July 13, 2015

Joel Sacks, Director
Department of Labor and Industries

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,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

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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 the areas we examined.

However, we identified areas in which the Department could make improvements.

We recommended the Department improve controls over payments for interpretive services to reduce the risk of making unallowable or unsupported payments.

These recommendations were included in our report as a finding.

About the audit

This report contains the results of our independent accountability audit of the Department of Labor and Industries from July 1, 2013 through June 30, 2014.

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:

- Medical payments (MIPS)
- MIPS pharmacy point of sale
- Front Counter Application
- Cash receipting
- Payroll
- Stay-at-Work Program

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2014-001 The Department lacks adequate internal controls over payments for interpretive services.

Background

The Department of Labor and Industries pays for interpretive services for workers or crime victims with limited English proficiency or sensory impairments. Department policy requires healthcare and vocational providers to verify services were performed by completing a verification form. The form must be submitted at the time the services are billed.

The Department uses the Medical Information Payment System to process payments for interpretive services. The process is fully automated and relies on system edits to prevent overpayments. During fiscal year 2014, the Department paid a total of \$15.9 million for interpretive services.

Description of Condition

Our audit identified weaknesses in controls related to the Medical Information Payment System. We found the Department:

- Does not have a process in place to ensure required documentation is received prior to making a payment. The payment process is automated and there are no system edits to ensure the documentation requirement is met.
- Allows one interpreter to have multiple provider numbers. The system does not link the different provider numbers to a single individual. Therefore, the system would not detect duplicate charges from the same interpreter if billed on separate bills using a different provider number.
- Does not have an edit in the system to prevent duplicate charges on a single bill.

Additionally, during the audit period, the Department did not have a system edit in place to ensure interpreters were not paid in excess of the daily allowable limit set by policy. An edit was implemented in December 2014.

We identified similar issues during our fiscal year 2010 statewide audit of provider payments.

Cause of Condition

The Department experienced a significant shift in priority as a result of the 2011 legislative mandate to implement the Medical Provider Network (MPN). The Workers' Compensation Reforms passed in 2011, which included MPN, required the Department to focus its efforts on these areas deemed high priority by the Legislature. As a result of launching and maintaining the MPN and related services, the Department has not been able to dedicate the necessary time and analysis to implement and maintain effective internal controls to correct the condition. Staff turnover has also impacted this process.

Effect of Condition

Without adequate internal controls over the payment for interpretive services, the Department is at risk of making payments that are unsupported or unallowable. Additionally, due to system limitations, the Department may not detect overpayments in a timely manner, if at all.

We tested 88 randomly selected interpreter appointments paid during fiscal year 2014 to determine if supporting documentation was received at the time the payment was made. In total, charges for 23 out of the 88 appointments tested were paid with either missing or incomplete documentation resulting in \$1,706 of unsupported payments from the test sample. When projecting the results to the total population of interpreter payments, we determined that the Department likely could have paid approximately \$3.89 million to interpreters without adequate supporting documentation on file at the time of payment.

Recommendation

We recommend the Department:

- Create a system edit or process to deny payment of services without documentation and perform regular post-pay reviews to detect noncompliance and errors.
- Assign unique numbers to interpreters or track interpreters with multiple provider numbers to ensure charges are not paid twice to the same interpreter.
- Create a system edit to prevent duplicate charges from being paid on a single bill.

Department's Response

The Department of Labor & Industries (L&I) appreciates the State Auditor's Office (SAO) accountability audit report received June 30, 2015. Their identification of issues and recommendations will form the basis for L&I's approach to further enhance controls regarding the proper payment for interpretive, healthcare, and vocational provider services; and will correct identified weaknesses in the Medical Information Payment System (MIPS).

L&I shares SAO's commitment to program integrity. In this response to the SAO report, L&I identifies steps that have already been taken and outlines the process for further steps to address each SAO recommendation. L&I believes this approach will protect taxpayer dollars from fraud and abuse, while continuing to maintain a timely payment system for provider businesses and injured workers.

SAO Recommendation 1: Create a system edit or process to deny payment of services without documentation and perform regular post –pay reviews to detect non-compliance and errors:

L&I Response

The Department agrees with this recommendation and has identified necessary changes to the MIPS system to ensure a bill is suspended before payment if required documentation is not submitted. This change will notify the provider of the issue and suspend payment until the required documentation is received and verified. A major part of this improvement includes provider outreach and is anticipated to be in effect by September 2015.

In the interim, L&I implemented a post-pay audit process to ensure that payments made have the required documentation and are free of errors. In instances where this audit revealed an error or absence of documentation, L&I recouped payment. This interim solution will continue to address non-compliance until the long-term solution is implemented.

SAO Recommendation 2: Assign unique numbers to interpreters or track interpreters with multiple provider numbers to ensure charges are not paid twice to the same interpreter:

L&I Response

The Department has not identified any actual double payments resulting from this condition; however, we recognize the need for a safeguard to avoid double billing. The Department has begun to research and partner with other state agencies that utilize interpreter services and the interpreter community in an

effort to determine best practices for interpreter tracking. By 2016, we hope to have a best practice identified and to have determined the changes needed within L&I systems to avoid double payment possibilities.

SAO Recommendation 3: Create a system edit to prevent duplicate charges from being paid on a single bill.

L&I Response

To minimize the impact to compliant providers, the agency has identified a change in the billing system that verifies the time and date of the appointment. This fix will enable the quick identification of duplicate charges and suspend payment until the provider corrects the issue. This system edit is targeted to be complete by November 2015.

The Department's experience with the provider community has shown that a very small percentage of providers purposefully submit false or erroneous billings. When an error or fraud is identified the Department takes action to mitigate the finding. This action can include the use of all appropriate resources to correct the issue and ensure compliance up to and including vigorous investigation and prosecution. The goal is to minimize the number of these instances while increasing customer satisfaction, a goal that should be thoroughly realized when the above system edit is implemented.

Auditor's Remarks

We appreciate the Department's commitment to resolving the issues noted. We will review the status during the next audit.

Applicable Laws and Regulations

RCW 43.88.160 Fiscal management – Powers and duties of officers and agencies, states in part:

This section sets forth the major fiscal duties and responsibilities of officers and agencies of the executive branch. The regulations issued by the governor pursuant to this chapter shall provide for a comprehensive, orderly basis for fiscal management and control, including efficient accounting and reporting therefor, for the executive branch of the state government and may include, in addition, such requirements as will generally promote more efficient public management in the state . . .

(4)(a) Develop and maintain a system of internal controls and internal audits comprising methods and procedures to be adopted by each agency that will safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies for accounting and financial controls. The system developed by the director shall include criteria for determining the scope and comprehensiveness of internal controls required by classes of agencies, depending on the level of resources at risk.

State Administrative and Accounting Manual, 20.15.30, Who is responsible for internal control?

Each agency, regardless of size, is required to adopt methods to periodically assess risk and to develop, implement, and review its system of internal controls. The methods should be tailored to the specific needs of the agency.

20.15.30.a

The **agency head or authorized designee** is ultimately responsible for identifying risks and establishing, maintaining, and reviewing the agency's system of internal control. If the agency head delegates this responsibility, the designated person should have sufficient authority to carry out these responsibilities. Normally, this person is a senior agency manager who does not serve in the internal audit function.

20.15.30.b

The **internal control officer** (ICO) is responsible for coordinating the agency-wide effort of evaluating internal controls, reporting on reviews, and improving control activities, using the guidance in this chapter. This person provides assurance to the agency head that the required risk assessments and the necessary evaluative processes have been done. In some agencies the ICO may perform these duties on a full-time basis. In other agencies the

ICO duties may be assigned to staff who also perform other duties as long as the other duties are not incompatible with the ICO duties. Refer to Subsections 20.15.40.b and 20.15.50.

20.15.30.c

Agency management at all levels is responsible for internal control under their span of control. Management should make it clear that **agency staff** have explicit or implicit control activity duties including: delivery of services to the public; producing information for the management control system; maintaining financial information; and inspecting or maintaining physical assets. In addition, agency management should provide channels outside normal reporting lines so agency staff can report problems in operations, noncompliance with codes of conduct, violations of policy, and illegal acts.

Management is also responsible to convey the importance of internal controls to all personnel both by what they say and what they do. If management is willing to override controls, then the message that controls are not important will be conveyed to employees.

20.15.30.d

Each agency employee is responsible to be aware of and attentive to risk management and internal control issues, to consider limitations and key risk areas, to document decisions and to provide support information. To be most effective, employees need to understand the agency's mission, objectives, responsibilities, and their own role in managing risk. Each employee is also responsible to report to management noncompliance with codes of conduct, violations of policies, and illegal acts.

20.15.30.e

The **internal auditor or other professionals** (internal or external to the agency) may provide technical assistance in developing appropriate procedures to conduct risk assessments and internal reviews of control activities.

20.15.30.f

Depending on an agency's governance structure, an **audit committee** could help the agency review, monitor, and/or direct the agency's activities related to maintaining effective internal control. An agency audit committee could also improve financial practices and reporting and enhance both the internal and external audit functions.

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 [OFM](#).

A summary of the audit for the period ending June 30, 2014, can be found at: [CAFR Summary](#).

Our opinion on the Department of Labor and Industries' Workers' Compensation Program basic financial statements is included in the Program's separate Comprehensive Annual Financial Report, [Workers' Compensation Program Audit Opinion](#).

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.

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 Department of Labor & Industries Prescription Drugs performance audit report in May 2011 that is available on our website, [Prescription Drugs Audit Report](#).

Special investigations

During the current audit period, the State Auditor's Office issued reports pursuant to the State Employee Whistleblower Act (Chapter 42.40 RCW). Those reports are available on our website, [Report Search](#).

Other reports

State law (RCW 51.44.115) requires the State Auditor's Office to annually audit and report on the financial statements of the program Workers Compensation Program. The law also requires the Auditor's Office to contract with independent actuaries for actuarial assessments and opinions on three of the Program's funds.

We issue an annual report on the State's Workers' Compensation Funds. The latest report can be found at [Workers' Compensation Funds Audit Report](#).

INFORMATION ABOUT THE DEPARTMENT

The Department of Labor and Industries delivers an array of services to Washington State citizens. The Department helps employers meet safety and health standards and inspects workplaces for hazards. In addition, the Department administers the state's Worker's Compensation Program, which provides medical and limited wage replacement coverage to workers who suffer job-related injuries or illness. The Workers' Compensation Program covers 2.58 million workers and 169,000 employers and pays out approximately \$2.13 billion each year in benefits.

The Department also regulates self-insured employers, provides financial and medical help to victims of violent crimes, conducts electrical, elevator and boiler inspections, registers construction contractors, issues various licenses and enforces prevailing wage regulations.

The Department has approximately 2,800 full-time employees and provides services to the public in 20 locations across the state. Its main source of revenue is industrial insurance premiums collected from employer and has an annual operating budget of approximately \$660 million.

Contact information related to this report

Address:	Department of Labor and Industries P.O. Box 44836 Olympia, WA 98504-4810
Contact:	Brian Hornback, Audit Coordinator
Telephone:	(360) 902-9116
Website:	www.lni.wa.gov

Information current as of report publish date.

Audit history

You can find current and past audit reports for the Department of Labor and Industries 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	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov