



Washington State Auditor's Office

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Accountability Audit Report Employment Security Department

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

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Washington State Auditor's Office

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Dale Peinecke, Commissioner
Employment Security Department

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 regarding trade readjustment allowance.

We recommended the Department follow written policies and procedures sufficient to ensure that only eligible participants receive services and benefits. We recommend these procedures include a secondary review, or other form of managerial oversight, to ensure compliance with federal requirements.

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 Employment Security Department 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:

- Purchase cards
- Trade readjustment allowance
- Job-search requirements
- Work Experience program

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2014-001 The Employment Security Department does not have adequate internal controls to ensure only eligible participants for Trade Readjustment Allowance receives services and benefits.

Background

Trade Readjustment Allowance (TRA) is a federal subsidy granted by the U.S. Department of Labor. TRA is paid to individuals who have lost work due to increased foreign imports, or outsourcing to foreign markets.

TRA provides financial support to participants while enrolled in a full-time Trade Adjustment Allowance (TAA) program approved training, or conducting a work search under a waiver of training. TRA is not available until all eligibility for unemployment insurance benefits are exhausted.

To be eligible for services and benefits an applicant can submit a request for determination form to be considered for participation. These forms are sent to Department headquarters where an employee reviews them, makes a determination as to whether the applicant is eligible and enters the information into the participant management system. Once a participant is determined to be eligible to receive TRA they can apply to receive benefits. Individual work source counselors that rely on the initial information entered at headquarters will determine what services or benefits they can receive, the amount they are eligible to receive and for how long they can receive the services.

In fiscal year 2014, the Department paid approximately \$11 million in TRA funds to 1,143 participants.

Description of Condition

We found the Department does not have adequate internal controls to ensure only eligible participants receive TRA. One employee made eligibility determinations for all applicants and was also responsible for entering all information into the participant management system and TRA payment system. There was no secondary review of the information that was entered into these systems to ensure it was accurate.

Cause of Condition

Management did not ensure duties were adequately segregated, or review the work of Department staff to ensure it was accurate and complete.

The Department stated insufficient staffing was the primary reason for the lack of a secondary review.

We consider these control weaknesses to be a significant deficiency.

Effect of Condition

Without adequate reviewing eligibility determinations, the Department is at risk of providing services to ineligible participants. This could lead to federal funds being used to pay for improper benefits. The federal grantor could then take actions that could adversely affect program funding.

Recommendation

We recommend the Department follow written policies and procedures sufficient to ensure that only eligible participants receive services and benefits. We recommend these procedures include a secondary review, or other form of managerial oversight, to ensure compliance with federal requirements.

Department's Response

The Employment Security Department appreciates the feedback received from the State Auditor's Office and will make necessary changes to improve the Trade Readjustment Allowance (TRA) program and to ensure that only eligible participants receive services and benefits.

The Department will take the following actions:

- *Update written policies and procedures to address program requirements.*
- *Initiate separation of duties, by establishing one individual to determine the eligibility for benefits and a second individual reviewing and entering information into the Case Management System.*
- *Increase control procedures and managerial oversight to ensure program compliance.*

Auditor's Remarks

We thank the Department for its cooperation and assistance throughout the audit. We will review the status of the Department's corrective action during our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, states in part:

Section 300

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, as follows:

.11 For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows:

Deficiency in internal control over compliance. 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 on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in *operation* exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Material noncompliance. In the absence of a definition of material noncompliance in the governmental audit requirement, a failure to follow compliance requirements or a violation of prohibitions included in the applicable compliance requirements that results in noncompliance that is quantitatively or qualitatively material, either individually or when aggregated with other noncompliance, to the affected government program.

Material weakness in internal control over compliance. A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.

Remote. The chance of the future event or events occurring is slight.

Probable. The future event or events are likely to occur.

Significant deficiency in internal control over compliance. A deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Washington State Office of Financial Management's State Administrative and Accounting Manual (SAAM), states in part:

Section 20.15.40

There are five interrelated components of an internal control framework: control environment, risk assessment, control activities, information and communication, and monitoring. These components make up the minimum level of internal control an agency needs to have in place and are the basis against which internal control is evaluated.

To implement the framework, management develops the detailed policies, procedures, and practices to fit their agency's operations, and ensures that they are built into and are an integral part of operations. If an agency considers the framework components in its planning efforts and builds them into its daily processes, the agency will be poised to achieve the maximum benefit for the lowest cost.

Section 20.15.40.c

Control activities help ensure risk responses are effectively carried out and include policies and procedures, manual and automated tools, approvals, authorizations, verifications, reconciliations, security over assets, and segregation of duties. These activities occur across an agency, at all levels and in all functions, and are designed to help prevent or reduce the risk that agency objectives will not be achieved.

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.

A summary of the audit for the period ending June 30, 2014, 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.

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 Debt-Offset Program: A tool to help Washington collect delinquent debt performance audit report in December 2014 that is available on our website.

Special investigations

During the current audit period, the State Auditor's Office issued a report in March 2014 pursuant to the State Employee Whistleblower Act (Chapter 42.40 RCW). That report is available on our website.

INFORMATION ABOUT THE DEPARTMENT

The Washington Employment Security Department provides unemployment benefits as well as job assistance programs to Washington State citizens. During fiscal year 2014, the Department paid approximately \$1.1 billion in unemployment benefits to approximately 250,000 claimants. The Department is also a partner in the statewide WorkSource system providing assistance to thousands of employers and job seekers through job placement and training, labor-market information and forecasts and special assistance to disadvantaged youths and veterans. In addition, the Department administers the Washington Service Corps and plays an integral part in the state's welfare-to-work effort, WorkFirst.

The Department is led by a Commissioner who is appointed by the Governor. The Department has approximately 1,343 employees in offices throughout the state and had an annual operating budget of approximately \$356.2 million for fiscal year 2014.

The Department is primarily federally funded. It administers various federal grant programs and manages over \$3.4 billion in the Unemployment Insurance Trust Fund.

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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.

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