



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Department of Labor and Industries

For the period July 1, 2018 through June 30, 2019

Published October 1, 2020

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**Office of the Washington State Auditor
Pat McCarthy**

October 1, 2020

Joel Sacks, Director
Department of Labor and Industries
Olympia, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor 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 Agency operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

Attached is our independent audit report on the Agency's compliance with applicable requirements and safeguarding of public resources for the 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

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In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

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AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In those selected areas, Agency operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over the safeguarding of public resources.

However, we noted certain matters related to duplicate payments and elevator inspections that we communicated to Agency management and Director in letters dated September 24, 2020. We appreciate the Agency's commitment to resolving those matters.

Additionally, as noted under the Related Reports – Special Investigations section of this report, certain matters were examined and reported as part of a separate engagement.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

About the audit

This report contains the results of our independent accountability audit of the Department of Labor and Industries from July 1, 2018 through June 30, 2019.

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.

This audit was conducted under the authority of RCW 43.09.310, which requires the Office of the State Auditor to examine the financial affairs of all state agencies. Our audit involved obtaining evidence about the Agency's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the year ended June 30, 2019, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Payroll – gross wage recalculation, overtime and employee electronic funds transfer security
- Accounts payable – general disbursements, duplicate payments, travel expenditures, credit card transactions and vendor electronic funds transfer security

- Individual medical exams (IME) payments
- Tracking and monitoring of theft sensitive assets
- Compliance with the Victim Compensation Formula Grant program
- Charges for services – billing accuracy and fee changes
- Fines – billing accuracy and equitable treatment of citizens
- Compliance with safety standards – elevator inspections
- Procurement – purchases and projects
- Prevailing wage processes



STATE OF WASHINGTON
DEPARTMENT OF LABOR AND INDUSTRIES
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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Department of Labor and Industries July 1, 2018 through June 30, 2019

This schedule presents the status of findings reported in prior audit periods.

Audit Period: July 1, 2017 – June 30, 2018	Report Ref. No.: 1024490	Finding Ref. No.: 2018-001				
Finding Caption: The Department of Labor & Industries (L&I) did not have controls in place to ensure annual inspections of elevators and related conveyances were performed, as required by state law.						
Background: There are more than 18,000 working conveyances (elevators, escalators, lifts, etc.) in Washington that require annual inspections by state law (RCW 70.87.120: (2)(a)). As well as those already in place, there are also new conveyances that require inspection before they can be used. Funding for inspectors, inspection costs and training for the inspectors to maintain authority is supplied by Legislative appropriation. L&I administers the inspection program through its Elevator program. The Elevator program currently has 27 field inspectors. An inspector conducts an average of 15 to 20 inspections a week. L&I has not employed a sufficient number of inspectors to complete inspections as required. By not conducting timely inspections, L&I risks allowing unsafe conveyances to remain in operation. The use of unsafe or defective conveyances increases the risk that employees or the public could suffer serious and preventable injury. We recommend L&I employ enough inspectors to ensure all conveyances receive their required inspection and testing at least once each year.						
Status of Corrective Action: (check one) <table><tr><td><input type="checkbox"/> Fully Corrected</td><td><input checked="" type="checkbox"/> Partially Corrected</td><td><input type="checkbox"/> Not Corrected</td><td><input type="checkbox"/> Finding is considered no longer valid</td></tr></table>			<input type="checkbox"/> Fully Corrected	<input checked="" type="checkbox"/> Partially Corrected	<input type="checkbox"/> Not Corrected	<input type="checkbox"/> Finding is considered no longer valid
<input type="checkbox"/> Fully Corrected	<input checked="" type="checkbox"/> Partially Corrected	<input type="checkbox"/> Not Corrected	<input type="checkbox"/> Finding is considered no longer valid			

Corrective Action Taken:

L&I strives to ensure compliance with the RCW 70.7.120(2) (a) mandate, and as of November 2018, launched Phase 2 of program improvements and enhancements based on the third-party audit from Stellar Associates LLC.

The request for additional inspectors is the most recent in a series of efforts to increase inspection staffing. These include requesting and receiving additional funding to hire 6 inspectors in the 2013-15 biennium; negotiating increases to compensation for these positions; and creating an additional step for elevator inspectors to expand options for job growth. With these changes, L&I has been able to fill the new positions from 2013-15 and is now in a position to request more funding and successfully recruit additional inspectors.

The program is implementing procedural changes for Elevator improvement projects. These include:

- 1. New Conveyance Management System, which is a computer software system the program uses for all records. The state Legislature allocated \$1.5 million for this project.*
 - The project will require an additional maintenance-level technical adjustment to use the money after the 2021. A decision package to obtain authorization to spend the allotted funds across bienniums was completed on August 28, 2020. The agency will present the new decision package for the 2021 legislative session.*
 - The project has three Gates; Gate 1) Project and Procurement Planning - June 2020 – October 2020. Gate 2) Commercial Off The Shelf (COTS) Procurement - November 2020 – May 2021. Gate 3) Development and Implementation - Undetermined at this time.*
 - The Department of Labor & Industries has completed two deliverables; IT Project Assessment and the Project Concept Brief for the Office of the Chief Information Officer (OCIO) as required in Gate 1 – Project and Procurement Planning.*
 - L&I continues to work with OCIO to release the funding to complete Gate 1.*
- 2. Development and implementation of program-wide standard work procedures for inspectors.*
 - The program completed the final review of the operations manual to ensure consistency, clarity and understanding of processes for inspectors.*
 - Inspector checklists have been created to provide consistent inspection processes for all conveyances.*
 - The program is in the process of completing a standardized inspection worksheet that will assist elevator companies to be in compliance of the codes that regulate the elevator industry.*
- 3. Scale and implement virtual inspections throughout program.*
 - The program has developed a 2-step process that allows a portion of the Commercial Elevator equipment inspections done virtually, but must be followed up with a final in-person inspection to close it out. This reduces the amount of travel time for an inspector*

to complete these inspections and only requires one in-person inspection rather than two.

- The program has developed a process that allows for virtual inspections of Residential Elevator Equipment, also known as Stairway Chairlifts.*
- The program is in the process of establishing a streamlined approach to the special needs of Residential Conveyances that will include additional opportunities to conduct virtual inspections.*
- The program's virtual inspection process has gone live. All Stair Chair lift inspections are being done virtually to aid in the timeliness of inspections so these conveyances can be used by some of the most vulnerable people in the state of Washington.*

4. Hiring of 10 additional staff, including eight inspectors and two central office staff members.

- The Department of Labor & Industries requested and received a decision package through the 2020 Supplement Budget process to hire 6 additional Elevator Inspector 2 FTEs, 2 Elevator Inspector 1 FTEs, 1 Management Analyst and 1 Customer Service Specialist 2.*
- This program has a comprehensive action plan in place to hire and onboard the 10 FTEs on July 1, 2020, for the 21-23 biennium.*
- The Elevator program has hired all Inspector FTEs received from the decision package. Two Inspector 1's are conducting virtual inspections and 8 Inspector 2's are in the process of training to conduct conveyance inspections in the field.*

5. Focusing inspections on high population areas where conveyances receive more use. It's important to note that, under law, conveyances such as elevators and escalators can continue to operate even if they haven't been inspected.

- The program began the methodical review of the American Society of Mechanical Engineers (ASME) code, the international developer of standards and codes used to regulate the mechanical engineering industry and the inspection process by the Elevator program to determine if the department has the authority to prioritize the inspection of conveyances.*
- Upon review of the proposed altering of the ASME – Appendix N – Recommended Inspection and Test Intervals, not inspecting all conveyances on an annual basis leaves the less-used equipment falling into potentially unchecked/unsafe confirmation of code compliance that Annual State Elevator Inspections offer. Therefore, pursuing this proposed reduction of state elevator safety Inspections, compounds the risk of a conveyance unsafe, and is out of compliance with the regulating code. The Elevator program has received funding to add 8 more Elevator Inspectors to the program and will look for ways to prioritize annual inspections of all conveyances.*

Corrective action is expected to be complete by December 2021. Due to delays outside the control of the Department of Labor and Industries, all corrections associated with the corrective action plan (CAP) will not be completed by December 2021. The Conveyance Management

System scheduled launch date is undetermined at this time due to the additional need to submit a budget decision package.

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, 2019, can be found at <https://www.sao.wa.gov/about-audits/about-state-government-audits/>.

Our opinion on the Department of Labor and Industries Workers' Compensation Program financial statements is included in the Program's separate Comprehensive Annual Financial Report and can be found at: <http://portal.sao.wa.gov/ReportSearch>.

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.

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, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE AGENCY

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 no-fault Worker's Compensation Program, which provides medical services, limited wage replacement, pensions, and vocational services to workers who suffer job-related injuries or illness. Washington's Workers' Compensation Program covers 3.05 million workers and 182,000 employers and pays out approximately \$3.6 billion in benefits each year. It is the 6th largest workers' compensation insurer in the nation.

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, oversees the state's labor standards, issues various licenses and enforces prevailing wage regulations. Its main source of revenue is industrial insurance premiums collected from employers and workers. The Department has approximately 3,000 employees and provides services to the public in 19 locations across the state. The Department has a biennial operating budget of approximately \$814 million.

Contact information related to this report	
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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	
Public Records requests	PublicRecords@sao.wa.gov
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