



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Employment Security Department

For the period July 1, 2017 through June 30, 2020

Published April 13, 2021

Report No. 1028000



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A note about data involved in this audit

In January 2021, the State Auditor's Office was alerted to a potential cybersecurity incident involving its third-party file transfer service. Among the files that may have been compromised was a set of data files provided by ESD containing personal information of people who received unemployment benefits in the 2017 to 2020 time period. The data files were provided as part of our series of audits of the Unemployment Insurance program. We worked collaboratively with ESD to assess the information included in the files so we could notify those people whose personal information may have been compromised. The effort to address the cybersecurity incident involving the data files was handled separately from the audits themselves, and it did not affect the findings, conclusions or recommendations of any of the audits.



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

April 13, 2021

Cami Feek, 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 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 Department 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 Department'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 value your cooperation during the audit.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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TABLE OF CONTENTS

| | |
|---------------------------------------|---|
| Audit Results..... | 5 |
| Related Reports..... | 6 |
| Information about the Department..... | 7 |
| About the State Auditor's Office..... | 9 |

AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In those selected areas, Department 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, as noted under the Related Reports – Special Investigations section of this report, certain matters were examined and reported as part of a separate engagement. During 2020, \$646.8 million dollars was misappropriated through imposter claims and \$460.5 million was paid in questionable unemployment claims. The fraud occurred in the midst of a pandemic, when the Department’s level of activity and control environment were altered in response to significant increases in both demand and funding for unemployment claims.

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 Employment Security Department from July 1, 2017 through June 30, 2020.

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 Washington State Auditor to examine the financial affairs of all state agencies. Our audit involved obtaining evidence about the Department’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 years ended June 30, 2020, 2019 and 2018, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Accounts payable – general disbursements and electronic funds transfers
- Payroll – gross wages and overtime
- Paid family and medical leave – billing and compliance with eligibility
- Procurement – information technology contracts and change orders

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, 2020, can be found at <https://www.sao.wa.gov/about-audits/about-state-government-audits/>.

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 will be issuing separate performance audit reports related to misappropriation of public funds and customer service at the Department. Those reports are available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Special investigations

The State Auditor's Office issued a report on a misappropriation of public funds at the Department. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE DEPARTMENT

The Employment Security Department (ESD) is led by a governor-appointed commissioner. The Department currently has approximately 2,600 employees in offices across the state. Its usual operating budget before the pandemic was about \$400 million.

The Department administers Washington State’s unemployment insurance program. In 2020, ESD processed approximately \$1.2 billion in unemployment taxes and paid out more than \$13.6 billion in unemployment benefits.

ESD administers the Workforce Innovation & Opportunity Act (WIOA) and other programs designed to strengthen and improve Washington’s public workforce system: WorkSource. These programs help Washingtonians, including young people and those with significant barriers to employment, find jobs, job training and careers. ESD also helps employers hire and retain skilled workers.

In July 2019, ESD launched the new Paid Family Medical Leave Program. It’s intended for workers who have a serious health condition that prevents them from working or when they need time to care for a family member, bond with a new child or spend time with a family member preparing for military service overseas.

ESD currently is working on launching its part of the new Long-Term Services and Supports Program (LTSS.) This new insurance benefit for Washington workers will address their future long-term care needs. The benefit will be funded through a payroll premium that employees will start contributing to in January 2022. ESD’s role in the LTSS Program will be collecting premiums and determining eligibility. Other agencies will be responsible for paying and tracking benefits.

Contact information related to this report

| | |
|------------|---------------------------------------------------------------------------|
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| Telephone: | (360) 742-9957 |
| 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 Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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