



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Department of Labor and Industries

For the period July 1, 2019 through June 30, 2020

Published July 6, 2021

Report No. 1028677



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

July 6, 2021

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 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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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.

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, 2019 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 year ended June 30, 2020, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Compliance with safety standards – elevator inspections
- Accounts payable – duplicate payments and field office purchase card transactions
- Cash receipting – Front Counter voids and refunds
- Payroll – gross wage recalculation, overtime and relocation compensation
- Accounts receivables (ARC) – compliance with SAAM 85.54
- Industrial insurance premium refunds – retroactive rates program
- MIPS – liquated transactions, payments to providers and for goods and services
- Worker compensation contributions – calculation of premiums
- User access – Front Counter

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/>.

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: <https://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.

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 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 2.61 million workers and 184,000 employers, pays out approximately \$2.5 billion in benefits and claims expenses and collects \$2.8 billion in premiums each year. It is the 5th 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 3,200 employees and provides services to the public in 19 locations across the state. The Department has a biennial operating budget of approximately \$918.5 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 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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