



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Department of Labor and Industries

For the period July 1, 2022 through June 30, 2024

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

July 3, 2025

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 most of the areas we examined, Department operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above, we identified areas where the Department could make improvements. These recommendations are included with our report as a finding.

We also noted certain matters related to fuel cards that we communicated to Department management and the Director in a letter dated June 26, 2025. We appreciate the Department'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, 2022 through June 30, 2024.

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, 2024 and 2023, 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, purchase cards, travel cards
- Medical Information Payment System – provider payments
- Compliance with RCW 70.87.120 – annual conveyance inspections
- Payroll – leave buy outs, multiple payments in pay period
- Fuel cards – evaluated design of controls

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Department of Labor and Industries July 1, 2022 through June 30, 2024

2024-001 The Department lacked adequate internal controls over payments to medical providers which led to improper payments

Background

The Department of Labor and Industries disbursed about \$600 million annually in fiscal years 2023 and 2024 to medical providers, pharmacies and hospitals for medical services rendered to injured workers. The Department uses the Medical Information Processing System (MIPS) to receive, review and pay these medical-related benefit charges. The Department also pays Vocational Rehabilitation benefits, which provide retraining for injured workers, through this system. MIPS is a legacy application in a mainframe environment and is a subsystem of the Department's Labor and Industries Insurance Information System.

The Department established rules that describe when vendors must submit invoices for payments. Washington Administrative Code (WAC) 296-20-125 states "Bills must be received within one year of the date of service to be considered for payment." The WAC also states "Rebills must be submitted for services denied if a claim is closed or rejected and subsequently reopened or allowed. In these instances, the rebills must be received within one year of the date the final order is issued which subsequently reopens or allows the claim."

The Department also established a policy titled Medical Aid Rules and Fee Schedules (MARFS) that defines "Bills" and "Rebills" as identical invoices, and when the vendor makes any change to the bill, these are defined as "Adjustments." The MARFS policy states "Adjustments must be received within 90 days from the date of payment, with the exception of providers who are under review by the department and are asked to submit adjustments as part of that review."

Description of Condition

The Department did not have adequate controls over disbursements to medical providers for services provided to injured workers. We identified the following internal control weaknesses:

Timely Filing

- MIPS does not flag adjustments to bills or rebills that providers did not file on time, which would require manual adjudication of the bill.
- The Department does not have a clearly defined or documented process for reopening old provider billings.

Duplicate Payments

- The Department did not establish an effective process to prevent duplicate payments.

Cause of Condition

Timely Filing

MIPS is a legacy system that lacks adequate built-in controls to flag and prevent automatic payment of:

- All medical provider bills received more than one year after the service date
- Rebills received more than one year after the final order
- Adjustments received more than 90 days after the remittance advice

Additionally, the Department did not have a policy for reopening old provider billings. Staff were unaware of the proper steps to take to ensure the reopening of old bills was accurate.

Duplicate Payments

Duplicate payments occurred due to human error while staff were using the MIPS system. Additionally, Department staff were unaware of the steps necessary to fully document what had gone wrong, how to correct the error, and how to recoup the duplicate payments.

Effect of Condition

Timely Filing

We judgmentally selected and examined 50 provider invoices totaling \$2,856,340 that the Department paid during the audit period. The same provider submitted 20 of the 50 invoices. We found 31 (62%) of the payments, totaling \$1,155,741, were paid but did not comply with WAC 296-20-125 or MARFS Chapter 2. We specifically noted the Department paid:

- Two original billings that were not submitted within one year
- Fourteen billings that were not rebilled within one year
- Fifteen billings with adjustments that were not submitted within 90 days of the remittance advice

Duplicate Payments

We found the Department paid two duplicate batches of medical provider invoices. In August 2021, the Department sent duplicate payments totaling \$1,352,934 to 857 payees, which included 3,757 bills. In November 2024, the Department sent duplicate payments totaling \$2,796,561 to 1,306 payees, which included 13,003 bills.

The Department was unable to provide documentation showing how much of the duplicate payments it had recouped as of our audit report date.

Recommendation

We recommend the Department:

Timely Filing

- Implement additional internal controls to ensure provider payments are issued in compliance with state rules and Department policy
- Develop and implement a clearly defined provider bill protest process
- Develop and implement a policy on how and where Department staff should document a providers' protest
- Develop and implement a process for staff to follow for re-opening old provider billings to ensure proper payment
- Work with its Assistant Attorney General to determine if the improper payments should be recouped

Duplicate Payments

- Implement additional internal controls to prevent duplicate payments issued in MIPS
- Develop and implement a policy on how to properly address and document duplicate payments and their recoupment

Department's Response

The Department agrees with the recommendation provided by the State Auditor's office.

Timely Filing:

L&I is working with internal business areas to update our instructions, rules, and parameters for timely filing of provider bills. This effort has been underway for some time. With these audit findings, we are seeing opportunities for improvement:

- *L&I's IT department is working to set new parameters in the medical payment system so that we can better see bills/adjustments/rebill filings that are beyond the timely rules.*
- *Once the system changes have been made L&I will update our exception language so that our medical treatment adjudicators can process bills correctly. We anticipate that the new process should be complete within three to four months.*
- *L&I will make sure that medical treatment adjudicators are informed of updates to our rules, text, and policies.*
- *L&I is working with our payment policy team to ensure our timely filing policies are clear and up to date. There is work underway to explore programming options to support this effort.*
- *L&I's IT department has set rules and a process on reopening (activating) old bills in our medical payment system.*
- *We will reach out to our AAG to determine if we should recoup improper payments.*

Duplicate Payments:

- *For the August 2021 duplicate payment issue we have recouped \$807,020.45, leaving \$473,528.92 outstanding. We asked providers to return duplicate payments through our Remittance Advice newsletter on 08/24/2021. Per RCW 4.16.040 we have prioritized recovery of the remaining balance through deductions from future payments, and anticipate that this work can be completed no later than September 15, 2025. Any providers with a balance owed after September 15, 2025 will be referred to our collections program.*
- *For the November 2024 duplicate payment issue, we have recouped \$2,796,561.31 (all monies owed).*
- *L&I has staff documenting the process used to recoup the November 2024 duplicates for future use.*
- *We identified the root cause of the August 2021 issue. Two files with the same records were generated on 08/03/21 which resulted in duplicate bills. We have taken steps to ensure this specific error does not occur in the future.*
- *We identified the root cause of the November 2024 issue. The payment file from November 13, 2024 was rerun on November 26, 2024 cutoff creating duplicate payments. We have taken steps to ensure this specific error does not occur in the future.*
- *Both duplicate payment incidents were the result of human error, not a system generated issue.*

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

Washington Administrative Code, Title 296, Chapter 20, Section 125

- “(5) Vendors are urged to bill on a monthly basis. Bills must be received within one year of the date of service to be considered for payment.”
- “(8)(b) Rebills must be submitted for services denied if a claim is closed or rejected and subsequently reopened or allowed. In these instances, the rebills must be received within one year of the date the final order is issued which subsequently reopens or allows the claim.”

Washington Administrative Code, Title 296, Chapter 20, Section 02015

- “(1)When a provider of health services receives a payment to which that provider is not entitled, the provider must repay the excess payment, plus accrued interest, without regard to whether the excess payment occurred due to provider or department error or oversight, except as provided in subsection (2) of this section.”

Department of Labor & Industries Medical Aid Rules and Fee Schedules (MARFS)
Chapter 2 – Information for All Providers

- “Adjustments must be received within 90 days from the date of payment, with the exception of providers who are under review by the department and are asked to submit adjustments as part of that review.”

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 Annual Comprehensive Financial Report (ACFR). The ACFR reflects the financial activities of all funds, organizations, agencies, departments and offices that are part of the state's reporting entity. The results of that audit are published in a report issued by the Office of Financial Management in December of each year and can be found at www.ofm.wa.gov.

Our opinion on the Department of Labor and Industries' Workers' Compensation Program financial statements is included in the Program's separate Annual Comprehensive Financial Report.

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 and our Office each year.

Special investigations

During the current audit period, we issued a report pursuant to the State Employee Whistleblower Act (Chapter 42.40 RCW). That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Other reports

During the current audit period, we issued a special report performed for the Department's Workers' Compensation Program. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

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 2.8 million workers and 201,000 employers, pays out approximately \$6.6 billion in benefits and claims expenses and collects \$3.1 billion in premiums each year from the state, supplemental pension, self-insurance and second injury funds. It is the 4th 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 3,121 employees and provides services to the public in 19 locations across the state. The Department has a 2023-25 biennial budget of approximately \$1.064 billion for all funds.

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 <https://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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