

State of Washington - Office of Financial Management  
 Status of Audit Resolution  
 December 2021

State of Washington

| Audit Report | Finding Number | Finding and Corrective Action Status  |
|--------------|----------------|---|
| 1027566      | 2020-001       | <p>Finding: The State’s internal controls were insufficient to prevent fraudulent unemployment benefit payments.</p> <p>Corrective Action: Due to the inherent risk in implementing an unemployment benefit program and the CARES Act requirements, the Pandemic Unemployment Assistance program presented a nationwide challenge of being high risk for fraud.</p> <p>Prior to the surge in fraudulent claims in May 2020, the Employment Security Department (ESD) already implemented controls required and recommended by the U.S. Department of Labor to prevent imposter fraud. Since then, ESD has instituted many additional controls and countermeasures to fraud that include the following:</p> <ul style="list-style-type: none"> <li>• Set up a 100-person customer intake team to handle reports of fraud.</li> <li>• Established a secure business portal for receiving verification information from victims and businesses to more quickly identify fraudulent claims, suspend payments, and determine payments to recover.</li> <li>• With the help of a consulting company, implemented a two-day hold on payments to allow investigation of fraudulent claims prior to payment.</li> <li>• Enacted emergency rule WAC 192-140-096 to allow suspension of payments suspected to be fraudulent until an investigation can be completed.</li> <li>• Reallocated resources and increased staffing for fraud investigations, including utilization of hundreds of other agency staff and the National Guard.</li> <li>• Reassigned staff to data analytics work to detect fraud trends and to improve the fraud discovery process.</li> </ul> <p>ESD is continuing its efforts to identify and investigate known and suspected claims, recover fraudulent amounts, and work with the U.S. Department of Justice to recover the remaining fraudulent payments.</p> <p>It should be noted that a related single audit finding (2020-010) was issued to ESD for inadequate internal controls and non-compliance with requirements to ensure only eligible recipients received unemployment insurance benefits. The State received a final determination from the US Department of Labor on December 1, 2021. Based on the ESD corrective action plan, the federal grantor considered the finding resolved with no questioned cost disallowed. The audit issues identified in this finding have been resolved.</p> <p>Completion Date: June 2020, subject to audit follow-up</p> |

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| 1027566             | 2020-001<br>(cont'd)  | Agency<br>Contact:                          | Brian Tinney<br>Statewide Accounting Assistant Director<br>PO Box 43127<br>Olympia, WA 98504-3127<br>(564) 999-1781<br><a href="mailto:brian.tinney@ofm.wa.gov">brian.tinney@ofm.wa.gov</a> |

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| Audit Report | Finding Number | Finding and Corrective Action Status  |
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| 1027566      | 2020-002       | <p>Finding: The State did not have adequate internal controls over financial reporting to ensure financial activity is properly classified, recorded in the correct period and reconciles to its financial statements.</p> <p>Corrective Action: The Office of Financial Management, with the collaboration of state agencies, strives for the highest standards in the preparation of the state’s financial statements. Responses from each agency are listed below:</p> <p><b><i>State Board for Community and Technical Colleges (State Board)</i></b></p> <p>The State Board has taken the following actions to improve the process of reconciling college financial data timely and accurately with amounts recorded in the State’s accounting system (AFRS):</p> <ul style="list-style-type: none"> <li>• Dedicated a nearly full-time programmer and functional support staff to assist in developing the correct configuration for the automatic data upload process.</li> <li>• Added additional staff for accurately translating college financial data from the new software system into AFRS.</li> <li>• Began bi-monthly meetings for the accounting staff and software developers since July 2020. These resolution-focused meetings included agency executive leadership and resulted in improvements in the automated process.</li> <li>• Developed a shared understanding of work priorities, status, and next steps through the joint meetings. Significant progress has been made in identifying and correcting issues, and making improvements.</li> <li>• Started monthly automated uploads into AFRS since October 2020. A new approach was also initiated in December 2020 which streamlines the upload process and limits the opportunity for error.</li> </ul> <p>The State Board will continue to build and enhance programming tools to help identify and reconcile variances between the two systems. While current monthly data is being reconciled in a timely manner from ctcLink to AFRS, the State Board continues to work on reconciling ctcLink to AFRS for historical data from the beginning of system employment.</p> <p>In addition, the State Board began the conversion and crosswalk of data from ctcLink to the new system that the One Washington project is undertaking to replace AFRS. While this is new and additional work that was not part of the scope of this corrective action plan, it is an integral part of the effort to ensure accurate financial reporting in the long run.</p> <p><i>Completion: Corrective action is expected to be complete by June 2022</i></p> |

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| 1027566      | 2020-002<br>(cont'd) | <p><b><i>Employment Security Department (ESD)</i></b></p> <p>The auditors determined that ESD did not report all receivables that resulted from fraudulent claim payments in the state's accounting system at June 30, 2020.</p> <p>While the monthly data transfer between the Unemployment Tax and Benefit system (UTAB) and AFRS is automated, ESD implemented additional controls over financial reporting to ensure all fiscal year-end and biennium-end entries are entered into AFRS correctly and completely.</p> <p>The Unemployment Insurance Treasury Unit added procedures to the electronic accounting desk manual, which include:</p> <ul style="list-style-type: none"> <li>• Improving coordination with UTAB developers in processing of year-end entries.</li> <li>• Performing monthly reconciliation of internal journals from UTAB reports to AFRS.</li> <li>• Requiring review and approval of monthly reconciliations by the Treasury Manager.</li> </ul> <p><i>Completion: January 2021, subject to audit follow-up</i></p> <p><b><i>Office of Financial Management (OFM)</i></b></p> <p>OFM strongly disagrees with this audit finding and maintains that the fraudulent unemployment benefit payments were properly reflected in the Annual Comprehensive Financial Report (ACFR) and in accordance with accounting standards.</p> <p>OFM reported the losses as normal claims expense for the period in which the claims were paid. It is part of the normal course of business for the Unemployment Insurance Program, as well as other benefit programs, to make payments that are later found to be fraudulent. Improper payments or overpayments are payments made by the government to the wrong person, in the wrong amount, or for the wrong reason when an individual has knowingly provided false information in order to receive benefits they are not entitled to.</p> <p>In May 2020, the U.S Department of Labor (DOL) published directive 23-20 that includes guidance on program integrity functions for the regular unemployment insurance programs and the CARES Act programs. The guidance does not include any requirement that states repay improper payments not recovered. In addition, the Code of Federal Regulations 20 CFR 609.11 only requires that states return <i>recovered</i> overpayments.</p> |

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| 1027566      | 2020-002<br>(cont'd) | <p>During a December 2020 meeting of the National Association of State Auditors, Comptrollers and Treasurers, a Government Accounting Standards Board (GASB) official provided guidance in response to a question posed by a staff member of the Office of the Washington State Auditor. The fraudulent payments were reported by OFM consistent with this GASB guidance.</p> <p>It is also important to note that while the losses were reported as normal claims expense in the ACFR, the detailed fraud information was disclosed in the Management Discussion and Analysis section of the ACFR (page 27) as well as in Note 4 - Proprietary Fund Receivables.</p> <p>The federal Office of Inspector General has conducted several audits of the CARES Act and Pandemic Unemployment Assistance Program. None of the recommendations noted require the state to repay improper payments that have not been recovered.</p> <p>In November 2020, OFM contacted DOL to confirm that the state will not be held liable for repayment of the fraudulent claim payments. As of this date, a formal response has not been received. However, DOL issued a final determination to single audit finding 2020-010 on December 1, 2021, which did not require the state to repay the questioned costs identified by the auditors. The satisfactory resolution of the single audit finding further supports OFM's position that the fraudulent unemployment benefit payments were properly reflected in the ACFR and in accordance with accounting standards.</p> <p><i>Completion: Not applicable</i></p> <p>Agency Contact: Brian Tinney<br/>         Statewide Accounting Assistant Director<br/>         PO Box 43127<br/>         Olympia, WA 98504-3127<br/>         (564) 999-1781<br/> <a href="mailto:brian.tinney@ofm.wa.gov">brian.tinney@ofm.wa.gov</a></p> |