
Department of Labor and Industries (L&I)

Agency: 235

Audit Report: 6611

Finding Number: 001

Finding: The Department of Labor and Industries' Pension Payment System lacks adequate internal controls to ensure public resources are safeguarded.

Resolution: With pension caseloads in excess of 4,700 per adjudicator, along with pensioner death cases and the constraints of the program's limited resources, it is not feasible to manually review all new cases. So, the Department, in collaboration with the auditors, established a process to validate every 20th new pension.

In response to this finding, as of January 2006, any payment of \$25,000 or more is reviewed and validated by the unit supervisor or manager before being released for mailing. This is a change from the previous process requiring review of payments over \$50,000. Since the implementation of this change, 185 payments over \$25,000 were issued and 100% of those were determined to be accurately calculated.

The unit supervisor also randomly reviews 20% of the daily payments issued for less than \$25,000. In reviews of 3,284 payments under \$25,000 issued since January 2006, the supervisor found calculations to be accurate 95% of the time.

The system security inadequacies identified by the auditors have been addressed by the Department as follows:

- Implemented a change in access to production program libraries to allow individuals access only to the software that moves those programs from the test to the production environment.
- Added an attribute to system logon identifiers (ID) used for batch processing to prevent the use of an ID for inappropriate file access.
- Began removing unnecessary security access to prevent access that would allow an individual to inappropriately alter database files. This is an ongoing effort that also involves evaluating alternatives for employees who need higher levels of security access to perform their job duties.

In addition, in January 2007, the Department began defining business rules, staffing needs and programming effects for the development of an automated calculation benefits system for the Pension Section. The automated calculation system endeavor is underway. Due to the magnitude and complexity of the system changes required, they will be implemented in phases. The first phase will be implemented by December 31, 2007.

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Department of Labor and Industries (L&I)

Agency: 235

Audit Report: 6611

Finding Number: 002

Finding: The Department of Labor and Industries' Crime Victims' Compensation Program lacks adequate internal controls to ensure public resources are safeguarded.

Resolution: By January 2007, the Department initiated a series of immediate process and system changes including the following:

- Increased the number and frequency of Crime Victim Compensation payment reviews.
- Implemented improved reporting and supervisory review of all forced exception payments.
- Appropriately segregated duties to ensure employees are prohibited from having both the ability to issue the payment in the system and physical access to the payment. This is reviewed every 6 months.
- Implemented access controls on payment systems that prevent a single employee from both initiating a change and approving a change to provider information.
- Changed procedures to require processing remittance mail under dual control.

The Department also went through multiple third party audits. As a result of audit recommendations, the Department implemented further segregation of duties to add a second level of review before bills are paid.

The Department has reorganized and doubled the size of its office of internal audit. The Department is exploring investment in technologies to provide increased internal audit coverage and early detection of financial irregularities.

The Department is also pursuing financial recovery activities related to this audit finding. Refer to audit report 6612, finding number 001, on page 77.

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Department of Labor and Industries (L&I)

Agency: 235

Audit Report: 6612

Finding Number: 001

Finding: An adjudicator in the Department of Labor and Industries Crime Victims' Compensation Program misappropriated at least \$431,376.

Resolution: Finding of fraud. Refer to page 77.