

Department of Labor & Industries

Audit Planning Guide



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Planning Guide Information

Please direct questions or suggestions to the Department of Labor & Industries (L&I) subject matter expert.

Guidance is based on the extensive research, brainstorming and reviews conducted as part of the [planning guide update process](#).

This guide is intended for internal SAO use only as a general resource to help auditors obtain an understanding of the Department of Social and Health Services. The guide is not intended to supplant audit plans or planning for individual audits. While auditors should consider all information in the planning guide, comments need to be evaluated in terms of the individual entity under audit and in light of other planning procedures and auditor's judgment. Also, while guidance is designed to be as comprehensive as feasible, auditors must be alert for audit issues and situations not specifically addressed.

This guide is used by the State Auditor's Office staff as they plan audit engagements. Information presented in this document does not represent policy or legal guidance. State agencies and local governments should contact their legal counsels with specific questions.

REQUIRED RISKS TO ASSESS

The following risks must be documented as red flags and discussed during brainstorming to ensure sufficient consideration. They should be prioritized for audit to the extent they are applicable and significant to the agency.

- **Electronic Fund Transfer (EFT) Controls** – Payroll and vendor electronic file transfer (EFT) related cyber frauds continue to occur. Accordingly, controls over EFTs is a required risk to assess for all entities we audit. When assessing this area of risk, auditors should talk with the entity about its controls related to changing existing EFT contact information and associated bank account numbers. The approach perpetrators of these frauds use has evolved to include changing contact information for existing EFT transactions before requesting a change to the associated bank account numbers. Previously, entities were encouraged to follow up with the contact information known at the time of the request for changes to bank account information; however, a stronger control is to independently confirm any change to payroll or vendor profile contact information or banking account information. Individuals with the ability to change or add EFT accounts need to have clear guidance on the process to authorize these changes through a proper validation method. [A testing strategy is available in TeamMate at Accountability | Expenses | EFT Disbursements | Controls over EFTs.](#) Contact [Team IT Audit](#) for additional clarification or guidance.
- **Contract Monitoring** – Several recent state agency audits have identified issues with inadequate controls and insufficient monitoring over the performance and terms of contracts. Auditors should identify agency contracts, evaluate the risk of non-compliance with contract terms, risk of lack of adequate monitoring over contracts, and significance of contracts to the agency. For example, auditors should consider the following questions. If there is a revenue generating contract, does the agency have controls and perform monitoring procedures to ensure the state is collecting all revenue due to it? If there is a contract for computers or servers, is someone with proper knowledge checking to make sure the agency received the correct products, with the correct specifications? If there is a contract for services, is a knowledgeable person monitoring and confirming that the agency is receiving all of the services that it should? [A testing strategy is available in TeamMate at Accountability | Compliance Requirements | Grants, Contracts & Agreements | Contracts & Agreements.](#)
- **Out of State Telework Agreements** – Auditors should identify telework agreements in place for employees that live outside of Washington State and review travel expenses paid or reimbursed for these employees. There is a risk that agency activities related to out of state telework agreements are not in compliance with the SAAM, such as paying for unallowable commuting expenses. If risks are identified auditors should consider selecting this area for audit.

BACKGROUND

The Department of Labor & Industries delivers an array of services to Washington State citizens. L&I helps employers meet safety and health standards and inspects workplaces for hazards. In addition, the agency 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.

L&I 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.

L&I has approximately 3,000 full-time employees and provides services to the public in 19 locations across the state. The main headquarters is in Tumwater.

L&I was established under [RCW 43.17.010](#), however they also have authority under multiple RCWs and WACs, including Workers Compensation that must follow [Title 51 RCW](#), Industrial Insurance, and related [Chapter 296-17 WAC](#).

How to Identify State Fund, Self-Insurer, or Crime Victim Claims

- State Fund claims begin with the letters A, B, C, F, G, H, J, K, L, M, N, P, X, Y, or Z followed by six digits, or double alpha letters (example AA) followed by five digits.
- Self-insured claims begin with an S, T, or W followed by six digits, or double alpha letters (example SA) followed by five digits. Department of Energy (DOE) claims are now self-insured.
- Crime Victims claims begin with a V followed by six digits, or double alpha letters (example VA) followed by five digits

Authority and Common Activities

Insurance

Administrators of the state's Workers' Compensation System

Worker's compensation (also known as industrial insurance) provides no-fault industrial insurance coverage for most employers and workers in Washington. L&I, as the administrators, is similar to a large insurance company, providing medical, vocational and limited wage-replacement coverage to workers who suffer job-related injuries and illness. [RCW 43.22.030](#)

Self-Insurance

Self-insured employers provide workers' compensation benefits directly to injured workers. L&I ensures workers' compensation benefits are provided in compliance with all applicable industrial insurance laws and regulations and reviews and monitors the financial strength of self-insured employers so that all workers' compensation obligations can be met. [WAC 296-15](#)

Safety and Health

Administrators of the Washington Industrial Safety and Health Act (WISHA) law

DOSH (L&I's Division of Occupational Safety and Health) develops and enforces rules that protect workers from hazardous job conditions. [WAC 296-800-100](#)

Safety Research

SHARP (Safety & Health Assessment & Research for Prevention) is a workplace safety and health research and prevention program within L&I. The program is guided by the belief that workplace injuries and illnesses are preventable; that there is no such thing as a 'workplace accident,' but rather a series of preventable exposures that lead to injury and illness. SHARP conducts surveillance for occupational conditions such as musculoskeletal disorders, respiratory disease, hospitalizations, fatalities, and more.

Grants

L&I administers the Safety & Health Investment Projects Grant Program (SHIP); Safety through Achieving Recognition Together (START); and Voluntary Protection Program (VPP)

Crime Victims Program – [RCW 7.68](#)

The primary purpose of the victim compensation grant program is to compensate victims and survivors of criminal violence for:

- (1) Medical expenses attributable to a physical injury resulting from a compensable crime, including expenses for mental health counseling and care;
- (2) Loss of wages attributable to a physical injury resulting from a compensable crime; and
- (3) Funeral expenses attributable to a death resulting from a compensable crime.

New : Effective June 11, 2020 [SB 6181](#)

- RCW 7.68.060 amended to change application for benefits is not received by the department within three years, instead of two years, after the date the criminal act was reported to a local police department or sheriff's office or the date the rights of beneficiaries accrued...."

Inspections, Permits and Certifications

L&I inspects electrical work, boilers, elevators and manufactured homes. They also license electrical professionals, plumbers and construction contractors, and ensure their safe practices. They oversee Apprenticeship Programs to prepare a qualified workforce in key occupations in the state. Apprenticeship Program coordinators monitor compliance in existing occupations and develop and approve new programs in both traditional and non-traditional occupations. Other, less common inspections/permits and certifications under L&I's authority include:

- Amusement Ride Safety, Permits and Inspections - To ensure that amusement rides in Washington are safe, ride operators are required to have their rides inspected annually by third-party safety inspectors. L&I certifies third-party inspectors, and issues ride operation permits when rides have passed inspection. Typically, a mechanical ride that you are required to pay admission for is considered an amusement ride.
- Asbestos Certification – Certifications are available including Asbestos worker, Asbestos Supervisor and Asbestos Contractor. Rules cover all work involving asbestos exposure, asbestos notification, certification and training.
- Charter Boats – Boats that operate on state waters are required to meet Washington State's licensing and inspections requirements established to ensure public safety. Certification is a must when a vessel is used as a charter boat and the owner-operator is responsible for getting the vessel certified.
- Construction Cranes - Hazards at construction sites can change quickly, putting employees who operate cranes or work around them at high risk for serious injuries, and even death. Electrocution, falls, moving machinery, excavations, and overhead loads are examples of a few common hazards that can plague rigging and other activities involving cranes. Ensuring that equipment and personnel meet certification and other safety requirements helps employers prevent accidents and ensure that everyone goes home safely at the end of a long day.
- General Industry Cranes - Overhead shop cranes move heavy items in manufacturing and production areas. Although shop cranes are useful, "overhead" can sometimes be "out of sight and out of mind" when it comes to safety. Bridge and mobile cranes are examples of equipment used in general industry.
- Maritime Cranes – L&I's Maritime Crane Program has been in place since 1970, when OSHA was created. Currently there are 732 maritime cranes that are certified in Washington State. These are cranes that work in waterfront operations.
- Explosives Licensing
- Talkie-Tooters (Logging Radios) – WAC 296-54-604 Still used in the logging industry, these radio signaling devices require a permit for use in Washington state.

Related to the inspections and certification, L&I maintains a register of building contractors to protect homeowners from unreliable, fraudulent, financially irresponsible, or incompetent construction contractors who failed to meet their financial obligations.

Workers' Rights/Labor Standards

These programs promote and enforce fair labor practices and include the following areas: wage determination, prevailing wages, Minimum Wage Requirements and Labor Standards (formerly: Minimum Wage Act) [RCW 49.46](#) , tips and service charges, equal pay and overtime.

Prevailing Wage Enforcement

Prevailing Wage is covered by [WAC 296-127](#) and [RCW 39.12](#). The central requirement is found in [RCW 39.12.020](#) *The hourly wages to be paid to laborers, workers or mechanics, upon all public works and under all public building service maintenance contracts of the state or any county, municipality or political*

subdivision created by its laws, shall be not less than the prevailing rate of wage for an hour's work in the same trade or occupation in the locality within the state where such labor is performed. Given these and other requirements under RCW 39.12, it is L&I's duty to determine and publish a prevailing wage rate for each established trade and occupation in each county, subject to certain additional statutory instructions. Once published, these rates must be paid by contractors and subcontractors to workers, laborers and mechanics on all public-works projects. There are over 80 prevailing wage trades and each trade as at least one occupation, but may have hundreds of occupations.

Violators

[WAC 296-127-310](#) requires L&I to maintain a list of all contractors who are forbidden to bid on a public works project or to have a bid accepted, pursuant to RCW 39.12 the industrial statistician shall refuse to certify any statement of intent to pay the prevailing wage or affidavit of wages paid that he or she determines was submitted by a contractor on the list. L&I keeps a [Contractor Strike List](#), which is a list of contractors who have one or more strikes under prevailing wage law, contractor registration law, industrial insurance law, or apprenticeship law. They also keep a list of [Contractors not allowed to bid](#) on public works projects and [Debarred Contractor](#) list, which is a list of contractors who are not allowed to bid on or work on public works projects. All of these lists are on the L&I website and are searchable.

Labor Standards

L&I is responsible for enforcing Fair Labor Standards, including workplace policies on rest breaks, meal periods and schedules; administrative policies including sexual harassment, pregnancy accommodations and termination and retaliation; as well as agriculture related policies on wages, rest breaks, etc. They administer the Family Care Act; Domestic Violence Leave; Family Leave Act; Paid Family & Medical Leave; Leave for Military Spouses; Pregnancy and Parental Leave.

L&I provides youth employment and farm labor contractor information.

Industry, Regulatory and Other External Factors

The Department of Labor & Industries operates in an area that is highly regulated by insurance, labor, privacy and other laws.

Measurement of Financial Health

As a state agency, L&I's funding is part of the Governor's Budget and therefore can change dramatically depending on legislative goals, elected officials and other policy changes, which L&I has little control. Their authority and legislative requirements also can change significantly, as new bills are passed.

PLANNING & ADMINISTRATION

The Department of Labor & Industries is subject to an annual accountability audit, annual financial audit of the State of Washington Workers' Compensation Funds (which are administered by L&I), inclusion in the State of Washington Single Audit (SWSA) and inclusion in the Annual Comprehensive Financial Report (ACFR) for the State of Washington.

[RCW 51.44.115](#) requires the State Auditor's Office to annually audit and report on the financial statements of the program. The law also requires that the auditor's Office contract with independent actuaries for actuarial assessments and opinions on three of the Program's funds: Accident, Medical Aid and Pension Reserve.

The primary contact is the Director of Internal Audit, Jennifer Myers.

Special Administrative Procedures

Auditors should check-in with the Department of Labor & Industries Subject Matter Expert (SME) at the start of planning for coordination and assistance in identifying any other engagements. The SME is generally invited to Entrances, Update Meetings, and Exits to ensure proper coordination between the different audits.

Special Planning Considerations

As a State Agency, L&I is subject to the State Administrative and Accounting Manual ([SAAM](#)) published by the Office of Financial Management (OFM). SAAM sets requirements for accounting, administrative and accountability issues and practices for all state agencies.

Minutes Review

L&I is governed by an individual, appointed by the Governor, rather than a governing body. However, multiple Boards and Committees advise and oversee L&I. Unlike governing bodies, not all boards or committees are subject to the Open Public Meetings Act and L&I may not be the contact. Auditors should be familiar with Washington State Office of the Attorney General Chapter 3: [Open Public Meetings Act](#). When determining to bring a risk forward from these minutes, auditors should consider the following:

- 1) What role does L&I have with the Board or Committee?*
- 2) Are they separate entities who carry out various activities of the agency?*
- 3) Are they to subject to Open Public Meetings Act (OPMA)?*
- 4) If there is an issue with non-compliance, who would we address our recommendation to (at the specific board/committee or at L&I)?*

L&I's website contains links and information on the following Boards and Committees:

- Advisory Board of Plumbers
- Advisory Committee on Health Care Innovation and Evaluation (ACHIEV)
- Board of Boiler Rules
- Electrical Board
- Elevator Safety Advisory Committee (ESAC)
- Factory Assembled Structures Advisory Board
- Industrial Insurance Chiropractic Advisory Committee (IICAC)
- Industrial Insurance Medical Advisory Committee (IIMAC)
- Insolvency Trust Board
- Prevailing Wage Advisory Committee (PWAC)
- Self-Insurance Curriculum Review Committee
- Washington Apprenticeship & Training Council (WSATC)
- WISHA Advisory Committee
- Workers' Compensation Advisory Committee

Analytical Procedures

Because we complete detailed analytical as part of the Workman's Compensation financial audit, those procedures should be brought forward or at least summarized as part of the Accountability Analytical Procedures.

Risk Assessments

[SAAM 20.15.50.c](#) requires all agencies to designate an internal controls officer who is responsible for ensuring the agency performs an annual risk assessment and periodic review of internal controls.

As part of the "Other Engagements & FAWF", "Risk Assessment" and "Agency-wide COSO Evaluation" steps, auditors should inquire with the agency's internal controls officer and review the most recent risk assessment and comprehensive review of internal controls.

Available Entity Data

The Agency uses the Agency Financial Reporting System (AFRS) for financial reporting - the statewide general ledger software used by most state agencies; and Human Resource Management System (HRMS) for payroll activities - a statewide system, used by most agencies. AFRS and HRMS data is available in FAP. This includes revenue, expenditure, US bank card, vendor, and payroll data.

Medical Information Payment System (MIPS) data is also collected monthly and available for five years, plus the current fiscal year. Benefit Payment System (BPS) and Pension Payment System (PPS) data is also available on a going forward basis starting with FY2021. Auditor's should work with IT Audit, and requests for assistance should be submitted through the [IT HelpDesk](#). [Start this step during planning](#).

Additional Resources

Additional resources related to State Agency Resources can be found on the SAO intranet site under Audit | Reference Guide | [State Agency Resources](#).

Key Operational Information

Key information about L&I operations the auditor should document in the permanent file includes:

- Payroll and employment trends
- Rate changes, especially related to Worker's Compensation rates.
- New programs or services
- New construction or remodeling of facilities
- New IT systems or projects
- The Agency does not subcontract any major functions.
- The Office of State Treasurer serves as the Department's bank and handles all deposits and short-term investments.

ACCOUNTABILITY

Revenues

Potential revenue streams are as follows:

- **Employee and Employer Paid Premiums** – This is the revenue that funds the Worker's Compensation Program. These are reported as major source 0472 and are the most significant revenue stream for the entity, making up about 95% of GL3210 revenue.
- **Licenses, Permits and Fees** – This revenue is made from various charges for services, including electrical licenses, contractors registration fees and safety inspections. All L&I fees are updated through the Rule Making Process, which is an official process that requires a notice of intent to stakeholders; proposed rule language filed with the Code Reviser; and adoption of the rule.
- **Federal Funds** – the agency receives federal money from the Department of Justice, Department of Labor and Department of Health & Human Services.

Expenditures

In addition to normal risks related to accounts payable, imprest and EFT systems, auditors should be aware of the following unique risks:

- **Benefit Payment System (BPS)** - Time-loss is part of the Workers' Compensation Program that awards monthly benefit payments to workers who have been injured on the job and cannot currently work. The benefit payment is based on lost wages. Partial permanent disability is also part of the Workers' Compensation Program. It is a one time payment when an injury on the job has been determined to be permanent disability. The worker can still work but he's been permanently impaired. Once a permanent partial disability award has been made, the claim is closed (unless it is re-opened). These benefit payments are made out of the Fund 608, Accident Account.
- **Pension Payment System (PPS)** - The PPS is part of the Workers' Compensation Program that awards monthly pension payments to workers who have been seriously injured, permanently and totally disabled, or died on the job (payment goes to the survivors). Payments are made out of the Fund 610, Accident Reserve Account. Once a pension goes into effect, medical treatment ends,

except for treatment needed to protect an injured worker's life. There are three different types of pension payments paid through PPS:

- Fatality - on the job death (Survivors receive month survivor pension)
 - Statutory pension - injury on the job that results in partial disability but can still work (for example, losing 2 limbs, blindness, etc.)
 - Administrative pension - Injury on the job that results in the worker not being able to return to work. (Permanent, total disability)
- **Medical Information Payment System (MIPS)** - The "Auto Adjudication" process is an automated review process in MIPS that reviews medical bills against a large number of edits in order to determine if the services are eligible for payment. The system automatically selects the appropriate fee code based on the provider, service location, and procedure code). It was estimated about 75% of the bills are auto-paid, leaving only 25% going to MTA's who are then responsible for processing all of the medical bills that do not pass the auto-adjudication process. The Physicians' Current Procedural Terminology (CPT) is a five-digit code that describes the procedure performed or service type. These service codes are added to the system as they are established. These procedures assist in the adjudication of billings to ensure procedures are authorized, the correct amount is authorized, and to ensure duplicates are identified as possible errors (required edits). MIPS interfaces with LINIIS to compare and further review data as provided on the bills. If the bill passes all the automated edits, then the bill will be automatically paid, or denied, without manual review by a MTA. A Remittance Advice will be sent to the provider with payment or explanation of the denial. After the bill is processed for payment, it is posted to the injured worker's file for a quality review at a later date by the Claims Manager using the BILL screen.

Assets

Common sources of assets at risk of misappropriation or misuse include:

- **Small and Attractive Assets** - Small and attractive assets, in addition to normal office equipment, can include a variety of tools depending on the position. With 19 field offices, there are risks that the field offices are not following the same procedures for tracking small and attractive assets.

Compliance Requirements

General compliance areas:

- **Investments** - Under RCW 43.33A.030, trusteeship over the investment of the Workers' Compensation Program's investments is vested in the voting members of the Washington State Investment Board (WSIB). The legislature established a standard of care for investment of these funds in RCW 43.33A.140. Additionally the WSIB must comply with other state laws, such as the Ethics in Public Service Act, RCW 42.52, as it makes investment decisions and seeks to meet its investment objectives.
- **Pension Fund** - [RCW 51.44.080](#) requires any surplus or deficit in the Pension Fund greater or less than the annuity value of the established pension reserve to be transferred (exported) to or from the State Fund.
- **Procurement/Bid Law** – State agencies must comply with rules, regulations, and policies set forth by the Department of Enterprise Services (DES). ESD uses states contracts organized through DES for most of their purchases and encourages vendors to contact DES to find out how to become a provider on state contracts.

FINANCIAL STATEMENTS

The Department of Labor & Industries financial activity is included in the Statewide Annual Comprehensive Financial Report (ACFR). Historically, L&I's financial statement

balances or accounts have not been material and not selected for audit. As a state agency, they must use the Agency Financial Reporting System (AFRS) as their general ledger and follow state accounting procedures, as set in the State Administrative and Accounting Manual (SAAM). The fiscal year, as specified by statute, is July 1 –June 30.

State of Washington Workers' Compensation Funds

The state's Workers' Compensation Program ("program") is administered by the Department of Labor & Industries. This program provides limited wage replacement and medical coverage to workers who experience job-related injuries and illness.

[RCW 51.44.115](#) requires SAO to annually audit and report on the financial statements of the program. The law also requires the Auditor's Office to contract with independent actuaries for actuarial assessments and opinions on three of the Program's Funds: Accident, Medical Aid and Pension Reserve.

The Workers' Compensation Program Basic Plan consists of three funds:

- The Medical Aid Fund pays for medical care and related services, including some vocational rehabilitation and Stay at Work reimbursements.
- The Accident Fund pays non-medical claim costs such as wage replacement benefits, structured settlements, disability pensions and survivor benefits.
- The Pension Reserve Fund pays benefits to permanently disabled pensioners, including disabled employees of self-insured employers and survivors of fatally injured workers.

Four additional funds are not included in the scope of our actuarial review: Supplemental Pension, Second Injury, Self-Insured Employer Overpayment Reimbursement and the Industrial Insurance Rainy Day. (See [Appendix A](#) for additional details on Workers' Compensation funds.)

The program bases the amount of its claims payable liabilities on estimates of the cost of claims reported but not resolved, and of unreported injuries that that will result in claims. The Department's Director sets premium rates after considering information from the Workers' Compensation Advisory Committee, the Governor, the public, interest groups and the Department's actuaries.

The State Investment Board invests the money in these funds under policies and procedures designed to maximize return at a prudent level of risk. Eligible investments include U.S. equities, international equities, U.S. treasuries and government agencies, credit bonds, mortgage-backed securities, asset-backed securities, non-U.S. dollar bonds and real estate.

The Pension Reserve Fund does not assess premiums. It is funded through contributions and transfers from the Accident Fund and self-insurers. Typically, the system fully funds each pension annuity when the liability is transferred to the Pension Reserve Fund. Because of how the Pension Reserve Fund is financed, its solvency is guaranteed as long as the Accident Fund and the self-insurance program remain solvent.

Annual premiums for all funds are approximately \$2.2 billion. The Workers' Compensation Program Basic Plan funds are required to be actuarially fully funded. The Supplemental Pension Fund is a pay-as-you-go fund and is currently in a deficit position.

Rely on Work of Others

External Auditor

An external CPA firm (Eide Bailly for FY2021) audits the State Investment Board (SIB), and that work is significant to the Worker's Compensation Funds audit. SIB is a component unit of the State ACFR and work is performed that also provides assurance to Workman's Compensation balances. The SIB financial statement audit is reviewed in [S1Washington-FS20 I.3].

We rely on the work done to ensure the material line item "Investments" and related items are accurately presented in Workman's Compensation financial statements. Auditors must follow Audit Policy 6240, use the appropriate "Rely on Work of Others" audit program ([available in TeamStore under Financial Statements | Rely on Work of Others](#)) and charge time to project code "CPAR".

- [Start this step during planning](#) to document the materiality and scope of the work and how it will impact the audit as a whole.
- For instances where there are multiple component audits, determine the significance of each audit.

NOTE: if the other CPA reported any significant deficiencies or material weaknesses, these must also be considered for inclusion in our report as well.

Specialist

[RCW 51.44.115](#) requires SAO to contract with independent actuaries for actuarial assessments and opinions on three of the Program's Funds: Accident, Medical Aid and Pension Reserve. For FY2021, SAO contracted with Deloitte Consulting.

Team Financial Audit handles the contract with the Actuary. This contract is bid every five years. The contracted actuary arranges for a kick off meeting with SAO and L&I to discuss various aspects. The opinions are due to SAO by September 30.

Using the work of a specialist refers to relying on the specialist's conclusions as audit evidence. The auditor's responsibility is not reduced by the auditor's use of the work of a specialist. Rather, if the auditor concludes that the work of the specialist is adequate, the auditor may accept the specialist's work as appropriate audit evidence.

When an auditor uses the work of a specialist as audit evidence in performing substantive tests, we follow Audit Policy 3230. Specialists include those employed or contracted with by the entity or by the auditor. Auditors should use the appropriate "Rely on Work of Others" audit program ([available in TeamStore under Financial Statements | Rely on Work of Others](#)).

- [Start this step during planning](#) to document the materiality and scope of the work and how it will impact the audit as a whole.

GAAP reporting changes

All new GASBs are identified and evaluated by the Financial Audit Committee (FAC), as summarized on the [GASB Tracker](#) available on the FAC Sharepoint page. When evaluating implementation of new GASBs for State Agencies, auditors should specifically consider:

- ***GASB 87*** (Leases, originally effective FYE 12/31/20, now effective FYE 6/30/22) is expected to have an impact on state agencies and require re-evaluating and changes to reporting for leases, such as leases for equipment or buildings. We would expect this to require significant effort and analysis. We would not expect any early adoption of this GASB.

GASB 95, issued May 8, 2020, delayed the implementation date of certain new standards. Entities have the option to decide whether or not to delay implementation. During planning, as part of [Understanding the Agency & Environment](#), auditors should inquire with the agency and confirm the agency's implementation decisions.

SINGLE AUDIT

L&I is an agency of the state of Washington, and is part of the State of Washington Single Audit (SWSA). Team Single Audit (SA) coordinates the state SWSA and determines material programs. While L&I's federal grants are reported as part of the State SEFA, L&I's federal grants historically have not been large enough to be selected for audit.

Federal Funds

All of L&I's federal grants are smaller, and most do not have specific compliance supplements, however they are all subject to uniform guidance in 2 CFR 200. During the last few years they have been audited by federal partners from the Department of Labor (Apprenticeship and Occupational Safety & Health

Administration), Department of Justice (Crime Victims) and Office of Inspector General (Crime Victims). In addition, internal audit has done audits of every federal grant during the last two years.

PERFORMANCE AUDIT

Information on ongoing performance audits can be found on the SAO website at:

<https://www.sao.wa.gov/performance-audits/performance-audits-in-progress>. For all other inquiries please contact the Assistant Director for Performance Audit.

Appendix A: Workers' Compensation Fund Accounts

The Workers' Compensation Fund consists of the following seven enterprise accounts:

The Accident Account (Fund 608)

Pays compensation directly to injured workers for lost wages during temporary disability and for permanent partial disability awards. It also pays costs for vocational retraining and for structured settlements. The Accident Fund also pays to the Pension Reserve Account the present value of pensions awarded to survivors of fatally injured workers and to workers who are permanently and totally disabled. Accident Fund claims payable liabilities are discounted to the present value.

Revenues for this account come from employer-paid premiums based on individual employers' reported payroll hours and are reported net of refunds. Employers may elect to have their premiums retrospectively rated, with an annual adjustment for three years following the plan year, based on individual employers' actual losses incurred. This may result in either a refund of premiums paid or an assessment of additional premiums due. The premium adjustment calculation considers both the Accident and Medical Aid Accounts' experience and premiums together. However, retrospective premium adjustments are financed entirely through the Accident Account.

The Medical Aid Account (609)

Pays for the cost of medical and vocational rehabilitation services to injured workers and Stay at Work reimbursements. Revenues for this fund mostly come from equal contributions from employers and employees; employers are required to withhold half of the medical aid premium from their employees' wages.

The Pension Reserve Account (610)

Pays benefits to the surviving spouse or dependents of fatally injured workers and to all permanently and totally disabled workers. This includes benefits for pensions awarded to employees of self-insured employers. Funding for pension payments is generated by transfers from the Accident and Second Injury Accounts and reimbursements from self-insured employers. The funds are invested in securities to cover payments for the expected life of the injured worker or survivor(s).

The Industrial Insurance Rainy Day Fund Account (446)

The Industrial Insurance Rainy Day Fund Account was created in 2011 to hold transfers from the Accident and Medical Aid Accounts when assets for those accounts combined are between 10 and 30 percent in excess of their funded liabilities. Primarily, the balance in this account will be used to reduce future rate increases or aid businesses in recovering from or during economic recessions. This account was first used in fiscal year 2017.

The four accounts described above are referred to as the Industrial Insurance Fund, the Workers' Compensation Program Basic Plan, or the State Fund. The Accident, Medical Aid, and Pension Reserve Accounts are maintained on an actuarially solvent basis; however, a cash flow basis is used for the surety bond components of the Pension Reserve Account. Self-insured employers have the option to guarantee pension-related benefits with a surety bond or to fund the benefits with cash.

The Supplemental Pension Account (881)

Provides for a supplemental cost of living adjustment to injured workers or their survivors receiving disability payments. Per RCW 51.32.073, this account operates on a current payment basis, and no assets are allowed to accumulate for the future servicing of claim payments. COLA and time-loss payment increases are based on the increase in the state's average wage during the preceding calendar year and are made effective in July of the following fiscal year. Revenues for COLA payments arise from assessments to self-insured and state-fund insured employers; half of the assessment is deducted from their employees' wages.

The Second Injury Account (883)

Used to pay pension costs on claims where a permanent total disability is at least partially caused by a prior injury. It is also used to fund job modifications for some temporarily disabled workers. It is funded by self-insured assessments for self-insured pension claims, transfers from the Accident Account to the Pension Reserve Account for State-Fund-insured pensions, and transfers from the Medical Aid Account to pay for job modification and other claims. An allowance for future second injury benefit payments is contained within the Accident and Medical Aid Accounts' claims liabilities for State-Fund-insured claims. Therefore, the Second Injury Account does not carry any claims liabilities.

The Self-Insured Employer Overpayment Reimbursement Account (445)

Reimburses self-insured employers for benefits overpaid during the pendency of board or court appeals in which the self-insured employer prevails and has not recovered. The revenue for this account comes from self-insured employer assessments.