



Office of the Washington State Auditor
Pat McCarthy

Fraud Investigation Report

Employment Security Department

For the investigation period October 1, 2021 through September 14, 2024

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

November 13, 2025

Commissioner
Employment Security Department
Olympia, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the Employment Security Department. On October 15, 2024, the Department notified the Office of the Washington State Auditor of a potential loss of public funds. This notification was submitted to us under the provisions of state law (RCW 43.09.185).

This report contains the results of our investigation of the former Customer Care Team Specialist's unallowable activities at the Department from May 29, 2022 through September 14, 2024. The purpose of our investigation was to determine if a misappropriation had occurred.

Our investigation was performed under the authority of state law (RCW 43.09.290) and included procedures we considered necessary under the circumstances.

If you are a member of the media and have questions about this report, please contact Assistant Director of Communications Adam Wilson at (564) 999-0799. Otherwise, please contact Special Investigations Program Manager Stephanie Sullivan at (360) 688-0858.

Pat McCarthy, State Auditor

Olympia, WA

cc: Sara Hudson, Internal Audit Director

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FRAUD INVESTIGATION REPORT

Investigation Summary

On October 15, 2024, the Department notified our Office regarding a potential loss of public funds, as required by state law (RCW 43.09.185). During normal quality control processes, the Department identified several paid family and medical leave (PFML) claims processed by the Customer Care Team Specialist (Specialist) as needing further review. Claims are normally placed in a queue where they are expected to be reviewed and adjudicated in order. A supervisor noticed that the Specialist pulled and processed several claims for a business out of order.

The Department investigated and provided their files to us for review. We determined the Specialist misappropriated unemployment insurance (UI) and PFML claims totaling \$49,982 between May 29, 2022, and September 14, 2024.

The Department filed a report with the U.S. Department of Labor's Office of Inspector General (OIG), which is investigating this case. We will share our investigation results with the OIG.

Background and Investigation Results

The Department's total operating budget for fiscal years 2023-2025 was about \$979.5 million. The Department administers several programs including the state's UI program, PFML program and long-term services and supports (LTSS) program. The Department's Leave and Care Division combines both the PFML and LTSS programs. Within this division, the Department employs approximately 300 customer care team specialists who are responsible for processing claims and benefit applications. All these specialists work remotely and report to a Benefits Specialist who holds monthly virtual team meetings.

In October 2021, the Department hired a Human Resource Consultant, who held this position until November 2022 when she left employment with the Department. On March 12, 2024, this former employee applied for a Customer Care Team Specialist position within the Leave and Care Division, and was hired on May 16, 2024.

In September 2024, the PFML Fraud Team identified claims totaling \$16,634 paid to employees of a questionable business. As mentioned, the Specialist processed the claims out of order from the expected process. The Department looked this business up on the Washington State Department of Revenue's business registry and found it was registered under the Specialist's name.

The Department initiated an investigation to determine if she used her position to misappropriate additional claims and put her account on hold on September 17, 2024. The Department terminated the Specialist's employment on September 20, 2024. The Department investigated all UI and PFML claims the Specialist approved and filed between her first claim submission in October of 2021, and when her Department account was put on hold.

We reviewed the Department's investigation and determined the Specialist:

- When she held the role of Human Resource Consultant, submitted falsified medical documents to receive PFML benefit payments totaling \$10,890 between May 29 and November 5, 2022
- Filed for and received \$15,178 in UI benefit payments from the Department between November 12, 2022, and April 29, 2023. The Specialist was not eligible to receive UI benefit payments because she was employed elsewhere.
- When she held the role of Customer Care Team Specialist, created a company and submitted inappropriate claims for employees of this company to receive PFML benefit payments between June 23 and September 14, 2024. The Specialist approved these benefit payments totaling \$23,914.

We did not interview the Specialist. However, the OIG interviewed her on July 29, 2025. At the time of our report, records of that interview were not available for our review.

Internal Control Weaknesses

Internal controls at the Department were not adequate to safeguard public resources. We found the following weaknesses allowed the misappropriation to occur. The Department did not:

- Sufficiently ensure PFML claim documents were valid before approving the benefit claims and processing payments.
- Ensure it paid UI benefit payments to an eligible individual.

Recommendations

We recommend the Department thoroughly review PFML and UI claims, including supporting documents, to ensure claimants are eligible to receive benefits and monitor for Department employees receiving benefits that could be a conflict of interest.

We also recommend the Department seek recovery of the misappropriated \$49,982 and related investigation costs of \$17,301 from the former Specialist and/or its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the Department must be approved in writing by the Attorney General and State Auditor as directed by state law (RCW 43.09.330). Assistant Attorney General Matt Kernutt is the contact person for the Attorney General's Office and can be reached at (360) 586-0740 or Matthew.Kernutt@atg.wa.gov. The contact for the Office of the Washington State Auditor is Brandi Pritchard, Assistant Director of Special Investigations, who can be reached at (509) 726-1886 or Brandi.Pritchard@sao.wa.gov.

Department's Response

The Employment Security Department (ESD) thanks the State Auditor's Office (SAO) for their work and commitment towards compliance with state, federal and local law. We share this commitment and welcome all opportunities to continue to improve our processes and practices. ESD assessed the feedback received from SAO and will continue our work toward strengthening controls around fraud detection and benefit eligibility.

ESD takes all fraud, including internal fraud very seriously. Upon the discovery of the fraud scheme, ESD strengthened controls surrounding claim verification and eligibility. ESD has also strengthened controls involving employee claims. Every employee claim is thoroughly reviewed for adherence to PFML policy before the payment of benefits and ESD will continue to thoroughly review both PFML and UI claims to ensure that claimants are eligible for benefits.

The Department would like to note for this case; the issue was identified in less than a week. The claims in question were flagged and investigated by ESD's Internal Fraud Investigator, and a summary report was issued in two weeks. Based upon ESD's investigation, the case was referred for prosecution, where depending on the ruling we may recoup benefits paid and investigation costs. Since the discovery of this fraud and the subsequent changes in process, there has not been another fraud of this kind.

Auditor's Remarks

We thank Department officials and personnel for their assistance and cooperation during the investigation. We will follow up on the Department's internal controls during the next audit.

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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.

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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.

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