BRIEFING REPORT: Paid Family and Medical Leave Program

LEGISLATIVE AUDITOR'S UPDATE:

JLARC staff are conducting research and have hired consultants to assist with the financial reviews. The study is on track to be completed in fall 2024.

September 2023

Key points

1. The Paid Family and Medical Leave (PFML) program is run by the Employment Security Department (ESD). It offers paid time off to public and private employees.
2. Employees and employers pay premiums that fund program administration and benefits. The money flows through a special account created for this program.
3. JLARC staff are working with two consultants. One will help review whether the account can meet the program's financial obligations. The other will help review ESD's accounting.
4. JLARC staff are evaluating program operations, including processes, staffing, and equity.
5. The study is on track to be completed by October 2024, as required by statute.

September 2023 briefing: fieldwork is underway and consultant contracts are in place

Washington's Paid Family and Medical Leave program offers paid time off to public and private employees

PFML is a wage replacement program run by ESD. People who work in Washington and qualify for the program can take up to 12 weeks of paid family or medical leave each year. The PFML program pays a portion of their wages while they are on leave.

> The 2017 Legislature created the PFML program
> *Title 50A RCW*

- Employees can use leave when a serious health condition prevents them from working, to care for a family member, to bond with a new baby or child, or for certain military-related events.

- Employees must have worked more than 820 hours in the past year to be eligible for leave.
- Some workers, including federal employees and self-employed people, do not automatically qualify for the program.

Employees who use the program must apply for benefits and file weekly claims with ESD. Employers also have responsibilities, including notifying employees about the program and filing quarterly reports.

2022 Legislature directed JLARC to review the PFML program and submit a progress report by October 2023

2SSB 5649 (2022) requires the Joint Legislative Audit and Review Committee (JLARC) to evaluate the following:

- ESD's program administration.
- ESD's accounting practices for the program.
- The program's financial stability.

Staff presented study questions to JLARC in May 2023. This briefing report provides an update on our consultant contracts and our areas of focus during fieldwork.

Exhibit 1: The study team is conducting fieldwork and will publish the preliminary report by October 2024

Study Mandate	Proposed Study Questions	Fieldwork	Preliminary Report	Proposed Final Report	Final Report
2SSB 5649 (2022)	Completed May 2023	May 2023-September 2024 — Briefing to JLARC September 2023	Due October 2024	Due December 2024	Due December 2024

Source: JLARC staff analysis.

JLARC staff are assessing ESD's implementation and administration through interviews and data analysis

ESD's Leave and Care Division administers the PFML program. JLARC staff are analyzing data and interviewing the program's staff, advisory committee, and ombuds. They also are meeting with other stakeholders to assess ESD's outreach and program accessibility.

JLARC staff will examine how ESD sets staffing levels and the degree to which it:

- Operates the program according to legislative intent.
- Prioritizes and implements new initiatives and process improvements.
- Processes benefit and claim applications in a timely, systematic, and equitable manner.
- Promotes equitable access to the program.
- Monitors employer and employee compliance.

JLARC staff are working with a consultant to review ESD's accounting practices

Employees and employers pay premiums that are deposited into the Family and Medical Leave Insurance Account. The money in the account is used to pay for wage replacement benefits and program administration (e.g., staff salaries and benefits).

ESD records PFML financial transactions in the state's centralized accounting system. JLARC staff have contracted with an accounting firm to help:

- Review ESD's practices for recording revenue, expenses, and year-end accruals.
- Perform a high-level analytical review of accounts and transactions. The review will check for consistency with generally accepted accounting principles (GAAP) and the Washington State Administrative Accounting Manual (SAAM).
- Test a sample of transactions for proper application of GAAP and SAAM.

Key Terms

GAAP: Common set of accounting rules, standards, and procedures used by U.S. companies and governments.
SAAM: Requirements for state agency financial accounting.

Account does not have its own financial statements

The Governmental Accounting Standards Board creates accounting and reporting standards for state and local governments. Governments are required to separately report information about a fund only if it meets the criteria to be categorized as a "major fund."

The Family and Medical Leave Insurance Account is categorized as a non-major fund. As a result, ESD does not prepare separate financial statements for the account.

JLARC staff will work with a consultant to review the account's solvency

JLARC staff also will evaluate the solvency of the account. Solvency means having enough funds to meet financial obligations (e.g., wage replacement benefits and administrative costs).

For this portion of the study, JLARC staff have contracted with an actuarial consulting firm to assist with:

- Analyzing the premium and benefit data for calendar years 2019 through 2023 to understand the financial condition of the account.
- Developing a financial model to project future premium contributions, costs, and the financial condition of the account.
- Suggesting premium rates to maintain the solvency of the account.

The analysis will include assessing the effect of the new premium rate formula set by the 2023 Legislature (SSB 5286). Using the new formula, ESD must set a rate that provides enough funding to cover costs and leave a three-month reserve in the account. The rate cannot be higher than 1.2% of taxable wages. The new rate will take effect January 1, 2024.

MORE ABOUT THIS REVIEW

Audit Authority

The Joint Legislative Audit and Review Committee (JLARC) works to make state government operations more efficient and effective. The Committee is comprised of an equal number of House members and Senators, Democrats and Republicans.

JLARC's nonpartisan staff auditors, under the direction of the Legislative Auditor, conduct performance audits, program evaluations, sunset reviews, and other analyses assigned by the Legislature and the Committee.

The statutory authority for JLARC, established in Chapter 44.28 RCW, requires the Legislative Auditor to ensure that JLARC studies are conducted in accordance with Generally Accepted Government Auditing Standards, as applicable to the scope of the audit. This study was conducted in accordance with those applicable standards. Those standards require auditors to plan and perform audits to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives. The evidence obtained for this JLARC report provides a reasonable basis for the enclosed findings and conclusions, and any exceptions to the application of audit standards have been explicitly disclosed in the body of this report.

MORE ABOUT THIS REVIEW
Study Questions

JLARC staff presented the proposed study questions to the committee in May 2023 (see presentation).

The study will answer the following questions about ESD's program administration and the financial stability of the PFML program.

1. Are ESD's program administration and organizational structure consistent with statute and best practices?
    a. Does ESD process PFML applications in a timely, systematic, and equitable manner?
    b. To what extent does program participation or experience vary by race or ethnicity?
    c. How does ESD monitor and assess employer and employee compliance with requirements?
2. Does ESD prepare and report PFML financial information in accordance with best practices?
3. Does the PFML premium rate formula produce rates that meet statutory requirements?

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