December 11, 2024

Mr. Eric Thomas, Legislative Auditor
Joint Legislative Audit and Review Committee
P.O. Box 40910
Olympia, WA 98504-0910

Dear Mr. Thomas:

Thank you for the opportunity to respond to the audit titled *Paid Family and Medical Leave Program*. We have reviewed the report and have provided our formal response below.

We appreciate the review and agree with the report's recommendations:

- The Legislature should implement a forward-looking rate-setting approach that maintains a sufficient financial reserve for the Paid Family and Medical Leave program.
- Employment Security should adopt criteria for its compliance audit program.
- Employment Security should adopt quantifiable customer-oriented performance measures for claims processing and call center management.
- Employment Security should develop a documented and transparent process for prioritizing projects.

We understand there will be a presentation of the final report at the JLARC Committee meeting on January 9, 2025. We look forward to participating in this meeting to answer any questions.

Sincerely,

Cami Feek
Commissioner

Recommendation 1: *The Legislature should implement a forward-looking rate-setting approach that maintains a sufficient financial reserve for the PFML program. Employment Security should ensure that legislators and legislative staff have the information necessary to implement the forward-looking approach. This approach would replace the current statutory formula.*

Actuarial best practices recommend incorporating trends in claim experience, potential future economic shifts, and demographic changes into the rate-setting process.

- Current rate relies on prior fiscal year program utilization and expenditures to determine future rate.
- Current methodology has difficulty adapting to high levels of growth, economic conditions, and policy changes
- Short-term deficits are expected to continue through 2026 as account recovers from the injection of $200 million in the account along with changes to the rate methodology.

Agency Position: Concur

Employment Security Action Steps and Timelines:
- Employment Security will monitor the Paid Leave account solvency throughout 2025 and 2026 in order to develop a rate setting strategy for consideration in the 2027 Legislative session.
- During that time, Employment Security will work with stakeholders to develop objectives and parameters to inform a rate setting approach that maintains the lowest possible rate while reducing solvency risks and limiting year over year fluctuations.
- Employment Security anticipates a forward-looking rate based on actuarial principals, developed and in place for the 2028 calendar year. This provides the agency time to engage with stakeholders, model and test various approaches, and implement technology to accommodate policy changes.

Recommendation 2: *Employment Security should adopt criteria for its compliance audit
program.*

*Best practices include assigning audits based on specific criteria (e.g., employer size) and
determining the percentage of employers that will be audited each year.*

- Employment Security is continuing to implement the Paid Leave law and making
  improvements to existing functionality, with particular efforts around employer
  compliance, penalties and interest, employer collections, and refining employer
  auditing processes and procedures.
- Employment Security does not currently audit employers in Paid Leave at the same
  level as the unemployment insurance (UI) program, which meets best practice
  standards, though that is the goal.

Agency Position: Concur

ESD Action Steps and Timelines:
- In late 2023, Employment Security centralized compliance activities across agency
  programs to create standardized processes and gain efficiencies on compliance
  activities, including employer audits.
- Employment Security's UI program currently meets recommended best practices
  and federal standards, and the agency will be extending those practices to Paid
  Leave as capacity and resources allow.
- Employment Security needs additional staffing and resources for Paid Leave
  compliance activities, including employer audit.
- With adequate resourcing, ESD expects to have fully implemented uniform
  employer audit practices across UI and Paid Leave by June 2027.
- Employment Security is building an audit case management system that will replace
  current processes with a more automated approach. Currently, these processes are
  calculated, tracked, and worked manually. This should be in place in 2026.

Recommendation 3: *Employment Security should adopt quantifiable customer-oriented performance measures for claims processing and call center management.*

Best practice is to establish specific and actionable performance measures. In developing these measures, ESD should conduct outreach to its customers and stakeholders.

- Historically, Employment Security had informal metrics in place for Paid Leave application processing and provided monthly updates to Advisory Committee on time from application submission to decision, and time from application to first payment with a target of first payment within two weeks of application.
- However, ESD had not revisited or revised this initial target until November 2024, when the agency began reengaging with the Paid Leave Advisory Committee on program metrics and targets.
- No set metrics for other customer experiences such as call hold times, employer reports, or compliance measures.

Agency Position: Concur

ESD Action Steps and Timelines:
- Employment Security will define strategic performance measures and targets by February 2025. At a minimum, the measures will include:
  - application processing,
  - payment timelines, and
  - call hold times.
- Employment Security is currently engaged with Paid Leave Advisory Committee members and other stakeholders to gather feedback before finalizing identified measures and targets. The agency expects to complete this process by February 2025.
- Employment Security needs additional resources to both maintain existing customer service levels and to identify, plan, and implement process improvements that will contribute to lowering customer wait times and meeting performance targets.

Recommendation 4: *Employment Security should develop a documented and transparent process for prioritizing projects.*

Employment Security should document its procedures and decision-making throughout the prioritization process. Project assessments should be updated to accurately reflect the relative risk of each project.

- Employment Security implemented portfolio management methodology for project prioritization in 2020 and continued refining practices and methods over time.
- In 2022, the project leveling criteria changed when Employment Security adopted portfolio management methodology agency wide.

Agency Position: Concur

ESD Action Steps and Timelines:
- Employment Security's 2024-2028 strategic plan includes refining and improving project management approaches, processes, and tools.
- By June 2025, Employment Security will:
    - Develop work-in-progress limits, which determine staffing capacity and is a key component to measure risk to prioritized projects.
    - Prioritize projects by evaluating costs, duration, alignment to the agency's strategic plan, customer impacts, and mandated deadlines.
    - Create a guide that documents the project management process, including prioritization guidelines, and documents the what, who, when, and how of each step in the process.