

LOUISIANA WORKFORCE COMMISSION
STATE OF LOUISIANA



MANAGEMENT LETTER
FOR THE YEAR ENDED JUNE 30, 2011
ISSUED FEBRUARY 8, 2012

**LOUISIANA LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

**FIRST ASSISTANT LEGISLATIVE AUDITOR
AND STATE AUDIT SERVICES**
PAUL E. PENDAS, CPA

DIRECTOR OF FINANCIAL AUDIT
THOMAS H. COLE, CPA

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. One copy of this public document was produced at an approximate cost of \$4.31. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.la.la.gov. When contacting the office, you may refer to Agency ID No. 3352 or Report ID No. 80110045 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Kerry Fitzgerald, Chief Administrative Officer, at 225-339-3800.

EXECUTIVE SUMMARY

Our procedures at the Louisiana Workforce Commission (LWC) for the period July 1, 2010, through June 30, 2011, disclosed the following:

- For the third consecutive year, LWC did not adequately monitor internal subrecipient findings for Workforce Investment Act (WIA) Cluster subrecipients.
- For the fifth consecutive year, LWC did not retain employer wage records for the Unemployment Insurance (UI) program. Employer wage records are the basis for determining whether applicants for UI benefits have earned sufficient wages in a base period to qualify for those benefits. Benefits paid to claimants totaling \$249,142 were considered questioned costs.
- LWC did not submit accurate quarterly reports on the use of American Recovery and Reinvestment Act (ARRA) funds for the WIA Cluster and for the Community Services Block Grant (CSBG).
- The findings identified in our prior year report on LWC relating to noncompliance with administrative rules for interstate unemployment compensation benefit payments, improper charging of administrative expenditures to federal awards, weaknesses in controls over remittance processing system, inadequate subrecipient monitoring of the CSBG, and failure to subgrant ARRA funds timely have been resolved by management.
- No significant control deficiencies or noncompliance were identified in our procedures on UI cash in the U.S. Treasury, UI accounts receivable and accounts payable, and the estimated liability of the Second Injury Board that would require reporting under *Government Auditing Standards*.
- Other than the findings noted previously, no significant control deficiencies or noncompliance that would require reporting under Office of Management and Budget Circular A-133 were identified for the following federal programs for the fiscal year ended June 30, 2011:
 - Unemployment Insurance program (CFDA 17.225)
 - Workforce Investment Act Cluster (CFDA 17.258, 17.259, 17.260, and 17.278)
 - Vocational Rehabilitation Cluster (CFDA 84.126 and 84.390)
 - Community Services Block Grant Cluster (CFDA 93.569 and 93.710)

- According to the Improper Payments Information Act (IPIA) Overpayment Rate Report as of December 27, 2011, for the three years from July 1, 2008, to June 30, 2011, Employment Service (ES) Registration issues were the leading cause of improper payments for the Louisiana UI program. ES errors represented 19.67 percent of the total improper payment errors noted. The 2011 IPIA Report disclosed that the ES error rate has been reduced to 9.01 percent.

This report is a public report and has been distributed to state officials. We appreciate LWC's assistance in the successful completion of our work.

Mission

LWC will provide the services that promote worker opportunity and business growth.

To fulfill its mission, LWC intends to:

- Fully implement Louisiana's comprehensive workforce development reform initiatives
- Provide quality workforce solutions through an integrated workforce development system
- Maintain the integrity of the Unemployment Insurance and Workers' Compensation systems through regulatory compliance
- Increase the state's economic competitiveness
- Help retain and expand existing businesses
- Increase workforce participation



LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

January 4, 2012

LOUISIANA WORKFORCE COMMISSION
STATE OF LOUISIANA
Baton Rouge, Louisiana

As required by Louisiana Revised Statute 24:513 and as a part of our audit of the State of Louisiana's financial statements for the fiscal year ended June 30, 2011, we conducted certain procedures at the Louisiana Workforce Commission (LWC) for the period from July 1, 2010, through June 30, 2011.

- Our auditors obtained and documented a basic understanding of the LWC's operations and system of internal controls, including internal controls over major federal award programs administered by LWC, through inquiry, observation, and review of its policies and procedures documentation, including a review of the related laws and regulations applicable to LWC.
- Our auditors performed analytical procedures consisting of a comparison of the most current and prior year financial activity using system-generated reports and obtained explanations from LWC management of any significant variances.
- Our auditors reviewed the status of the findings identified in the prior year report, dated February 10, 2011. The prior year findings relating to noncompliance with administrative rules for interstate unemployment compensation benefit payments, improper charging of administrative expenditures to federal awards, weaknesses in controls over remittance processing system, inadequate subrecipient monitoring of the Community Services Block Grant (CSBG), and failure to subgrant American Recovery and Reinvestment Act (ARRA) funds timely have been resolved by management. The prior year findings relating to inadequate monitoring of subrecipient findings for the Workforce Investment Act (WIA) Cluster, noncompliance with record retention policy, and inaccurate federal reporting for the WIA Cluster have not been resolved and are addressed again in this letter.
- Our auditors considered internal control over financial reporting; examined evidence supporting LWC's Unemployment Insurance (UI) benefit expenditures and tax revenue, UI cash in the U.S. Treasury, UI accounts receivable and accounts payable, and estimated liability reported for the Second Injury Board, including critical information systems and related user access controls; and tested

its compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements, as part of our audit of the state's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011, in accordance with *Government Auditing Standards*.

- Our auditors performed internal control and compliance testing in accordance with Office of Management and Budget (OMB) Circular A-133 on the following federal programs for the fiscal year ended June 30, 2011, as part of the Single Audit for the State of Louisiana:
 - Unemployment Insurance program (CFDA 17.225)
 - Workforce Investment Act Cluster (CFDA 17.258, 17.259, 17.260, and 17.278)
 - Vocational Rehabilitation Cluster (CFDA 84.126 and 84.390)
 - Community Services Block Grant Cluster (CFDA 93.569 and 93.710)

The Annual Fiscal Reports of LWC were not audited or reviewed by us, and, accordingly, we do not express an opinion on those reports. LWC's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

Based on the application of the procedures referred to previously, we have included all significant findings that are required to be reported by *Government Auditing Standards*. All of these findings will be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2011. Other than the findings noted on the following pages, we found no significant control deficiencies, noncompliance, or errors relating to our analytical procedures or our other audit procedures, including our procedures on federal programs, which should be communicated to management.

The following significant findings are included in this letter for management's consideration.

Inadequate Monitoring of Subrecipient Findings

For the third consecutive year, LWC did not adequately monitor internal subrecipient findings for WIA Cluster (CFDA 17.258, 17.259, 17.260, and 17.278) subrecipients. Our review of six LWC monitoring reports disclosed that four reports contained a total of 19 findings; however, management did not follow up on any of the 19 findings contained in the monitoring reports.

Our review of the Office of Workforce Development's (OWD) subrecipient monitoring procedures disclosed that the OWD Compliance Division conducts on-site reviews to monitor the activities of subrecipients and performs tests for compliance with laws, regulations, and the provisions of contracts or grant agreements. However, OWD did not

establish adequate procedures to ensure that findings reported by the OWD Compliance Division were resolved in a timely manner.

LWC has not placed sufficient emphasis on implementing internal controls to ensure that internal monitoring reports issued by the OWD Compliance Division are adequately resolved. OMB Circular A-133 *Compliance Supplement* requires pass-through entities to evaluate the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations. Failure to adequately monitor internal subrecipient findings impairs the LWC's ability to evaluate the impact of subrecipient activities on overall compliance with laws and regulations. Costs incurred by a subrecipient that have not been appropriately monitored could result in possible misuse of federal funds and are at an increased risk of being disallowed by the federal grantors.

LWC should ensure that procedures are in place to review and resolve internal subrecipient monitoring findings. Management should establish adequate procedures to timely identify and resolve any audit findings related to WIA funds disbursed to subrecipients. Management concurred with the finding and recommendations and provided a corrective action plan (see Appendix A, page 1).

Noncompliance With Record Retention Policy

For the fifth consecutive year, LWC did not retain some employer wage records for the UI program (CFDA 17.225). Employer wage records are the basis for determining whether applicants for UI benefits have earned sufficient wages in a base period to qualify for those benefits.

Our tests of 60 claimants' eligibility of UI benefits disclosed that employer wage records for 26 (43%) claimants were not retained by LWC. Benefits paid to the 26 claimants totaled \$249,142 and are considered questioned costs.

In addition, our tests disclosed that LWC did not retain employer wage records received on electronic media that supported tax payments to LWC for 11 (46%) of 24 electronic payments tested. These wage records will be needed in the future to verify wages for UI claimants.

LWC management represented that the records could not be located because errors may have occurred while uploading the records; the records may have been returned to the employers; and/or the records may not have been documented properly by the employer, which would limit LWC's ability to locate the records.

Failure to retain records to support employee wages and eligibility may result in improper benefit payments and/or questioned costs, and failure to maintain records of employer tax payments increases the risk that LWC's records may not accurately reflect employer UI tax payments.

The Code of Federal Regulations (29 CFR 97.42) requires grantees to maintain all financial and programmatic records, supporting documents, statistical records, and other records of grantees considered to be pertinent to program regulations or the grant agreement. In addition, Louisiana Revised Statute 44:411.A (1) requires that the head of each state agency submit a record retention schedule to the state archivist. LWC's current record retention schedule was approved by the state archivist on June 6, 2006, and it requires that employer tax records be maintained for 11 years.

LWC management should strengthen its controls to ensure that records are retained in accordance with state and federal laws and regulations. Management concurred with the finding and recommendation and provided a corrective action plan (see Appendix A, page 2).

Inaccurate Federal Reporting - Workforce Investment Act Cluster

For the second consecutive year, LWC did not submit an accurate report on the use of ARRA funds for the WIA Cluster (CFDA 17.258, 17.259, and 17.260), as required by federal regulations.

Our review of the ARRA Section 1512 report submitted for the quarter ending March 31, 2011, disclosed that the total funds disbursed to subrecipients incorrectly represent cumulative activity as of December 31, 2010. As a result, total subrecipient disbursements were understated by \$629,680 (2%).

Management did not place sufficient emphasis on the review process to ensure that preparation errors were properly identified and corrected. Good internal controls should include an adequate review process to ensure that the data presented in federal reports are accurately recorded, summarized, and reported. The lack of an adequate review may result in misstatements from errors and/or fraud to occur and remain undetected. LWC should strengthen its procedures to ensure that federal reports are properly prepared and reviewed. Management concurred with the finding. Management has implemented a corrective action plan that the U.S. Department of Labor (USDOL), Employment and Training Administration (ETA) determined to be adequate to resolve the finding (see Appendix A, page 3).

Inaccurate Federal Reporting - Community Services Block Grant

LWC did not submit an accurate report on the use of ARRA funds for the CSBG (CFDA 93.710), as required by federal regulations.

Our review of the ARRA Section 1512 reports submitted for the quarters ending September 30, 2010, and December 31, 2010, disclosed the following errors:

- For both quarters, LWC erroneously reported the amount of the ARRA grant award instead of the actual amount of ARRA funds received. As a result, the total amount of ARRA funds received was overstated \$4,153,395 (18%) for the quarter ending September 30, 2010, and \$1,413,434 (6%) for the quarter ending December 31, 2010.
- For the quarter ending December 31, 2010, LWC inaccurately reported cumulative activity as of September 30, 2010. As a result, the total ARRA expenditures were understated by \$2,739,961 (14%).

Management erroneously interpreted the reporting requirements and did not place sufficient emphasis on the review process to ensure that preparation errors were properly identified and corrected. Good internal controls should include an adequate review process to ensure that the data presented in federal reports are accurately recorded, summarized, and reported. The lack of an adequate review may result in misstatements from errors and/or fraud to occur and remain undetected. LWC should strengthen its procedures to ensure that federal reports are properly prepared and reviewed. Management concurred with the finding and recommendation and explained that the grant has been closed; therefore, no additional corrective actions are warranted (see Appendix A, page 4).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of LWC. The nature of the recommendations, their implementation costs, and their potential impact on the operations of LWC should be considered in reaching decisions on courses of action. The findings relating to LWC's compliance with applicable laws and regulations should be addressed immediately by management.

Additional Information

The IPIA of 2002 and subsequent amendments in the Improper Payments Elimination and Recovery Act (IPERA) of 2010 require federal agencies to report improper payments on certain federal programs to OMB. LWC's Benefit Accuracy Measurement (BAM) program is designed to determine the accuracy of paid and denied claims in three major UI programs: State UI, Unemployment Compensation for Federal Employees, and Unemployment Compensation for Ex-Service members. BAM investigators audit samples of these paid and denied claims to determine whether the claimant was properly paid or denied eligibility. The results of the BAM statistical samples are used to estimate accuracy rates for the populations of paid and denied claims. These accuracy rates are reported to the USDOL and the USDOL reports those improper payment rates to OMB as part of its IPIA reporting.

According to the IPIA Overpayment Rate Report as of December 27, 2011, for the three years from July 1, 2008, to June 30, 2011, Employment Service (ES) Registration issues were the leading cause of improper payments for the Louisiana UI program. The IPIA Overpayment Rate Report for the three years ending June 30, 2011, disclosed an error rate of 41.86 percent, with ES Registration issues comprising 19.67 percent of the total. LWC management represented that these errors occurred because BAM investigators (Quality Control) were unable to confirm that ES Registration had occurred for the claimants sampled. Management noted that the majority of

recent errors were due to the LWC unemployment system failing to recognize that claimants had completed LWC's ES registration. These errors are included in federal improper payment rates, but management represented that the majority of the errors are not true overpayments as the claimants may have registered and therefore would have been eligible for their benefits. During fiscal year 2011, LWC fully implemented the automated work registration process to reduce errors of this nature. The IPIA Overpayment Report for the period of July 1, 2010, to June 30, 2011, disclosed that the ES error rate has been reduced to 9.01 percent.

This letter is intended for the information and use of LWC and its management, others within the entity, and the Louisiana Legislature and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in blue ink that reads "Daryl G. Purpera". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Daryl G. Purpera, CPA, CFE
Legislative Auditor

RLW:CLP:BQD:THC:dl

LWC 2011

Appendix A

Management's Corrective Action Plans and Responses to the Findings and Recommendations



1001 North 23rd Street
Post Office Box 94094
Baton Rouge, LA 70804-9094

(O) 225-342-3001
(F) 225-342-3778
www.laworks.net

Bobby Jindal, Governor
Curt Eysink, Executive Director

Office of the Executive Director

December 1, 2010

Daryl G. Purpera, CPA, CFE
Legislative Auditor
1600 North Third Street
P.O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Purpera:

In response to the audit finding regarding inadequate monitoring of subrecipient findings, the agency concurs with the finding. LWC has not established a reliable system to ensure that internal monitoring reports issued by the OWD Compliance Division are adequately resolved.

LWC had developed a corrective action plan to provide for adequate follow-up. However, the LWC did not fully implement that plan. An audit resolution policy shall be implemented within 45 days of this response and existing and future monitoring findings will be addressed in a timely manner. The responsibility for implementation is now a single point of accountability, the OWD director.

For additional information contact Bryan Moore, OWD Director, at (225) 342-2679.

Sincerely,

A handwritten signature in black ink, appearing to read "C. Eysink".

Curt Eysink
Executive Director

CE:RER:mdp



1001 North 23rd Street

(O) 225-342-3001

Bobby Jindal, Governor

Post Office Box 94094

(F) 225-342-3778

Office of the Executive Director

December 9, 2011

Daryl G. Purpera, CPA, CFE
Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70801

Dear Mr. Purpera:

In response to the audit finding regarding noncompliance with record retention policy, the agency concurs with the finding. This finding involves records received via magnetic media disks. The LWC will cease to accept magnetic media disks during the first quarter of 2012.

All employers will be notified regarding the elimination of magnetic media in the fourth quarter wage and tax notices scheduled to be sent out later this month. Magnetic media will be accepted and processed by CPU staff for the fourth quarter of 2011. Starting in January of 2012, magnetic media disks will be returned to the employer or agent with a reminder that disks are no longer accepted. Instructions and technical assistance will be provided on new online wage reporting capabilities and filing requirements (i.e. accepted file formats).

For additional information contact Ashley Ford, 225.326.6970.

Sincerely,

Curt Eysink
Executive Director



1001 North 23rd Street
Post Office Box 94094
Baton Rouge, LA 70804-9094

(O) 225-342-3001
(F) 225-342-3778
www.laworks.net

Bobby Jindal, Governor
Curt Eysink, Executive Director

Office of the Executive Director

December 1, 2011

Daryl G. Purpera, CPA, CPE
Louisiana Legislative Auditor
1600 North Third Street
P.O. Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Mr. Purpera:

In response to the audit finding regarding inaccurate federal reporting, the agency concurs with the finding. The cumulative activity on the report for the quarter ending March 31, 2011 was not updated.

This same error occurred on the report for the quarter ending March 31, 2010. During the audit resolution process with the United States Department of Labor's Grant Officer for the finding regarding this error, LWC called the 2011 error to USDOL's attention. The following is an excerpt from the final determination issued by USDOL regarding the audit finding for the error in 2010.

"...it [LWC] recently discovered that a subsequent report was submitted with errors [for the quarter ending March 31, 2011] and neither the LWC nor the USDOL detected the error. Therefore, out of abundance of caution, LWC has added another layer of redundancy in the approval process to make every reasonable attempt to catch errors on the Final ARRA report. An additional staff person, other than the originator of the report and subsequent reviewer, will re-review the completed report extracted from the on-line federal reporting system during the Prime Recipient Review Period. ETA [USDOL Employment and Training Administration] staff reviewed the documentation submitted by the LWC and determined it was adequate to resolve the finding. The LWC has taken steps to strengthen its procedures to ensure that the Federal reports are properly prepared and reviewed."

The ARRA funds have been expended and the Final Report has been submitted without errors. Therefore, there are no further corrective actions the LWC can take regarding this finding.

For additional information, please contact Renee Ellender Roberie at (225) 342-3110.

Sincerely,

Curt Eysink
Executive Director

CE:RER:mdp



1001 North 23rd Street
Post Office Box 94094
Baton Rouge, LA 70804-9094

(O) 225-342-3001
(F) 225-342-3778
www.laworks.net

Bobby Jindal, Governor
Curt Eysink, Executive Director

Office of the Executive Director

December 9, 2011

Daryl G. Purpera, CPA, CFE
Legislative Auditor
1600 North Third Street
Baton, Rouge, LA 70804

Dear Mr. Purpera:

In response to the audit finding agency regarding inaccurate federal reporting of Community Services Block Grant (CSBG) American Recovery and Reinvestment Act (ARRA) funds, the agency concurs with the finding. Program management erroneously interpreted the federal reporting requirements and failed to discover and correct the error.

The grant was closed out on December 31, 2010, and the final reports cannot be amended. Therefore, there are no further corrective actions the LWC can take regarding this finding. For additional information contact Bryan Moore, OWD Director 225.342.2679.

Sincerely,

A handwritten signature in blue ink, appearing to read "C. Eysink".

Curt Eysink
Executive Director