

LOUISIANA WORKFORCE COMMISSION
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED DECEMBER 4, 2013

**LOUISIANA LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
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DARYL G. PURPERA, CPA, CFE

**FIRST ASSISTANT LEGISLATIVE AUDITOR
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PAUL E. PENDAS, CPA

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THOMAS H. COLE, CPA

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

November 20, 2013

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 and the Single Audit of the State of Louisiana for the fiscal year ended June 30, 2013, we conducted certain procedures at the Louisiana Workforce Commission (LWC) for the period from July 1, 2012, through June 30, 2013.

- Our auditors obtained and documented an 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, 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 LWC's annual fiscal reports and/or system-generated reports and obtained explanations from LWC management for any significant variances.
- Our auditors reviewed the status of the findings identified in the prior year management letter, dated January 10, 2013. The prior year findings relating to inadequate documentation for Unemployment Insurance (UI) benefit payments and inappropriate use of LaCarte purchasing card have been resolved by management. The prior year finding related to inadequate subrecipient monitoring for the Workforce Investment Act (WIA) Cluster program has not been fully resolved and is addressed again in this letter.
- Our auditors considered internal control over financial reporting and examined evidence supporting LWC's Unemployment Trust Fund cash in U.S. Treasury, receivables, due from federal government, due to federal government, deferred revenues, other current liabilities, net position, revenues, and expenses including critical information systems and related user access controls. We also tested LWC's 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, 2013, in accordance with *Government Auditing Standards*. In addition, we considered LWC's policies and procedures related to the collection of accounts receivable.

- Our auditors performed internal control and compliance testing in accordance with *Government Auditing Standards* and Office of Management and Budget (OMB) Circular A-133 on the following federal programs for the fiscal year ended June 30, 2013, 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)

In addition, our auditors performed a comparison of the WIA Cluster funding available and participation levels for fiscal years 2009 through 2013 for informational purposes.

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 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. These findings will be included in the State of Louisiana's Single Audit Report for the fiscal year ended June 30, 2013.

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

Inadequate Subrecipient Monitoring for Workforce Investment Act Cluster

For the second consecutive year, LWC did not complete desk reviews or on-site monitoring reviews for any of the 18 subrecipients of the WIA Cluster program. Failure to timely complete monitoring reviews impairs LWC's ability to ensure that program funds passed through to its subrecipients are spent in accordance with program regulations and increases the risk of improper payments that the state may have to repay to the federal government. WIA program expenditures totaled \$36 million during fiscal year 2013. Of this amount, approximately \$30.5 million, including \$419,201 in American Recovery and Reinvestment Act funds, was provided to subrecipients who were not adequately monitored.

Federal regulations require annual on-site monitoring reviews of all LWC subrecipients' compliance with federal requirements to include reviews of its subrecipients' fiscal and administrative functions. LWC management indicated that a significant reduction in federal funding for fiscal year 2012 and fiscal year 2013 did not allow them to continue

performing the on-site monitoring reviews. LWC requested a partial waiver of this requirement and, on December 12, 2012, received a response from the U.S. Department of Labor (USDOL) allowing LWC to operate a pilot effort in which LWC would conduct a desk review in lieu of on-site monitoring in two Local Workforce Investment Areas for one year. USDOL approved this pilot effort through June 30, 2014. However, LWC did not perform any desk reviews or on-site monitoring reviews during fiscal year 2013.

LWC management should ensure that desk reviews and on-site monitoring reviews are conducted as required by federal regulations. Management concurred with the finding and recommendation and provided a corrective action plan (see Appendix A, page 1).

Control Weaknesses over Information Technology

LWC did not maintain adequate controls over its information technology (IT) systems which processed revenues of approximately \$387 million and expenses of approximately \$340 million during the fiscal year ended June 30, 2013. The following control weaknesses existed:

- LWC did not consistently follow policies and procedures for changes to its systems and data, potentially allowing IT personnel to make system changes without appropriate oversight or documentation. Although LWC may not have enough IT staff to fully segregate duties, management should segregate duties to the extent possible. Management should also implement and enforce documentation policies for system changes and monitor those changes on a regular basis.
- LWC's Unemployment Insurance (UI) test system did not match the live system, restricting full testing of changes before those changes are placed in production. As budgets allow, management should upgrade the test system to match the live system.
- LWC's internal audit department did not perform any IT audits during fiscal year 2013, even though IT was identified as a high risk factor by the internal audit department. To the extent that the internal audit department does not currently have the skills to evaluate IT systems, management should provide additional IT training.
- LWC lacked an adequate Disaster Recovery Plan during fiscal year 2013. The existing plan did not ensure mainframe hardware was available or address all critical aspects of LWC's IT systems. Management should regularly update the plan based on results of testing, system changes, and new risks.

Our evaluation of LWC's IT controls was based on best practices, as defined by *Control Objectives for Information Technology*, a framework developed by the Information Systems Audit and Control Association. We recommend that management dedicate the

time and resources to resolve the control weaknesses previously identified. Management concurred with the finding and recommendations and provided a corrective action plan (see Appendix A, pages 2-3).

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.

The purpose of this letter is solely to describe the scope of our work at LWC and not to provide an opinion on the effectiveness of LWC's internal control over financial reporting or on compliance. Accordingly, this letter is not intended to be and should not be used for any other purpose. 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 name being the most prominent.

Daryl G. Purpera, CPA, CFE
Legislative Auditor

KH:CLP:BQD:THC:ch

LWC 2013

APPENDIX A

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



1001 North 23rd Street

(O) 225-342-3001

Bobby Jindal, Governor

Post Office Box 94094

(F) 225-342-3778

Office of the Executive Director

November 20, 2013

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

Dear Mr. Purpera:

In response to the audit finding regarding inadequate monitoring of sub-recipient findings, the agency concurs with the finding.

Recognizing the importance of monitoring sub-recipients, LWC on October 25, 2013, reinstated efforts to comply with the federal requirement to conduct annual onsite monitoring. Engagement letters requesting specific documents to begin the process were forwarded to nine of the 18 WIA sub-recipients to begin desk reviews. Onsite reviews will be conducted when a desk review reveals serious issues. These reviews will be completed within the current program year. It is important to note that this effort is being conducted by a single employee of the agency as the reduction in WIA funding has resulted in the reassignment of former monitors to other units within the agency.

Additionally, we are working closely with USDOL's Regional Office to determine viable solutions that will accelerate efforts to fully comply with this requirement.

Please contact Bryan Moore at 225.342.2679 or bmoore1@lwc.la.gov for additional information.

Sincerely,

Curt Eysink
Executive Director
Louisiana Workforce Commission



1001 North 23rd Street

(O) 225-342-3001

Bobby Jindal, Governor

Post Office Box 94094

(F) 225-342-3778

Office of the Executive Director

November 15, 2013

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

Dear Mr. Purpera:

In response to the audit finding regarding control weaknesses over information technology, the agency concurs with the finding. The following outlines our corrective action plan for the specifics of the finding:

- Inconsistent application of policies and procedures for changes to systems and data: LWC is developing key controls to enforce revised change and release management processes as well as provide the framework for auditing and compliance. The segregation of duty matrix will be clearly defined to ensure that all changes to production are completed by authorized and proper change agents. The expected completion date is January 31, 2014. The contact person for this corrective action plan is Michael Allison (225.342.3221 or mallison@lwc.la.gov).
- Test system did not match live system: LWC has taken action to resolve this finding. LWC's mainframe environment has, and will continue to have, matching production (live) and test environments. As of November 5, 2013, LWC finished implementing a three tier-open system application development environment. The three tiers consist of a development, test and production environment and all three environments are consistent. The contact person for this corrective action plan is Jane Boettcher (225.342.3219 or jboettcher@lwc.la.gov).
- Internal audit department did not perform IT audits: LWC will provide the necessary training to current internal audit staff or hire internal audit staff with the necessary skill set to conduct IT audits. The internal audit staff should have the necessary skills to conduct IT audits no later than May 2014. The contact person for this corrective action plan is Derek Williams (225.342.2911 or dwilliams@lwc.la.gov).
- Inadequate Disaster Recovery Plan during fiscal year 2013: LWC has procured and is in the process of implementing a back-up mainframe system at our dedicated disaster recovery facility. The target go-live date is December 24, 2013. LWC will update the current Enterprise Continuity/Disaster Recovery plan to include all system changes, functionality of the critical IT systems, test plans and results of the testing. Anticipated completion date is May 31, 2014. The

contact person for this corrective action plan is Jane Boettcher (225.342.3219 or jboettcher@lwc.la.gov).

Sincerely,

A handwritten signature in blue ink, appearing to read "C. Eysink". The signature is fluid and cursive, with a large initial "C" and a long, sweeping underline.

Curt Eysink
Executive Director
Louisiana Workforce Commission