



LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

December 28, 2011

Interim Communication Required for the
2011 Office of Management and Budget
Single Audit Internal Control Pilot Project - Phase III

Mr. Paul W. Rainwater, Commissioner
Division of Administration
Post Office Box 94095
Baton Rouge, Louisiana 70804-9095

Dear Commissioner Rainwater:

This communication is provided pursuant to the parameters of the 2011 Office of Management and Budget (OMB) internal control pilot project, phase III. Such project requires auditors of entities that volunteer for the project to issue, in writing, an early communication of significant deficiencies and material weaknesses in internal control over compliance for certain federal programs having expenditures of American Recovery and Reinvestment Act of 2009 (ARRA) funding at an interim date, before the completion of the compliance audit. Accordingly, this communication is based on our audit procedures performed through November 30, 2011, an interim period. Because we have not completed our compliance audit, additional significant deficiencies and material weaknesses may be identified and communicated in our final report on compliance and internal control over compliance issued to meet the reporting requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

In planning and performing our audit through November 30, 2011, of Supplemental Nutrition Assistance Program Cluster (SNAP, CFDA 10.551/10.561); Unemployment Insurance (UI, CFDA 17.225); Title I, Part A Cluster (CFDA 84.010/84.389); and Community Services Block Grants Cluster (CSBG, CFDA 93.569/93.710), we are considering the State of Louisiana's compliance with activities allowed or unallowed, allowable costs, cash management, eligibility, reporting, and special tests and provisions as described in the OMB Circular A-133 *Compliance Supplement* for the year ended June 30, 2011. We are also considering the State of Louisiana's internal control over compliance with the requirements previously described that could have a direct and material effect on SNAP, UI, Title I, Part A Cluster, and CSBG programs to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

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Accordingly, we do not express an opinion on the effectiveness of the State of Louisiana's internal control over compliance.

Our consideration of internal control over compliance is for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the State of Louisiana's internal control that might be significant deficiencies or material weaknesses as defined in the following paragraph. However, as discussed subsequently, based on the audit procedures performed through November 30, 2011, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency in internal control over compliance to be a material weakness.

**LOUISIANA WORKFORCE COMMISSION
CFDA 17.225 - UNEMPLOYMENT INSURANCE**

Noncompliance With Record Retention Policy

Condition:

For the fifth consecutive year, the Louisiana Workforce Commission (LWC) did not retain employer wage records for the Unemployment Insurance (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.

Criteria:

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.

Cause:

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.

Effect:

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.

Recommendation:

LWC management should strengthen its controls to ensure that records are retained in accordance with state and federal laws and regulations.

Management's response and corrective action plan:

Management concurred with the finding and recommendation and provided a corrective action plan (see Appendix A, page 1).

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the following deficiency in internal control over compliance to be a significant deficiency.

**LOUISIANA WORKFORCE COMMISSION
CFDA 93.569/93.710 - COMMUNITY SERVICES
BLOCK GRANT CLUSTER**

Inaccurate Federal Reporting

Condition:

LWC did not submit an accurate report on the use of American Recovery and Reinvestment Act (ARRA) funds for the Community Services Block Grant (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%).

Criteria:

The *Federal Register*, Volume 74, Number 61 and standard data elements for reports under Section 1512 of the ARRA of 2009, Public Law 111-5 require a quarterly report on the use of Recovery Act funds and further require recipients to report the total amount of ARRA funds received and the total federal amount of ARRA expenditures.

Good internal controls should include an adequate review process to ensure that the data presented in federal reports are accurately recorded, summarized, and reported.

Cause:

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.

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Effect:

The lack of an adequate review may result in misstatements from errors and/or fraud to occur and remain undetected.

Recommendation:

LWC should strengthen its procedures to ensure that federal reports are properly prepared and reviewed.

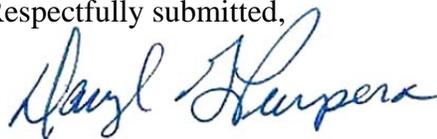
Management's response and corrective action plan:

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 2).

The State of Louisiana's responses to our findings are attached in Appendix A. We did not audit the State of Louisiana's responses and, accordingly, we express no opinion on them.

This interim communication is intended solely for the information and use of management, others within the entity, the Louisiana Legislature, federal awarding agencies, and pass-through entities 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 written in a cursive style.

Daryl G. Purpera, CPA, CFE
Legislative Auditor

RR:BQD:THC:md

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

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,

A handwritten signature in blue ink, appearing to read "C. Eysink", written in a cursive style.

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 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