

LOUISIANA WORKFORCE COMMISSION
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED FEBRUARY 20, 2013

**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

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This document is produced by the Louisiana 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 \$4.27. 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 website at www.la.la.gov. When contacting the office, you may refer to Agency ID No. 3352 or Report ID No. 80120039 for additional information.

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EXECUTIVE SUMMARY

We conducted certain procedures at the Louisiana Workforce Commission (LWC) as part of the audit of the state's financial statements and to evaluate its accountability over public funds and compliance with federal program requirements for the fiscal year ended June 30, 2012.

We considered LWC's controls, compliance with laws, and financial reporting relating to Unemployment Insurance (UI) benefit expenditures and tax revenues, UI cash in the U.S. Treasury, and UI accounts receivable and accounts payable. We considered controls and compliance related to the UI program and the Workforce Investment Act (WIA) Cluster of programs. We also evaluated the Unemployment Trust Fund (UTF) balances and available WIA funding and participation levels for fiscal years 2008 through 2012 for informational purposes. Our procedures disclosed the following:

- LWC did not complete on-site monitoring reviews for any of the 18 subrecipients of the WIA Cluster program, which impairs its ability to ensure program funds are spent in accordance with program regulations and could result in undetected improper payments that the state may need to repay to the federal government. LWC management indicated this occurred because of a decrease in funding for statewide activities. A review of WIA program funding and participation levels over the last five years disclosed that statewide activities funds available to LWC significantly decreased for fiscal year 2012 while program participation continues to increase.
- LWC was unable to provide original source documentation for the employer wage records or other supporting documentation to support four of 45 (9%) UI benefit payments, which increases the risk of improper claim payments. Benefits paid to the four claimants totaled \$29,004.
- An internal investigation conducted by LWC disclosed that an employee made personal purchases totaling \$2,576 with a LaCarte purchasing card (p-card) which were charged to a federal WIA Cluster program. While the employee's actions violated laws and regulations, LWC recovered the funds from the employee and reversed the federal charges.
- A comparison of the Louisiana and national average UTF balances over the last five fiscal years indicated a declining balance. Louisiana's UTF balance has decreased 46% over the last five years, but remains more than double the national average and is the fifth largest UTF in the nation.

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.



LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

January 10, 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, 2012, we conducted certain procedures at the Louisiana Workforce Commission (LWC) for the period from July 1, 2011, through June 30, 2012.

- 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 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 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 report, dated January 4, 2012. The prior year finding relating to inaccurate federal reporting for the Workforce Investment Act (WIA) Cluster has been resolved by management. The prior year finding relating to inaccurate federal reporting for the Community Services Block Grant programs was resolved as there was no corrective action to be implemented due to the final report being submitted and accepted by the federal agency. The prior year findings relating to inadequate subrecipient monitoring for the WIA program and un-retained employer wage records for the Unemployment Insurance (UI) program have not been fully resolved and are addressed again in this letter.
- Our auditors considered internal control over financial reporting; examined evidence supporting LWC's UI benefit expenditures and tax revenue, UI cash in U.S. Treasury, and UI accounts receivable and accounts payable, 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, 2012, in accordance with *Government Auditing Standards*. In addition, our auditor performed a comparison of the Louisiana and national average Unemployment Trust Fund balances for fiscal years 2008 through 2012 for informational purposes.

- 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, 2012, as part of the Single Audit for the State of Louisiana:
 - Unemployment Insurance program (CFDA 17.225)
 - Workforce Investment Act (WIA) 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 2008 through 2012 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 an opinion.

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, 2012.

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

**Inadequate Subrecipient Monitoring for
Workforce Investment Act Cluster**

As of November 30, 2012, the LWC had not completed on-site monitoring reviews for any of the 18 subrecipients of the Workforce Investment Act (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 \$38.6 million during fiscal year 2012, which included funding from the American Recovery and Reinvestment Act of 2009 (ARRA). Of this amount, approximately \$33.4 million, including \$2 million in ARRA program funds, was provided to subrecipients who were not adequately monitored.

In addition, federal regulations require annual on-site monitoring reviews of all LWC subrecipients' compliance with the federal uniform administrative requirements and include reviews of its subrecipients' fiscal and administrative functions. LWC management indicated that a significant reduction in the statewide activities funding for fiscal year 2012 did not allow them to continue performing the on-site monitoring reviews. LWC requested a partial waiver of this requirement (see "Additional Comment" below).

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

Additional Comment: On December 12, 2012, LWC received a response from the U.S. Department of Labor (USDOL) on the request for a partial waiver of monitoring requirements referenced above. LWC proposed to conduct nine on-site visits and nine desk reviews annually for the 18 Local Workforce Investment Areas (LWIAs) in lieu of the requirement to perform annual on-site monitoring reviews for each of the 18 LWIAs. In its response, USDOL indicated that the waiver request was partially granted, allowing LWC to operate a pilot effort in which LWC would conduct a desk review in lieu of on-site monitoring in two LWIAs for a period of one year. USDOL approved this pilot effort through June 30, 2014.

Inadequate Documentation for Unemployment Insurance Benefit Payments

LWC was unable to provide original source documentation for the employer wage records or other supporting documentation to support four of 45 (9%) Unemployment Insurance (UI) benefit payments selected for testing, which increases the risk of improper claim payments that could be disallowed by the federal government. Benefits paid to the four claimants totaled \$29,004 and are considered questioned costs.

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. These claim payments were made based on wage data in the wage records mainframe system for periods before January 2012 that were submitted via magnetic media. Because the wage record was not retained, we could not verify the accuracy of the information in the system.

Management represented that the records could not be located because (1) errors may have occurred while uploading the records; (2) the records may have been returned to the employers; and/or (3) the records may not have been documented properly by the employer, which would limit LWC's ability to locate the records. Starting January 2012, LWC discontinued the use of magnetic media and required employers to file wage records via paper or electronically through the Employer Wage Portal.

LWC should consider the impact of past un-retained wage records on current claim payments and consult with the USDOL on adequate resolution of this issue going forward. Management partially concurred with the finding and provided a corrective action plan (see Appendix A, page A.2).

Inappropriate Use of LaCarte Purchasing Card

An internal investigation conducted by LWC disclosed that an employee made personal purchases totaling \$2,576 with a LaCarte purchasing card (p-card) which were charged to a federal WIA Cluster program. While the employee's actions resulted in noncompliance with applicable laws and regulations, LWC recovered the funds from the employee and reversed the federal charges, resulting in no questioned costs. The employee resigned.

Federal regulations require that costs charged to a federal program be authorized or not prohibited under state and local laws or regulations. The state's LaCarte purchasing card policy, as well as LWC's p-card policy manual, requires the p-card to be used for official state business only and not for personal use. Although the employee involved did not adhere to agency policies, state laws, and federal requirements, LWC's review of its employee's p-card transactions identified the unauthorized purchases.

Management should continue to investigate the possibility of additional personal use of the p-card and emphasize adherence with applicable laws and regulations. Management concurred with the finding and recommendation (see Appendix A, page A.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.

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,



Daryl G. Purpera, CPA, CFE
Legislative Auditor

CST:CLP:BQD:THC:ch

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 19, 2012

Mr. Daryl Purpera, CPA
Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

RE: Inadequate Monitoring for Workforce Investment Act Cluster

Dear Mr. Purpera:

The Louisiana Workforce Commission (LWC) concurs with the finding regarding inadequate subrecipient monitoring.

Although federal funding has been significantly reduced, we recognize the need to continue having a monitoring function that provides adequate oversight of federal expenditures. In order to respond to this finding, LWC asked the United States Department of Labor (USDOL) for a waiver of 20 CFR 667.410(b)(2)(i) that requires the State to monitor local workforce investment areas on site on an annual basis. Under this waiver, LWC proposed to continue to monitor annually. However, on-site monitoring would be conducted every other year and a desk review would be conducted in the alternate years.

USDOL partially granted the waiver and authorized the LWC to operate a pilot effort in two local areas through June 30, 2014. Under this waiver, the federal Employment and Training Administration will work with the LWC to define, implement and assess the impact of a pilot program in which LWC will conduct desk reviews in lieu of on-site monitoring for two Local Workforce Investment Areas for a period of one year.

LWC will work closely with USDOL to implement this pilot and create a statewide monitoring initiative that provides sufficient oversight of all WIA programs with the limited resources available. If any additional documentation or explanation is needed, feel free to contact Bryan Moore at 225-342-2679.

Sincerely,

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

Curt Eysink
Executive Director

CC: Bryan Moore



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

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Bobby Jindal, Governor
Curt Eysink, Executive Director

Office of the Executive Director

December 19, 2012

Mr. Daryl Purpera, CPA
Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

RE: Inadequate Documentation for Unemployment Benefit Payments

Dear Mr. Purpera:

The Louisiana Workforce Commission partially concurs with the finding regarding noncompliance with record retention policy.

Management acquired the original wage records from employers for 41 of the 45 claimants in question. The results confirmed that all claimants were eligible for benefits and were supported by valid employee wages during the base period. This exercise demonstrates that the previous practice of not retaining source documents had no effect on the agency's ability to accurately determine eligibility for UI benefits.

We acknowledged the need to retain certain records for auditing purposes and discontinued the use of Magnetic Media (tapes) for reporting wage records. As of January 2012, employers must now file quarterly reports via a paper form or electronically through our Employer Wage Portal. All employers will be required to file wage records electronically by January 2014. For every electronic submission filed through the portal, an image of the wage records is created, stored and is retrievable in our imaging system (UI Connect) as well as within the portal. In addition, any reports received in paper form are also scanned / archived in our imaging system and are retrievable. This includes all quarterly reports containing payments from employers.

If any additional documentation or explanation is needed, please do not hesitate to contact Ashley Ford (aford@lwc.la.gov or 225.326.6970).

Sincerely,

Curt Eysink
Executive Director

CC: Dayne Freeman

Office of the Executive Director

December 19, 2012

Mr. Daryl Purpera, CPA
Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

RE: Inappropriate Use of LaCarte Purchasing Card

Dear Mr. Purpera:

The Louisiana Workforce Commission concurs with the finding regarding the inappropriate use of a LaCarte Purchasing Card (p-card).

LWC identified the inappropriate use of the p-card during a routine audit conducted by purchasing staff. As stated in the finding, LWC recovered the funds from the employee and reversed the federal charges. LWC also conducted a thorough review of all records to determine if additional instances of personal use of the card existed and did not find any other instances of personal use. All p-card holders and supervisors have since received additional training that emphasized adherence with applicable laws, regulations and policies.

If any additional documentation or explanation is needed, please do not hesitate to contact Renée Ellender Roberie (rellender-roberie@lwc.la.gov or 225.342.3110).

Sincerely,



Curt Eysink
Executive Director

CC: Renée Ellender Roberie