

DEPARTMENT OF LABOR
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED MAY 27, 2009

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

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LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

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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. Five copies of this public document were produced at an approximate cost of \$16.95. 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. 80080086 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 Wayne “Skip” Irwin, Director of Administration, at 225-339-3800.



LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

April 21, 2009

DEPARTMENT OF LABOR
STATE OF LOUISIANA
Baton Rouge, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 2008, we considered the Department of Labor's internal control over financial reporting and over compliance with requirements that could have a direct and material effect on a major federal program; we examined evidence supporting certain accounts and balances material to the State of Louisiana's financial statements; and we tested the department's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements and major federal programs as required by *Government Auditing Standards* and U.S. Office of Management and Budget Circular A-133.

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

In our prior management letter on the Department of Labor for the year ended June 30, 2007, we reported findings relating to inaccurate and incomplete annual fiscal report of the Unemployment Insurance (UI) Trust Fund, inadequate monitoring of Workforce Investment Act subrecipients, inadequate monitoring of Temporary Assistance for Needy Families subrecipients, unlocated movable property, overdraw of UI extended benefits, and noncompliance with UI's record retention policy. The findings on the UI annual fiscal report and UI extended benefits have been resolved. All other findings have not been resolved and are addressed again in this letter.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* have also been included in the State of Louisiana's Single Audit Report for the year ended June 30, 2008.

**Noncompliance With Administrative Rules for
Interstate Unemployment Compensation Benefit Payments**

The Department of Labor (DOL) paid \$21,211,069 in Unemployment Insurance (UI, CFDA 17.225) benefits to other states during fiscal year 2008 without recouping the cost of these claims from Louisiana employers, which we consider to be questioned costs. In

addition, DOL has not implemented procedures to determine if claimants filing in other states are working in Louisiana at the time they file the claim and during the duration of the claim.

The State of Louisiana participates in the Interstate Benefit Payment Plan, which is an interstate agreement that allows claimants to file for unemployment in a different state from where wages are primarily earned. The states where wages are earned are charged for the unemployment paid by the filing state. Administrative Rule 341 of the Louisiana Employment Security Law provides the methods by which DOL is to recoup the cost of interstate claims from employers, requires notification to the employers of the potential liability, and allows 10 days for the employer to protest the charges. Also, good internal controls would ensure that DOL notify employers of interstate claims and verify work status of claimants to reduce the risk of payments on fraudulent claims.

Of 30 UI interstate claimants reviewed, we found the following:

- Thirty (100%) of the claims had no notification to the employer of the claim in efforts to recoup the cost of benefits paid. DOL personnel verified that there are no procedures in place to notify the employers of these claims and recoup the costs of claims paid.
- Fifteen (50%) of the claimants appear to have been employed while receiving unemployment benefits totaling \$36,214, which violates program eligibility requirements and is an indication of potentially fraudulent claims. Wage records for 10 of the 15 claimants indicated the claimants received wages from their employer continuously over several quarters, and wage records for the remaining five indicated the claimants received wages for the same period for which they received unemployment benefits.

DOL has not placed sufficient emphasis on implementing controls to ensure compliance with Administrative Rule 341 or to ensure the validity of the claims being paid. Failure to notify employers of the UI claims filed increases the risk that benefits will be incorrectly paid to individuals who are employed, which results in questioned costs. In addition, the failure to recoup the cost of interstate claims from employers results in the loss of state funds.

DOL should establish procedures to ensure that interstate benefit claims are charged to employers and employers are timely notified of any claim against them. Additional procedures should include a review of interstate bills to ensure that claimants are not working in Louisiana at the time UI claims are paid. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 1-2).

Inadequate Subrecipient Monitoring for Workforce Investment Act Cluster

For the fifth consecutive year, DOL did not adequately monitor all subrecipients of the Workforce Investment Act (WIA) Cluster (CFDA 17.258, 17.259, and 17.260) for compliance with federal laws and regulations.

The Code of Federal Regulations [20 CFR 667.410(b)(2)] requires that DOL's monitoring system provides for annual on-site reviews of its subrecipients' compliance with the federal uniform administrative requirements and include reviews of its subrecipients' fiscal and administrative functions. DOL has developed a subrecipient monitoring log to track monitoring reviews to ensure they are performed annually and a subrecipient monitoring guide to be used by staff performing the reviews. Monitoring reviews consist of program reviews for eligibility and financial reviews for uniform administrative requirements and requirements in the National Emergencies Grant (NEG) agreement.

Our review of the monitoring log disclosed that for 10 (56%) of the 18 subrecipients, DOL did not monitor for the federal uniform administrative requirements or for requirements in the NEG agreement, which includes monitoring job worksites for those participants who have temporary disaster-related employment. In addition, DOL did not reconcile subrecipients' expenditure reports with its accounting records to ensure that the subrecipients only requested WIA funds after the related expenditures had been incurred.

Our review of nine subrecipient monitoring review reports (six program reviews and three financial reviews) disclosed the following:

- Three (33%) of the monitoring reports were issued from four to five months after the work was completed, which may be insufficient to resolve findings timely.
- Three (33%) of the monitoring reviews were started between four and 11 months after the grant period ended. Monitoring reviews should be conducted as close as reasonably possible to the end of the award period so that deficiencies can be addressed timely.

Failure to adequately monitor subrecipients impairs DOL'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 are at an increased risk of being disallowed by the federal grantors.

DOL management should adequately monitor all subrecipients of the WIA cluster for compliance with federal laws and regulations. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 3).

Ineffective Internal Audit Function

DOL does not have an effective internal audit function to examine, evaluate, and report on its internal controls, including information systems, and to evaluate compliance with the policies and procedures that comprise controls. An effective internal audit function should provide management with assurances that the department's assets are properly safeguarded; internal controls are established and operating in accordance with applicable laws and regulations; and internal controls are sufficient to prevent or detect errors and/or fraud in a timely manner.

The internal audit section issued only two internal audit reports during the year and the director of internal audit was unable to provide adequate supporting work papers for one of the reports. Beginning in April 2008, DOL's internal audit staff was assigned to subrecipient monitoring reviews instead of its primary responsibility of conducting internal audits. Therefore, the number and scope of the internal audits was not sufficient to constitute an effective internal audit function. Considering the size of the department's reported assets (\$1,630,103,883) and revenues (\$318,622,203), an effective internal audit function is needed to ensure that the department's assets are safeguarded and that management's policies and procedures are uniformly applied.

Management should take the necessary steps to ensure that an effective internal audit function is established and maintained to (1) examine, evaluate, and report on its internal controls, including information systems; (2) safeguard the department's assets; (3) ensure internal controls are established and operating in accordance with applicable laws and regulations; and (4) ensure internal controls are sufficient to prevent or detect errors and/or fraud in a timely manner. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 4).

Noncompliance With Record Retention Policy

For the second consecutive year, DOL did not retain 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. Louisiana Revised Statute (R.S.) 44:411.A(1) requires that the head of each state agency submit a record retention schedule to the state archivist. DOL'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. In addition, Office of Management and Budget (OMB) Circular A-133, Subpart C, Section 300(b) requires states to establish internal control over federally funded programs to provide reasonable assurance that the states are administering federal awards in compliance with grant provisions, and OMB Circular A-87 requires that costs be adequately documented.

Our tests of 30 claimants' eligibility of UI benefits disclosed that employer wage records for 10 (33%) claimants were not retained by DOL. Employers provided these records to DOL on electronic media, and DOL returned the records to the employers after the

information was input into DOL's UI benefit master files. DOL was able to provide support for payments made to eight of the claimants by contacting individual employers and requesting resubmission of the wage records; however, benefits paid to the remaining two claimants total \$4,103 and are considered questioned costs.

Failure to retain records to support employee wages and eligibility may result in improper benefit payments and/or questioned costs. DOL 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 outlined a plan of corrective action (see Appendix A, page 5).

Inadequate Subrecipient Monitoring for the Temporary Assistance for Needy Families Program

For the fourth consecutive year, DOL has not performed adequate monitoring reviews of its subrecipients of the Strategies to Empower People (STEP) Program, a sub-program of the Temporary Assistance for Needy Families Program (TANF, CFDA 93.558). In accordance with OMB Circular A-133 and the Memorandum of Understanding (MOU) between DOL and the Department of Social Services (DSS), DOL is required to conduct annual on-site reviews of each of its subrecipients that carry out the STEP Program activities. These reviews should include all applicable OMB Circular A-133 compliance requirements and all program and administrative requirements of the MOU.

Our tests of the 17 STEP Program subrecipients disclosed that all 17 (100%) subrecipients tested had not been monitored as of September 30, 2008, as follows:

- Nine (53%) subrecipients had not been monitored within the last 15 to 24 months.
- Eight (47%) subrecipients had not been monitored within the last 30 to 49 months.

Management has not ensured that its staff is adequately performing subrecipient reviews. Failure to adequately monitor STEP subrecipients results in the department's noncompliance with federal regulations and with the MOU and increases the risk that funds may not be expended in accordance with program requirements.

DOL management should ensure that subrecipient monitoring procedures for the STEP Program are done annually and include all applicable requirements of OMB Circular A-133 and the MOU between DOL and DSS. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 6).

Lack of Controls Over Movable Property

For the fourth consecutive year, DOL identified significant unlocated movable property as a result of its physical inventory procedures. For the fiscal year ended June 30, 2008, unlocated movable property items totaled \$640,456. In its certifications of property

inventory, which were submitted to the Louisiana Property Assistance Agency (LPAA) from March 14, 2008, through June 20, 2008, DOL reported that it administered \$13,194,818 in total movable property.

R.S. 39:325 requires entities to conduct an annual property inventory of movable property and report any unlocated movable property to LPAA. Louisiana Administrative Code 34.VII.313 states, in part, that efforts must be made to locate all movable property for which there are no explanations available for their disappearance. In addition, good internal control dictates that assets are properly monitored to safeguard against loss or theft and that thorough periodic physical counts of property inventory be conducted.

Of the amount reported as unlocated, items totaling \$405,892 were removed from DOL's property records because they had not been located for three consecutive years. Also, the amount of unlocated computers and computer-related equipment totaled \$523,385 (82%) of the total unlocated property reported.

Failure to establish adequate controls over movable property increases the risk of loss arising from unauthorized use of property and subjects DOL to noncompliance with state laws and regulations. Because of the nature of the services provided by DOL, the risk exists that sensitive information could be improperly recovered from the missing computers and/or computer-related equipment.

DOL management should strengthen its procedures for conducting the physical inventory of movable property and devote additional efforts for locating movable property reported as unlocated in previous years. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 7).

Inadequate Internal Controls Over Unemployment Insurance System Access

DOL did not follow established policies to ensure that user access to the UI Program (CFDA 17.225) computer system was deleted or changed timely. The UI system processes and tracks employee wages and claim benefits. Good internal control would provide that user IDs are deleted timely and employees are permitted business-need-only access to data files and functions necessary to perform their duties. The DOL *Internal Security Handbook* includes written procedures for the timely issuance and deletion of user IDs.

Our review of 18 UI user IDs for employees with data entry access disclosed the following:

- Four (22%) users had access to multiple security groups with no legitimate business need. These employees had changed positions at DOL and their former access was not terminated.
- One (6%) user was not a DOL employee. The user ID number was issued to an employee of a contractor who has not been under contract since

2005. Even though the user ID number has not been used since 2005, the department should have terminated the access at that time.

Employees responsible for user access controls did not comply with the agency policy that requires timely notification of termination and/or transfer, review of user IDs, and timely deletion of user IDs for terminated and/or transferred employees and contractors. Failure to promptly delete unnecessary or unused user IDs or access increases the risk that unauthorized access to the UI system could occur and that confidential data including information such as social security numbers could be compromised.

DOL management should follow established policies to ensure that user access to the UI system is deleted or changed timely. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 8).

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

This letter is intended solely for the information and use of the department 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,



Steve J. Theriot, CPA
Legislative Auditor

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DOL08

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



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Bobby Jindal, Governor
Tim Barfield, Executive Director

Office of the Executive Director

March 10, 2009

Mr. Steve J. Theriot
Legislative Auditor
Office of Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

This is in response to your correspondence of February 23, 2009, concerning audit findings from the Single Audit of Louisiana.

Non-compliance With Administrative Rules for Interstate Unemployment Compensation Benefit Payments:

Finding #1: There is no method in place to notify employers of potential claims liability when an individual files in a different state from where wages were primarily earned.

We concur with this finding and we are currently programming the needed changes which will be in effect by July 15, 2009.

Finding #2: Claimants appear to have been employed while receiving unemployment benefits, violating program eligibility requirements which may be an indication of potentially fraudulent claims.

We concur that in a portion of the UI Interstate claims reviewed claimants appear to have been employed while receiving benefits.

We are submitting claims records to the U. S. Department of Labor, Office of Inspector General, (USDOL/OIG) for further review. We will continue to work closely with the USDOL/OIG to identify overpayments and fraudulent activity on these claims. Every reasonable effort will be made to prosecute and recover funds from claimants found to be in violation of state or federal laws. All recovered funds will be returned to the UI Trust Fund.

Mr. Steve J. Theriot

-2-

March 10, 2009

We are utilizing the current control in place, the National New Hire Directory, to identify individuals who are working in Louisiana or another state and drawing benefits in Louisiana. This system is based on monthly reports from employers identifying all new hires.

We are also working with the USDOL Regional Office to ensure that the Interstate billing for FY 2008 is correct based upon the current guidelines of the Combined Wage Interstate Benefits Program.

If any additional information is needed, please contact Marianne Sullivan, Office of Unemployment Insurance Administration Director at (225) 342-7103.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tim Barfield', written in a cursive style.

Tim Barfield
Executive Director

MS:ae



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Bobby Jindal, Governor
Tim Barfield, Executive Director

Office of the Chief Financial Officer

January 16, 2008

Mr. Steve J. Theriot, CPA
Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

RE: Legislative Audit Finding – Inadequate Subrecipient Monitoring
for Workforce Investment Act (WIA) Cluster

Dear Mr. Theriot:

Management of the Louisiana Workforce Commission concurs with the finding as presented.

The Commission has created a Compliance Division within the Office of Workforce Development with its primary responsibility to perform sub-recipient monitoring for all federal programs administered by the Local Workforce Investment Areas.

Immediate steps have also been taken to change the manner in which sub-recipient monitoring is accomplished. The monitoring process has been streamlined and redesigned into a more comprehensive monitoring process that allows a simultaneous review of all federally funded programs administered by the sub-recipient. The implementation of this methodology will ensure the timeliness of compliance monitoring for all federally funded programs administered by each sub-recipient.

All WIA Cluster sub-recipient monitoring that was not completed for PY 07/08 have been included in the PY 08/09 cycle and will be completed by June 30, 2009.

Sincerely,

Bennett J. Soulier
Chief Financial Officer

cc: Tim Barfield, Executive Director



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Bobby Jindal, Governor
Tim Barfield, Executive Director

Office of the Chief Financial Officer

January 16, 2009

Mr. Steve J. Theriot, CPA
Legislative Auditor
1600 North Third Street
PO Box 94397
Baton Rouge, La. 70804-9397

Re: Legislative Audit Finding – Ineffective Internal Audit Function.

Dear Mr. Theriot:

Management of the Louisiana Workforce Commission concurs with the finding as presented.

An accounting firm was hired to conduct a quality assessment (QA) of the internal audit unit. The principle objectives of the QA were to assess IA department's conformity to the IIA's Standards, evaluate the IA department's effectiveness in carrying out its mission and identify opportunities to enhance its management and work processes. The findings and recommendations provided by that report will help address noted deficiencies.

The unit has also been reorganized to allow greater focus and attention to the formal internal audit function by transferring the responsibility for federal program compliance monitoring to a new division within the agency. Thus far, this transfer of responsibility has resulted in the recent completion of five (5) internal audits, six (6) new audits and three (3) follow up audits in process.

A new Risk Assessment for FY 2009 will be completed by January 31, 2009. That assessment will be the basis for the Audit Plan for the remainder of Fiscal Year 2009.

Sincerely,

Bennett J. Soulier
Chief Financial Officer

cc: Tim Barfield, Executive Director



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January 16, 2009

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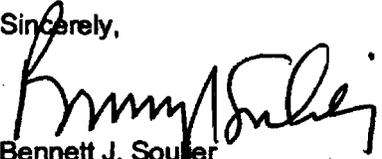
Re: Legislative Audit Finding - Noncompliance with Record Retention Policy.

Dear Mr. Theriot:

Management of the Louisiana Workforce Commission concurs with the finding as presented.

The Commission acknowledges that in some instances wage records were mistakenly returned to employers with no record retained on site. Immediate steps have been taken to retain a copy of all employer wage records. All files are now maintained on site and are organized in a manner that will allow immediate access. This practice will be continued until the new imaging system and comprehensive UI redesign project is operational. Once implemented, all electronic source documents will be automatically stored and will be retrievable from the imaging system.

Sincerely,



Bennett J. Souper
Chief Financial Officer

cc: Tim Barfield, Executive Director



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Bobby Jindal, Governor
Tim Barfield, Executive Director

Office of the Chief Financial Officer

January 16, 2008

Mr. Steve J. Theriot, CPA
Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

RE: Legislative Audit Finding – Inadequate Subrecipient Monitoring for
the Temporary Assistance for Needy Families Program

Dear Mr. Theriot:

Management of the Louisiana Workforce Commission concurs with the finding as presented.

The Commission has created a Compliance Division within the Office of Workforce Development with its primary responsibility to perform sub-recipient monitoring for all federal programs administered by the Local Workforce Investment Areas.

Immediate steps have also been taken to change the manner in which sub-recipient monitoring is accomplished. The monitoring process has been streamlined and redesigned into a more comprehensive monitoring process that allows a simultaneous review of all federally funded programs administered by the sub-recipient. The implementation of this methodology will ensure the timeliness of compliance monitoring for all federally funded programs administered by each sub recipient.

All TANF sub-recipients monitoring will be completed by June 30, 2009.

Sincerely,


Bennett J. Soulier
Chief Financial Officer

cc: Tim Barfield, Executive Director



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Office of the Chief Financial Officer

January 16, 2009

Mr. Steve J. Theriot, CPA
Legislative Auditor
1600 North Third Street
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Baton Rouge, La. 70804-9397

Re: Legislative Audit Finding – Lack of Controls over Movable Property.

Dear Mr. Theriot:

Management of the Louisiana Workforce Commission concurs with this finding as presented.

All policies and procedures that control movable property have been completely revised and proper internal controls put into practice to track and locate movable property. Employees were assigned responsibility for property inventory and attended mandatory training sessions to insure that policies were adequately understood and implemented.

These corrective measures have proven to be very successful. The property inventory conducted for the last two years show a significant reduction in the amount of un-located movable property.

LWC management is committed to the protection of the agency's moveable property and will continue to emphasize compliance with LPAA guidelines as set forth in state law.

Sincerely,


Bennett J. Soulier
Chief Financial Officer

cc: Tim Barfield, Executive Director



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January 16, 2009

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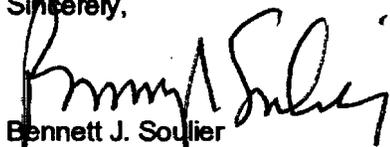
Re: Legislative Audit Finding – Inadequate Internal Controls Over
Unemployment Insurance (UI) System Access.

Dear Mr. Theriot:

Management of the Louisiana Workforce Commission concurs with the finding and will comply with established LWC policies to ensure that user access to the UI system is deleted or changed timely.

The Commission has security policies in place to regulate access to UI data but acknowledges that the policy was not follow in the instances noted in the finding. Management will immediately reissue the security policy to remind employees of its content and provide training to all LWC personnel who are assigned responsibility for system access control. Periodic system security reports will be distributed to responsible employees to monitor and govern system access.

Sincerely,


Bennett J. Soulier
Chief Financial Officer

cc: Tim Barfield, Executive Director