

Office of the Secretary of State

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March 10, 2011

Laurie Warner, Director
Oregon Employment Department
875 Union Street NE
Salem, Oregon 97311

Dear Ms. Warner:

We have completed audit work of a selected federal program at the Oregon Employment Department (department) for the year ended June 30, 2010.

This audit work was not a comprehensive audit of your federal program. We performed this audit work as part of our annual statewide single audit. The audit work performed allowed us, in part, to achieve the following objectives: (1) determine whether the department has complied with laws, regulations, contracts or grants that could have a direct and material effect on the selected federal program and (2) determine whether the department has effective internal controls over compliance with the laws, regulations, contract and grants applicable to the selected federal program. We audited the following federal program at the department to determine whether the department substantially complied with the federal requirements relevant to the federal program.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
17.225	Unemployment Insurance – NonARRA	\$ 2,337,133,071
17.225	Unemployment Insurance – ARRA	\$ 874,340,099

In planning and performing our audit, we considered the department's internal control over compliance with requirements that could have a direct and material effect on the major federal program to determine the auditing procedures for the purpose of expressing our opinion on the department's 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. Accordingly, we do not express an opinion on the effectiveness of the department's internal control over compliance.

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 the 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 a 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.

Our consideration of internal control over compliance was for the limited purpose described in the paragraph above and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency. 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.

Significant Deficiency

Eligibility - Overpayment to Claimant

Program Title & CFDA Number: Unemployment Insurance Program, CFDA 17.225

Federal Award Number: UI-19604-10-55-A-41

Questioned Costs: \$218

The Unemployment Insurance program provides benefits to unemployed workers for periods of involuntary unemployment. In addition to the regular 26 weeks of program benefits, claimants could receive benefits from several state and federal program extensions during state fiscal year 2010. Claimants must either exhaust regular benefits or have a benefit claim expire before benefits can be received through an extension. When a claim expires, a claimant's eligibility for a new claim must be assessed prior to receiving benefits under an extension.

The department is responsible for ensuring adequate controls are in place to assure compliance with applicable federal laws and regulations. During state fiscal year 2010, we found one claimant who received two benefit checks, one under an expired claim and the other on a new claim, for one claim week. The department determined that a programming code that helps identify who is eligible for a new claim in the payment system was not functioning properly.

The error resulted in known questioned costs of \$218 for the fiscal year. Likely questioned costs exceed \$10,000 when projected to the population.

We recommend department management strengthen controls to ensure that claimants receive only the benefits allowed under the Unemployment Insurance program.

Other Deficiency

In addition, we identified the following other matter that is an opportunity to strengthen internal control but, is not considered to be a significant deficiency or a material weakness. This other matter does not require a written response from management.

Form ETA 191 Reporting Process

Form ETA 191, *Statement of Expenditures and Financial Adjustments of Federal Funds for Unemployment Compensation for Federal Employees (UCFE) and Ex-Servicemembers (UCX)* is used by the department to report quarterly unemployment compensation benefits paid to federal employees and ex-servicemembers, as well as any adjustments to those benefits. Due to timing differences in the posting of benefit payments to the state's accounting system, the department calculates and includes an adjustment on the form to ensure that payments are reported in the period paid.

During our testing of form ETA 191, we noted that the adjustments were not always accurately calculated. This resulted in an overstatement of reported benefits paid on the September 2009 form of \$90,298 (UCFE) and \$196,140 (UCX) and on the December 2009 form of \$194,671 (UCFE) and \$234,226 (UCX).

We recommend management ensure proper reporting on form ETA 191.

Prior Year Findings

In the prior fiscal year, we reported a material weakness related to the department's controls over SEFA reporting and a significant deficiency related to controls over federal draws in a letter dated March 17, 2010. These findings can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2009; see Secretary of State audit report number 2010-19, finding number 09-31 and 09-32, respectively. During fiscal year 2010, the department did make progress in correcting these findings, but is still in the process of resolving. These findings will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2010, with a status of partial corrective action taken.

The significant deficiency, along with your response, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2010. Including your response satisfies the federal requirement that management prepare a Corrective Action Plan covering all reported audit findings. Satisfying the federal requirement in this manner, however, can only be accomplished if the response to the significant deficiency includes the information specified by the federal requirement, and only if the response is received in time to be included in the audit report. The following information is required for the response:

- 1) Your agreement or disagreement with the finding. If you do not agree with the audit finding or believe corrective action is not required, include in your response an explanation and specific reasons for your position.
- 2) The corrective action planned.
- 3) The anticipated completion date.
- 4) The name(s) of the contact person(s) responsible for corrective action.

Please respond by March 18, 2011.

Laurie Warner, Director
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This communication is intended solely for the information and use of management, others within the organization, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

We appreciate your staff's assistance and cooperation during this audit. Should you have any questions, please contact Raul Valdivia or me at (503) 986-2255.

Sincerely,
OREGON AUDITS DIVISION

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