

**Office of the Secretary of State**

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March 8, 2012

Laurie Warner, Director  
Oregon Employment Department  
875 Union St. NE  
Salem, OR 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, 2011.

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, contracts 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 – Non-ARRA	\$ 2,325,395,903
17.225	Unemployment Insurance – ARRA	\$69,293,560

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 certain deficiencies in internal control over compliance that we consider to be significant deficiencies. 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 Deficiencies**

#### **Eligibility – Overpayments to Claimants**

**Program Title & CFDA Number:** Unemployment Insurance Program, CFDA 17.225  
**Federal Award Number:** UI-19604-10-55-A-41, 2011; UI-18042-09-55-A-41, 2010  
**Questioned Costs:** \$5,939,469; \$376,125 ARRA

Federal regulations [CFR 20 §604, §615] establish guidelines for the Unemployment Insurance program, which provides benefits to unemployed workers during periods of involuntary unemployment. In addition to regular program benefits, claimants may have received benefits from state and federal program extensions and extension tiers during state fiscal year 2011. The guidelines specify which benefit program and tier a claimant is eligible to receive benefits from. The department is responsible for ensuring adequate controls are in place to assure compliance with applicable federal laws and regulations.

During state fiscal year 2011, approximately 150,000 claimants received weekly benefits. We analyzed benefit claim data for the fiscal year and identified overpayments to claimants as follows:

- 5,191 claimants received benefit payments who were later determined to be ineligible for benefits under that unemployment program, but eligible under a different unemployment program.
  - For 4,831 claimants, in order to ensure continuity of benefit payments, the department made a business decision to make manual adjustments to the system, which resulted in duplicate payments to the claimants for the same benefit week. The department flagged these payments in the system and intends to establish overpayments. The likely questioned costs are between approximately \$3.8 and \$5.5 million, of which, approximately \$228,000 to \$352,000 was paid for with ARRA funds.

- For the remaining 360 claimants, system changes also resulted in duplicate payments. However, these payments were not flagged to establish overpayments, resulting in questioned costs as high as \$387,000, including \$21,000 of ARRA funds.
- Our analysis of data identified claimants potentially received benefits in excess of their maximum benefit amount. Inquiry with the department revealed that a system error occurred when a monetary redetermination added monies to the claimants remaining balance. The department received a report in August 2011 and identified 30 claimants paid in excess of their maximum benefit amount. The total questioned costs were \$53,962, of which \$1,575 were ARRA funds.
- 6 claimants were overpaid when department staff manually zeroed out the claimants records in the system and then subsequently reopened the claims. Because the payment history had not been retained, the claimants received the full maximum benefit amounts in addition to previously paid benefits. Questioned costs total \$22,632, of which \$1,550 were ARRA funds.

**We recommend** department management establish adequate processes to prevent overpayments and to timely recoup overpayments that occur. We also recommend that department management correct the system issue resulting in claimants being paid in excess of the maximum benefit amount and ensure that future system modifications are working as intended. We further recommend that department management ensure that manual system modifications and/or adjustments retain payment history.

### **Reporting – Inaccurate or Incomplete Reporting**

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

**Federal Award Number:** UI-19604-10-55-A-41, 2011; UI-18042-09-55-A-41, 2010

Federal instructions require the department to report certain financial and non-financial information related to the Unemployment Insurance program with information from the department's accounting and other records. Testing of seven different fiscal year 2011 reports identified four reports (ETA-227, ETA-9130, ETA-2112, and ETA-581) with inaccurate or incomplete information reported to the federal agency as follows:

- Line 312 on ETA-227 was reported incorrectly as the spreadsheet formula to populate this cell was not correct;
- Withholding line on ETA-2112 was not updated from the prior month;
- Program income of \$471,000 was incorrectly reported on ETA-9130 as the department unknowingly performed a calculation in a spreadsheet cell linked to the report template;
- Federal share of expenditures was under reported by \$5.6 million on ETA-9130 due to an incorrect entry reducing the expenditures;
- Two key balances on the monthly ETA-2112 report did not agree to the accounting records. The department uses a spreadsheet, updated daily from various system reports, to prepare the monthly ETA-2112 report. The department does not agree the ending

balances on the report to the accounting records; thus, errors in reported balances may not be identified. As of June 30, 2011, of the three key balances, only the federal trust balance agreed to the accounting records; and

- Audit activity data reported on the ETA-581 report was incomplete. The report was prepared using information from a system generated report that had omitted a record. The department does not know why the error to the system generated report occurred.

**We recommend** department management ensure reported amounts are complete and accurate and that corrected reports are submitted as necessary.

**Cash Management – Controls Over the Federal Draw Process Should be Consistently Followed**

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

**Federal Award Number:** UI-19604-10-55-A-41, 2011; UI-18042-09-55-A-41, 2010

As part of the Unemployment Insurance program, the department is allowed to draw federal funds for incurred administrative expenditures. For expenditures eligible for federal funding, the department submits requests to the federal government for reimbursement.

The department's process for requesting federal reimbursement includes verifying the amount requested for reimbursement agrees to what was calculated. We reviewed all 23 administrative cash draws that occurred during the year and identified 4 (17%) draws that did not have evidence showing the verification between the request and the amount calculated was performed.

**We recommend** department management ensure established control procedures are followed.

The significant deficiencies, along with your responses, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2011. Including your responses 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 each significant deficiency includes the information specified by the federal requirement, and only if the responses are received in time to be included in the audit report. The following information is required for each response:

- 1) Your agreement or disagreement with the finding. If you do not agree with an 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 16, 2011.

Laurie Warner , Director  
Oregon Employment Department  
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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 Melaney Scott or me at (503) 986-2255.

Sincerely,  
OREGON AUDITS DIVISION

Kelly L. Olson, CPA  
Audit Manager

cc: Bill Fink, Deputy Director  
George Dunford, Chief Administrative Officer  
Corry Chain, Accounting Manager  
Bob McQuillan, Internal Auditor  
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