

Office of the Secretary of State

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March 11, 2013

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, 2012.

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	\$1,842,790,829
17.225	Unemployment Insurance - ARRA	\$ 3,247,256

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

Overpayments to Claimants

Program Title and CFDA Number:	Unemployment Insurance Program (17.225)
Federal Award Numbers and Year:	UI-22333-12-55-A-41; 2012, UI-19604-10-55-A-41; 2011
Compliance Requirement:	Eligibility
Type of Finding:	Significant Deficiency; Non-Compliance
Questioned Costs:	\$264,000

Federal regulations [CFR 20 §604, §615] establish guidelines for the Unemployment Insurance program, which provides benefits to unemployed workers during periods of involuntary unemployment. The guidelines specify which benefit program a claimant is eligible to receive benefits from. The department is responsible for ensuring adequate controls are in place to ensure compliance with applicable federal laws and regulations.

During our fiscal year 2011 testing we identified instances where claimants were overpaid; refer to the prior year finding below for additional information. During our fiscal year 2012 testing we identified similar instances of overpayments as indicated below.

- For 300 claimants, manual adjustments to the claim resulted in duplicate payments to the claimants for the same benefit week. Although the department had identified these duplicate payments, the department had not begun procedures to process the overpayments. The total questioned costs were approximately \$226,000.
- For 64 claimants, adjustments to the claim resulted in duplicate payments. The department had not identified these duplicate payments, resulting in total questioned costs of approximately \$38,000.

We recommend department management continue to work to establish adequate processes to prevent, identify, and timely process overpayments that occur.

EUC Benefit Payment Adjustments

Program Title and CFDA Number:	Unemployment Insurance Program (17.225)
Federal Award Numbers and Year:	UI-22333-12-55-A-41; 2012, UI-19604-10-55-A-41; 2011
Compliance Requirement:	Special Tests and Provisions – EUC Benefit Payments
Type of Finding:	Significant Deficiency; Non-Compliance
Questioned Costs:	\$3,523

Federal regulation [Pub L. No 110-252] requires each state to adjust a claimant’s weekly unemployment benefit payment to account for earnings and other applicable deductions. We analyzed state fiscal year 2012 federal extended unemployment compensation (EUC) benefit payments made to claimants and identified the following instances where the benefit payment was not appropriately reduced.

- A federal change occurred in 2010, which the department misunderstood and thought that claimants participating in the Trade Readjustment Allowance (TRA) program could work in excess of 40 hours in a week without having their weekly benefit payment reduced. For fiscal year 2012, five claimants were overpaid approximately \$3,300.
- For 11 out of 40 claimants reviewed, the department made manual adjustments that resulted in incorrect payment amounts. The total questioned costs were \$223 with likely questioned costs of approximately \$19,000.

We recommend department management ensure processes are adequate to ensure compliance with federal rules. We also recommend that department management work to establish methods to reduce and timely identify manual adjustment errors.

Payroll Overpayments

Program Title and CFDA Number:	Unemployment Insurance Program (17.225)
Federal Award Numbers and Year:	UI-22333-12-55-A-41; 2012, UI-19604-10-55-A-41; 2011
Compliance Requirement:	Allowable Costs
Type of Finding:	Significant Deficiency; Non-Compliance
Questioned Costs:	\$225

According to OMB Circular A-87, payroll is an allowable cost if the efforts support the program. During testing of payroll documents, we noted that time recorded on an employee’s time sheet did not agree to time recorded in the state’s payroll system. Department payroll staff had manually changed the time recorded in the system to add eight hours of holiday pay even

though the employee was not eligible for holiday pay per the department's negotiated collective bargaining agreement.

We expanded our testing to other months during fiscal year 2012 where a holiday occurred and identified one other month in which holiday pay was inappropriately added for this employee. The total questioned costs for fiscal year 2012 were \$224.87 with likely questioned costs of approximately \$33,000.

We recommend department management ensure employee time reflected in the state's payroll system is accurate and adequately supported.

Inaccurate Cost Allocation Process

Program Title and CFDA Number:	Unemployment Insurance Program (17.225)
Federal Award Numbers and Year:	UI-22333-12-55-A-41; 2012, UI-19604-10-55-A-41; 2011
Compliance Requirement:	Allowable Costs
Type of Finding:	Significant Deficiency

The department has a negotiated indirect cost rate agreement with the U.S. Department of Labor and utilizes a cost allocation process to allocate costs to the Unemployment Insurance Program.

Allocated costs consist of central charges, which are those that benefit the agency as a whole, and costs that benefit only a few programs. The costs are allocated based upon specific coding and allocation percentages calculated within the state's accounting system. During testing, we identified that some costs were allocated to the Unemployment Insurance Program differently than outlined in the cost allocation process due to manual coding errors. Department staff were unaware of the errors and their impact on the allocation process. Although these coding errors did not result in material non-compliance, the potential exists for errors to go undetected and for misallocation of costs to occur.

We recommend department management ensure that the cost allocation process is functioning as intended.

Prior Year Findings

In the prior fiscal year, we reported a significant deficiency to the department in a letter dated February 24, 2012. This finding can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2011; see Secretary of State audit report number 2012-08, finding number 11-22. During fiscal year 2012, the department made progress in correcting this finding. This finding will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2012, with a status of partial corrective action.

The significant deficiencies along with your responses, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2012. 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 and material weakness 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 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 15, 2013.

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

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Audit Manager

KLO:MAS:nmj

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