

Office of the Secretary of State

Kate Brown  
Secretary of State



Audits Division

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March 11, 2014

Lisa Nisenfeld, Director  
Oregon Employment Department  
875 Union Street NE  
Salem, OR 97311

Dear Ms. Nisenfeld:

We have completed audit work of the Unemployment Insurance federal program at the Oregon Employment Department (department) for the year ended June 30, 2013.

CFDA Number	Program Name	Audit Amount
17.225	Unemployment Insurance	\$1,320,347,904.11
17.225	Unemployment Insurance - ARRA	\$ (1,302,249.86)

This audit work was not a comprehensive audit of your federal program. We performed this federal compliance audit as part of our annual Statewide Single Audit. The Single Audit is a very specific and discrete set of tests to determine compliance with federal funding requirements, and does not conclude on general efficiency, effectiveness, or state-specific compliance issues. The Office of Management and Budget (OMB) Circular A-133 identifies internal control and compliance requirements for federal programs. Auditors review and test internal controls for all federal programs selected for audit and perform specific audit procedures only for those compliance requirements that are direct and material to the federal program under audit. For the year ended June 30, 2013, we determined whether the department substantially complied with the following compliance requirements relevant to the federal program.

Compliance Requirement	General Summary of Audit Procedures Performed
Activities Allowed or Unallowed	Determined whether federal monies were expended only for allowable activities.
Allowable Costs/Cost Principles	Determined whether charges to federal awards were for allowable costs and that indirect costs were appropriately allocated.

<b>Compliance Requirement</b>	<b>General Summary of Audit Procedures Performed</b>
Cash Management	Confirmed program costs were paid for before federal reimbursement was requested, or federal cash drawn was for an immediate need.
Eligibility	Determined whether only eligible individuals and organizations receive assistance under federal programs, and amounts provided were calculated in accordance with program requirements.
Reporting	Verified the department submitted financial and performance reports to the federal government in accordance with the grant agreement and that those financial reports were supported by the accounting records.
Special Tests and Provisions	Determined whether the department complied with the additional federal requirements identified by the OMB.

Department management is responsible for establishing and maintaining effective internal control over compliance with program requirements. 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 that are appropriate in the circumstances for the purpose of expressing an 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 a 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. *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.

Our consideration of internal control over compliance was for the limited purpose described above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or

significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described below, that we consider to be significant deficiencies.

### **Significant Deficiencies**

#### **Overpayments to Claimants**

Federal Awarding Agency	Department of Labor
Program Title and CFDA Number:	Unemployment Insurance Program (17.225)
Federal Award Numbers and Year:	UI-22333-12-55-A-41; 2012, UI-23913-13-55-A-41; 2013
Compliance Requirement:	Eligibility
Type of Finding:	Significant Deficiency; Non-Compliance

Federal regulations establish guidelines for the Unemployment Insurance Program and 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 and 2012 audits we identified instances where claimants were overpaid and we made recommendations to the department to address these overpayments. During fiscal year 2013, the department made progress towards resolving overpayments by developing reports to identify duplicate payments; however, they were not run or reviewed consistently during the year. After our follow-up, the department generated the reports and of the 111 claimants our testing identified with an overpayment, the department identified and established an overpayment for only 74 of the claimants. The remaining 37 claimants were not captured on the reports and had the characteristics indicated below.

- For 28 claimants, a duplicate payment had been identified at some point but the overpayment was never established.
- For 9 claimants, neither the department's report nor other procedures had identified the duplicate payments.

Failure to identify and record overpayments inhibits the Department's ability to notify the appropriate individuals of their overpayment and recover the overpayments.

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

Program Eligibility Not Consistently Documented

Federal Awarding Agency	Department of Labor
Program Title and CFDA Number:	Unemployment Insurance Program (17.225)
Federal Award Numbers and Year:	UI-22333-12-55-A-41; 2012, UI-23913-13-55-A-41; 2013
Compliance Requirement:	Eligibility
Type of Finding:	Significant Deficiency

Federal regulations require that claimants meet certain eligibility requirements to receive program benefits. The department is required to determine and document eligibility for program benefits based on factors such as exhausting all available regular (State funded) benefit programs.

During our testing of 62 paid benefit claims, we identified three instances related to the emergency unemployment compensation program and one related to the supplemental unemployment for dislocated workers program where the claimant's eligibility was not documented per department procedure. Neglecting to document eligibility information can result in ineligible claimants receiving Unemployment Insurance benefits. We were able to determine the four claimants were eligible for benefits at the time program benefits were paid.

**We recommend** department management ensure claimant eligibility for program benefits is documented.

**Prior Year Findings**

In the prior fiscal year, we reported a significant deficiency in a letter dated March 11, 2013. This finding can also be found in the Statewide Single Audit Report for the fiscal year ended June 30, 2012; see Secretary of State audit report number 2013-07, finding number 12-38 and 11-22. During fiscal year 2013, the department continued to make progress on this finding. This finding will be reported in the Statewide Single Audit Report for the fiscal year ended June 30, 2013, 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, 2013. 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.

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4) The name(s) of the contact person(s) responsible for corrective action.

Please provide your written response on or before Wednesday, March 19, 2014.

The purpose of this communication is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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: Salvador Llerenas, Deputy Director  
David Gerstenfeld, Unemployment Assistant Director  
Traci Cooper, Chief Financial Officer  
Michael J. Jordan, Director, Department of Administrative Services