

Office of the Secretary of State

Jeanne P. Atkins  
Secretary of State

Robert Taylor  
Deputy Secretary of State



Audits Division

Mary Wenger  
Interim Director

255 Capitol St. NE, Suite 500  
Salem, OR 97310

(503) 986-2255

March 1, 2016

Kay Erickson, Acting Director  
Oregon Employment Department  
875 Union St NE  
Salem, OR 97311

Dear Ms. Erickson:

We have completed audit work of a selected federal program at the Employment Department (department) for the year ended June 30, 2015.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
17.225	Unemployment Insurance	\$ 643,472,138

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, 2015, we determined whether the department substantially complied with the following compliance requirements relevant to the federal program.

<b>Compliance Requirement</b>	<b>General Summary of Audit Procedures Performed</b>
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.
Cash Management	Confirmed program costs were paid for before federal reimbursement was requested, or federal cash drawn was for an immediate need.

<b>Compliance Requirement</b>	<b>General Summary of Audit Procedures Performed</b>
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.

### **Noncompliance**

Noncompliance is a failure to follow compliance requirements, or a violation of prohibitions included in compliance requirements, that are applicable to a federal program. As described in the “Audit Findings and Recommendations” section, we identified noncompliance with federal requirements which is required to be reported in accordance with OMB Circular A-133.

### **Internal Control Over Compliance**

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 a certain deficiency in internal control over compliance, as described below, that we consider to be a significant deficiency.

### **Audit Findings and Recommendations**

#### **Ensure All Required Claimants Register to Work**

<b>Federal Awarding Agency:</b>	<b>Department of Labor</b>
<b>Program Title and CFDA Number:</b>	<b>Unemployment Insurance; 17.225</b>
<b>Federal Award Numbers and Year:</b>	<b>UI-26556-15-55-A-41; 2015 / UI-26415-14-60-A-41; 2014</b>
<b>Compliance Requirement:</b>	Eligibility
<b>Type of Finding:</b>	Significant Deficiency, Noncompliance
<b>Questioned Costs:</b>	\$8,347

To be eligible to receive unemployment benefits, claimants must register to work in the state they reside. An exception exists for claimants who are temporarily laid off (TLO) of work and expect to return within four weeks of initial unemployment. If the claimant does not return to work within four weeks they are no longer considered TLO and should register to work.

We randomly selected 63 claimants to verify eligibility and calculation of benefit amount. One sample item was a TLO claimant who continued to receive benefits beyond four weeks but was never required to register for work resulting in questioned costs totaling \$3,290. Another sample item was a claimant who resided out of state but the department had no evidence the claimant ever registered for work leading to \$5,057 in questioned costs. During fiscal year 2015, more than 44,000 claimants were classified as TLO and more than 8,000 claimants were classified as out of state. Upon further inquiry, it was determined that the department did not have controls in place to ensure these specific types of claimants registered for work when required as discussed below.

- For TLO claimants, the department's legacy mainframe system is not programmed to identify/flag TLO claimants after the initial four weeks have passed. As a result, they may not register for work and can continue to receive benefits. In June 2015, the department implemented a manual process to identify if TLO claimants had surpassed the initial four weeks. However, according to the department the process uses a lot of resources and is not sustainable.
- For claimants who reside out of state, a formal process to inform the claimant they must register in their state of residence and a follow-up to ensure they comply has never been implemented. The department has been aware of this issue and was informed by U.S. Department of Labor in 2010 that the benefits should be considered improper payments. According to the department, due to limited information technology

resources, limited staffing, and continued high workloads, this issue had not been resolved. During fiscal year 2015, the department identified options to address the issue.

We recommend the department continue efforts to improve processes and implement sustainable controls to ensure TLO and out of state claimants register to work in compliance with program requirements.

The audit finding and recommendation above, along with your response, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2015. 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 provide a response to Kelly Olson by March 8, 2016 and provide Rob Hamilton, Statewide Accounting and Reporting Services (SARS) Manager, a copy of your Corrective Action Plan.

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 communication 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 Sarah Anderson or Kelly Olson at (503) 986-2255.

Sincerely,

*Office of the Secretary of State, Audits Division*

cc: David Gerstenfeld, Unemployment Assistant Director  
Michael Smith, Chief Financial Officer  
Lisa Upshaw, Chief Internal Auditor  
George Naughton, Director, Department of Administrative Services