

DEPARTMENT OF LABOR
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED MAY 14, 2008

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

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Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

April 2, 2008

DEPARTMENT OF LABOR
STATE OF LOUISIANA
Baton Rouge, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 2007, we considered the Department of Labor's internal control over financial reporting and over compliance with requirements that could have a direct and material effect on a major federal program; we examined evidence supporting certain accounts and balances material to the State of Louisiana's financial statements; and we tested the department's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements and major federal programs as required by *Government Auditing Standards* and U.S. Office of Management and Budget Circular A-133.

The Annual Fiscal Reports of the Department of Labor are not audited or reviewed by us, and, accordingly, we do not express an opinion on those reports. The department's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

In our prior management letter on the Department of Labor for the year ended June 30, 2006, we reported findings relating to internal controls over Unemployment Insurance (UI) benefit payments, Disaster Unemployment Assistance (DUA) payments, UI Extended Benefits, unallowable administrative costs charged to the Workforce Investment Act (WIA) program, payroll and leave administration, inadequate monitoring of WIA subrecipients, unlocated movable property, inadequate monitoring of Temporary Assistance for Needy Families subrecipients, deficient Memorandums of Understanding (MOUs), and untimely deposits. The findings on UI benefit payments, DUA payments, unallowable administrative costs charged to WIA, payroll and leave administration, deficient MOUs, and untimely deposits have been resolved. All other findings have not been resolved and are addressed again in this letter.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2007.

Inaccurate and Incomplete Annual Fiscal Report

The Department of Labor (DOL) did not submit an accurate and complete Annual Fiscal Report (AFR) for the Unemployment Trust Fund (UI) to the Division of Administration for the fiscal year ended June 30, 2007. As authorized by Louisiana Revised Statute 39:79, the commissioner of administration through the Division of Administration's Office of Statewide Reporting and Accounting Policy (OSRAP) prescribes the content and format for preparing each agency AFR, which is then used in the compilation of the state's Comprehensive Annual Financial Report (CAFR). Good internal control includes establishing a process to ensure that these financial statements are accurately prepared and reviewed. However, DOL's AFR submitted to OSRAP on August 31, 2007, included the following errors and omissions:

DOL incorrectly reported the activities of the UI Trust Fund, resulting in the following errors on its Statement of Net Assets (SNA) and on its Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA):

SNA:

- Assets were understated by \$976,174.
- Liabilities were understated by \$5,928,884.
- Net assets were overstated by \$4,952,710.

SRECNA:

- Revenues were overstated by \$7,188,462.
- Expenses were overstated by \$2,205,752.
- Total net assets were understated by \$1,401,080,306 because DOL omitted the net asset beginning balance from the statement.

DOL did not complete the reconciliation of operating income on the Statement of Cash Flows.

DOL did not ensure that its footnote disclosures were consistent with the amounts presented in the financial statements, resulting in the following errors in the disclosures:

- Deposits with financial institutions and investments (note C) understated the balance of the UI Trust Fund held in the U.S. Treasury by \$101,805,817.
- Disaggregation of receivable balances (note U) understated gross receivables by \$46,049,920.

- Disaggregation of payable balances (note V) understated payables by \$6,018,888.

DOL management has not ensured that its AFR was properly prepared and reviewed for errors and misclassifications. Failure to submit an accurate AFR can delay the compilation and issuance of the state's CAFR. Furthermore, misstatements from errors or fraud may occur and remain undetected.

DOL management should ensure that its AFR is properly prepared and should review the financial information and note disclosures in its AFR to identify and correct errors before submitting it to OSRAP. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 1).

Inadequate Subrecipient Monitoring for Workforce Investment Act Cluster

For the fourth consecutive year, DOL did not adequately monitor all subrecipients of the Workforce Investment Act (WIA) Dislocated Worker program (CFDA 17.260) for compliance with federal laws and regulations. In fiscal year 2007, DOL received \$31.7 million from the National Emergency Grant (NEG), a program within the WIA Dislocated Worker Program that provided funding for temporary disaster-related jobs and training for dislocated workers after hurricanes Katrina and Rita. Of the \$31.7 million grant, \$30,166,300 was sent to subrecipients who were not monitored.

The Code of Federal Regulations [20 CFR 667.410(b)(2) and (b)(3)] requires that DOL's monitoring system provide for annual on-site reviews of its subrecipients' compliance with the federal uniform administrative requirements and include reviews of its subrecipients' fiscal and administrative functions. In addition, in accordance with the NEG agreement, states are responsible for monitoring job worksites for those participants who have temporary disaster-related employment. DOL has developed a subrecipient monitoring log to track monitoring reviews to ensure they are performed annually and a subrecipient monitoring guide to be used by staff performing the reviews. However, our review of the monitoring log for 18 NEG subrecipients that required monitoring reviews during fiscal year 2007 disclosed that all subrecipients were not monitored at least annually. As of October 1, 2007, 16 subrecipients had not been monitored from 16 to 22 months after their prior reviews were completed, and monitoring reviews had not been started for two subrecipients located in Hurricane Katrina and Hurricane Rita affected areas.

Failure to adequately monitor subrecipients impairs DOL's ability to evaluate the impact of subrecipient activities on overall compliance with laws and regulations. Costs incurred by a subrecipient that have not been appropriately monitored are at an increased risk of being disallowed by the federal grantors. Therefore, we question the \$30,166,300 charged to the program.

DOL management should ensure that all subrecipient monitoring reviews are complete and adequately documented to indicate their compliance with the WIA NEG requirements and that the subrecipient monitoring reviews are performed timely. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, pages 2-3).

Inadequate Subrecipient Monitoring for the Temporary Assistance for Needy Families Program

For the third consecutive year, DOL has not performed adequate monitoring reviews of its subrecipients of the Strategies to Empower People (STEP) program, a sub-program of the Temporary Assistance for Needy Families program (TANF, CFDA 93.558). In accordance with Office of Management and Budget (OMB) Circular A-133 and the Memorandum of Understanding (MOU) between DOL and the Department of Social Services (DSS), DOL is required to conduct annual on-site reviews of each of its subrecipients that carry out the STEP program activities. These reviews should include all applicable OMB Circular A-133 compliance requirements and all program and administrative requirements of the MOU.

Our tests of the 17 STEP program subrecipients disclosed that 14 subrecipients (82%) had not been monitored annually as follows:

- Seven subrecipients (41%) had not been monitored within the last 17 to 36 months. Two of these subrecipients are located in Hurricane Katrina and Hurricane Rita affected areas.
- Seven subrecipients' monitoring reviews (41%) were begun from 17 to 30 months after their prior reviews were completed.

Management has not ensured that its staff are adequately performing subrecipient reviews. Failure to adequately monitor STEP subrecipients results in the department's noncompliance with federal regulations and with the MOU and increases the risk that funds may not be expended in accordance with program requirements.

Management of the department should ensure that subrecipient monitoring procedures for the STEP program are done annually and include all applicable requirements of OMB Circular A-133 and the MOU between DOL and DSS. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 4).

Lack of Controls Over Movable Property

For the third consecutive year, DOL identified significant unlocated movable property as a result of its physical inventory procedures. For the fiscal year ended June 30, 2007, unlocated movable property items totaled \$637,863. In its certifications of property

inventory, which were submitted to the Louisiana Property Assistance Agency (LPAA) from March 17, 2007, through June 8, 2007, DOL reported that it administered \$13,634,359 in total movable property.

Louisiana Revised Statute (R.S.) 39:325 requires entities to conduct an annual property inventory of movable property and report any unlocated movable property to LPAA. Louisiana Administrative Code 34.VII.313 states, in part, that efforts must be made to locate all movable property items for which there are no explanations available for their disappearance. In addition, good internal control dictates that assets are properly monitored to safeguard against loss or theft and that thorough periodic physical counts of property inventory be conducted. LPAA requires entities to run quarterly reports to reconcile their property inventories, to include quarterly reconciliations of property additions.

Of the amount reported as unlocated, items totaling \$59,194 were removed from DOL's property records because they had not been located for three consecutive years. Also, the amount of unlocated computers and computer-related equipment totaled \$538,138 (84%) of the total unlocated property reported.

Failure to establish adequate controls over movable property increases the risk of loss arising from unauthorized use of property and subjects DOL to noncompliance with state laws and regulations. Because of the nature of the services provided by DOL, the risk exists that sensitive information could be improperly recovered from the missing computers and/or computer-related equipment. DOL's failure to reconcile its property records to Protégé increases the risk that misstatements from errors or fraud may occur and not be detected timely by employees in the normal course of their duties.

DOL management should strengthen its procedures for conducting the physical inventory of movable property and devote additional efforts to locating movable property reported as unlocated in previous years. Management concurred with the finding and recommendations and stated that additional controls are being implemented to ensure accurate accounting of the movable property inventory (see Appendix A, page 5).

Overdraw of Unemployment Insurance Extended Benefits

For the second consecutive year, DOL overdraw federal funds for Extended Benefits (EB) in the Unemployment Insurance (UI) program (CFDA 17.225). The amount overdrawn totaled \$12,101. The Code of Federal Regulations (20 CFR 615.10) requires that reimbursable employers or the state pay 100% of the EB payments.

EB payments are made by the federal government to eligible unemployed individuals who have exhausted their regular UI benefits during periods of high unemployment. Reimbursable employers are governments and nonprofit agencies that reimburse DOL 100% of the unemployment claims made against their accounts rather than paying a percentage of their payrolls based on unemployment experience ratings. As a result of

hurricanes Katrina and Rita, which occurred in fiscal 2006, the state's unemployment rate rose, making the state eligible for extended benefits for the first time since the 1980s.

We reviewed the summary reports for the state fiscal year ended June 30, 2007. EB payments made for reimbursable employers totaled \$24,203, and DOL claimed a 50% reimbursement from the federal government, resulting in a \$12,101 overdraw of federal funds. The department did not correct the control deficiency noted in the prior audit and has not established procedures to notify accounting of the EB amount paid on behalf of reimbursable employers.

DOL management should establish policies and procedures to ensure that EB payments are reimbursed in accordance with federal regulations and should repay the federal government \$12,101, which is the amount the department claimed for reimbursable employers. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 6).

Noncompliance With Record Retention Policy

DOL did not retain employer wage records for the UI program (CFDA 17.225). Employer wage records are the basis for determining whether applicants for UI benefits have earned sufficient wages in a base period to qualify for those benefits. R.S. 44:411.A(1) requires that the head of each state agency submit a record retention schedule to the state archivist. DOL's current record retention schedule was approved by the state archivist on June 6, 2006, and it requires that employer tax records be maintained for 11 years. In addition, OMB Circular A-133, Subpart C, Section 300(b), requires states to establish internal control over federally funded programs to provide reasonable assurance that the states are administering federal awards in compliance with grant provisions, and OMB Circular A-87 requires that costs be adequately documented.

Our tests of 60 claimants' eligibility of UI benefits disclosed that employer wage records for 11 claimants (18%) were not retained by DOL. Employers provided these records to DOL on electronic media, and DOL returned the records to the employers after the information was input into DOL's UI benefit master files. Benefits paid to the 11 claimants totaled \$17,928.

DOL's failure to retain records to support employee wages and eligibility may result in improper benefit payments and/or questioned costs totaling \$17,928. DOL management should strengthen its controls to ensure that records are retained in accordance with state and federal laws and regulations. Management concurred with the finding and recommendation and stated that DOL is in the process of a complete system redesign, which will include an imaging filing system (see Appendix A, page 7).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of DOL. The nature of the recommendations, their implementation costs, and their potential impact on the operations of DOL should be considered

in reaching decisions on courses of action. The findings relating to DOL's compliance with applicable laws and regulations should be addressed immediately by management.

This letter is intended solely for the information and use of the department and its management, others within the entity, and the Louisiana Legislature and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

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DOL07

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Management's Corrective Action
Plans and Responses to the
Findings and Recommendations



LOUISIANA WORKS
DEPARTMENT OF LABOR

Kathleen Babineaux Blanco
Governor

John Warner Smith
Secretary

OFFICE OF THE SECRETARY

October 29, 2007

Mr. Steve J. Theriot
Legislative Auditor
Office of Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804

Dear Mr. Theriot:

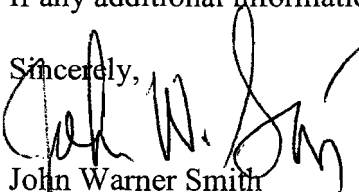
This is in response to the Office of Legislative Auditor's correspondence relating to the legislative audit finding for Inaccurate and Incomplete Annual Fiscal Report.

Inaccurate and Incomplete Annual Fiscal Report

The agency concurs with the finding. The Fiscal Division of the agency has experienced an extremely high rate of turnover over the past several months. Fiscal Year 2007 was the first year the Annual Financial Report was completed by a new section manager. The individuals that prepared the statement previously were no longer with the department and left no clear trail or documentation regarding the numbers used or calculations required. During the fiscal year circumstances necessitated a change in the methods and the software used to account for the unemployment taxes and benefits. The reporting unit failed to allow enough time to fully understand the requirements, or to process and refine their data.

Prior to the end of the current fiscal year, the unit will reevaluate the preparation of the Fiscal Year 2007 financial report and document the steps and information necessary to complete the report accurately. A timeline will be developed indicating who will prepare each schedule and the preparation due date. A review schedule will be developed to evaluate data analysis and the report presentation with a final review by the Fiscal Director. With additional staff, more time will be available for the preparation and review of the report.

If any additional information is needed, please contact Wayne Knight at 342-3113.

Sincerely,

John Warner Smith
Secretary of Labor



LOUISIANA WORKS

DEPARTMENT OF LABOR

Kathleen Babineaux Blanco
Governor

Bennett J. Soulier
Secretary

OFFICE OF THE SECRETARY

Mr. Steve J. Theriot, CPA
Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

RE: Inadequate Sub Recipient Monitoring for Workforce Investment Act Cluster

Dear Mr. Theriot:

I concur with the findings as documented.

Monitors performed initial reviews of all NEG contracts during fiscal year 2006. However, due to limited staff, efforts in fiscal year 2007 were focused on program areas (Youth Services, Adult Services) and issues that were cited in previous audits such as lack of documentation and incomplete conclusions, etc. As a result, subsequent reviews of NEG contracts were not performed.

A schedule is being prepared to determine which subrecipients received the \$30.1 million. Based on that schedule, we will update our fiscal year 2008 Audit Plan to include the audits of those NEG contracts. These audits will be conducted prior to June 30, 2008 and will ensure compliance with 20 CFR 667.4109(b) (2) and (b) (3).

In addition, dedicated resources have previously been limited as the individuals responsible for monitoring are required to perform monitoring responsibilities for a variety of other programs including Workforce Investment Act (WIA), Community Services Block Grant (CSBG), etc. With the transition to the Internal Audit Department, the federal programs have been included in the 07/08 Fiscal Year Audit Plan. In addition, new monitoring tools (audit programs) have been developed to more efficiently assess the program and administrative requirements of TANF-CFDA 93.558, OMB Circular A-133, and the terms of the Memorandum of Understanding (MOU) between the Louisiana Department of Labor and the Department of Social Services.

The move to the Internal Audit Department gives the federal programs access to more audit/monitoring resources which will contribute to better compliance. Audits performed this fiscal year will be the basis for the development of a risk assessment which will be used to better assess where time needs to be spent when performing the monitoring reviews.

Based on the above, our ability to satisfy the annual on-site review requirements has increased which will result in a better quality of coverage as well as a reduction in the Agency's level of non-compliance.

If you have any questions please contact Mr. Derek Williams, Audit Director, at 225-342-2911.

Sincerely,

A handwritten signature in black ink, appearing to read 'Bennett J. Soulier', with a long horizontal flourish extending to the right.

Bennett J. Soulier
Secretary of Labor

BJS:has



LOUISIANA WORKS
DEPARTMENT OF LABOR

Kathleen Babineaux Blanco
Governor

John Warner Smith
Secretary

October 29, 2007

OFFICE OF THE SECRETARY

Mr. Steve J. Theriot
Legislative Auditor
Office of Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804

Dear Mr. Theriot:

This is in response to the Office of Legislative Auditor's correspondence relating to the legislative audit finding for Inadequate Subrecipient Monitoring for TANF.

Inadequate Subrecipient Monitoring for TANF

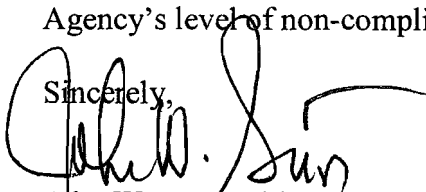
I concur with the finding and recommendation as documented.

The finding is relative to a period during which the responsibility for monitoring was being transitioned to the Internal Audit Department. In addition, dedicated resources have previously been limited as the individuals responsible for monitoring have monitoring responsibilities for a variety of other programs including Workforce Investment Act (WIA), Community Services Block Grant (CSBG), etc. With the transition of staff to the Internal Audit Department, the federal programs have been included in the 07/08 Fiscal Year Audit Plan. In addition, new monitoring tools (audit programs) have been developed to more efficiently assess the program and administrative requirements of TANF-CFDA 93.558, OMB Circular A-133, and the terms of the Memorandum of Understanding (MOU) between the Louisiana Department of Labor and the Department of Social Services.

The move to the Internal Audit Department gives the federal programs access to more audit/monitoring resources which will contribute to better compliance. Audits performed this fiscal year will be the basis for the development of a risk assessment which will be used to better assess where time needs to be spent when performing the monitoring reviews.

Based on the above, our ability to satisfy the annual on-site review requirements has increased which will result in better quality of coverage as well as a reduction in the Agency's level of non-compliance.

Sincerely,


John Warner Smith
Secretary of Labor



LOUISIANA WORKS
DEPARTMENT OF LABOR

Kathleen Babineaux Blanco
Governor

John Warner Smith
Secretary

OFFICE OF THE SECRETARY

August 21, 2007

Mr. Steve J. Theriot
Legislative Auditor
1600 North Third Street
P. O. Box 94397
Baton Rouge, LA 70804-9397


Dear Mr. Theriot:

The following is our response to the audit finding "Lack of Controls Over Movable Property" as presented by the Legislative Auditor.

The Department concurs with the finding and has initiated corrective action.

The Office of Management and Finance is committed to the protection of the agency's assets and maintaining our integrity with regard to the LPAA guidelines as set forth in state law. We are in the process of implementing additional controls necessary to assure accurate accounting of this agency's entire inventory.

Sincerely,


John Warner Smith
Secretary of Labor

JWS:DF:sj



LOUISIANA WORKS
DEPARTMENT OF LABOR

Kathleen Babineaux Blanco
Governor

John Warner Smith
Secretary

OFFICE OF THE SECRETARY

October 18, 2007

Mr. Steve J. Theriot
Legislative Auditor
Office of Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804

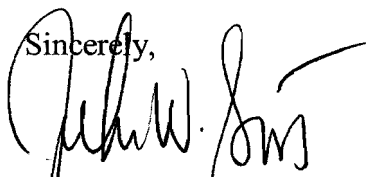
Dear Mr. Theriot:

This is in response to the Office of Legislative Auditor's correspondence of October 8, 2007 relating to legislative audit findings for the Unemployment Insurance (UI) Extended Benefits (EB) Program.

Overdraw of Unemployment Insurance Extended Benefits

The agency agrees with the audit finding. Staff in the Benefits Charge Unit have been advised of the change to the Benefit Charge Policy & Procedure Manual. This will ensure that staff notify the UI Accounting Unit when an Extended Benefit payment is made on a reimbursable employer account, so that a timely refund can be made to the federal government.

If any additional information is needed, please contact Mr. Michael Delafosse, ORS Director, at (225) 342-2990.

Sincerely,


John Warner Smith
Secretary of Labor

JWS/MD



LOUISIANA WORKS
DEPARTMENT OF LABOR

Kathleen Babineaux Blanco
Governor

Bennett J. Soulier
Secretary

OFFICE OF THE SECRETARY

November 29, 2007

Mr. Steve J. Theriot, CPA
Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Re: Record Retention Audit Finding

Dear Mr. Theriot:

This response is in reference to the letter dated November 14, 2007, from Mr. Charles Wendt, Audit Manager, regarding the above referenced audit finding.

The agency does agree with the finding that 11 employer provided electronic media were not retained.

The agency's policy is upon receipt to load the employer's data to the computer mainframe. After loading the data to the mainframe, a microfiche is produced and stored. The microfiche may have been misplaced or misfiled.

We have no immediate corrective action plan. The agency is in the process of a complete system redesign. The new system will transfer data received from employers to an imaging filing system. The imaging system will insure that all records are retrievable.

If you have any questions please contact Ms. Marianne Sullivan, Assistant Secretary of Labor.

Sincerely,

Bennett J. Soulier
Secretary of Labor