



STATE OF NORTH CAROLINA

AUDIT RESULTS FROM
CAFR AND SINGLE AUDIT PROCEDURES
EMPLOYMENT SECURITY COMMISSION
FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR



Ralph Campbell, Jr.
State Auditor

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June 26, 2002

The Honorable Michael F. Easley, Governor
Members of the North Carolina General Assembly
Mr. Harry E. Payne, Jr., Chairman
Employment Security Commission

We have completed certain audit procedures at the Employment Security Commission related to the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report* for the year ended June 30, 2001. Our audit was made by authority of Article 5A of *North Carolina General Statute § 147*.

The results of these procedures, as described below, yielded audit findings and recommendations for the Commission related to the State's financial statements and the State's federal financial assistance programs that required disclosure in the aforementioned reports. The findings are included in the findings and recommendations section contained herein. Our recommendations for improvement and management's response follow each finding.

The Commission did not always comply with its Local Office Claims manual for documenting eligibility for unemployment insurance benefits, did not have adequate internal controls in place to ensure that computer access rights for separated employees were removed timely, and did not always comply with its Standard Operating Procedures manual for maintaining supporting documentation.

The accounts and operations of the Employment Security Commission are an integral part of the State's reporting entity represented in the *CAFR* and the *Single Audit Report*. In the *CAFR*, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the results of tests on the State's internal control and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget Circular A-133.

As part of the work necessary for issuance of the *CAFR* and the *Single Audit Report*, the following individual funds and federal programs of the State were subjected to audit procedures at the Employment Security Commission:

Funds for the *Comprehensive Annual Financial Report*:

Expendable Trust Fund: Unemployment Compensation Fund

Special Revenue Fund – Budget/Actual

Federal Programs for the *Single Audit Report*:

Unemployment Insurance

Trade Adjustment Assistance - Workers

The individual funds and federal programs subjected to audit at the Employment Security Commission are substantially less in scope than would be necessary to report on the financial statements that relate solely to the Commission or the administration of federal programs by the Commission. Therefore, we do not express such conclusions.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Respectfully submitted,

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.
State Auditor

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting or Federal Compliance Objectives

Current Year Findings and Recommendations Also Reported in Prior Audit - The following findings and recommendations were identified during the current and prior audits and represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants.

1. CLAIMANT ELIGIBILITY NOT ALWAYS ADEQUATELY DOCUMENTED

Two of ninety sample items in our test for eligibility in the Unemployment Insurance program (CFDA# 17.225) lacked proper documentation. This matter involved the lack of signatures on the New Initial Intrastate Claim for Benefits form (NCUI 500) which is used to document initial eligibility. The signatures of the claimant and the claimstaker are required by section 3.5 of the Commission's *Local Office Claims Manual* to certify the claim for eligibility. Because likely questioned costs exceeds \$10,000, we are questioning the known costs of \$427.

Recommendation: The Commission should ensure that the local offices are placing adequate emphasis on signing and maintaining the NCUI 500 forms in accordance with its *Local Office Claims Manual*.

Agency Response: The Employment Security Commission agrees with the audit finding and will reemphasize with staff the importance of insuring all required documentation is completed in accordance with its *Local Office Claims Manual*. In addition technological advancements in claims taking will require electronic approvals eliminating the need for written signatures.

2. ACCESS RIGHTS FOR SEPARATED EMPLOYEES NOT REMOVED TIMELY

Our review of twenty separated employees revealed eleven employees whose access rights to the computer system were not deleted immediately upon separation. Some employees had their rights removed more than three weeks after the effective date of their separation.

Adequate internal controls would dictate that access to computer systems be revoked immediately upon an employee's separation. Also, section 5.2 of the Commission's *Internal Security Handbook* states, "The immediate supervisor is responsible for revoking access to all ESC Computer Systems if their employee is promoted, transferred, or terminated."

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Recommendation: The Commission should implement adequate internal controls to ensure that access rights to computer systems are revoked immediately for separated employees.

Agency Response: The Employment Security Commission believes adequate procedures were developed and implemented in 2001 to ensure access rights to computer systems are immediately revoked for separated employees. The problem appears to be employees failing to follow procedures. The Commission will increase efforts to ensure employees comply with the new requirements.

Other Current Year Finding and Recommendation - The following finding and recommendation was identified during the current audit and represents significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants.

3. SOME QUARTERLY TAX AND WAGE REPORTS NOT RETAINED

For the Unemployment Insurance program (CFDA# 17.225), three of thirty sample items in our test of tax refunds and two of thirty sample items in our test of tax accounts receivable lacked adequate documentation. The Employer's Quarterly Tax and Wage Reports (NCUI 101), which are used to document employer's quarterly taxes and wages and to substantiate the establishment of accounts receivable, were not retained for the five sample items in question.

The Commission's *Standard Operating Procedures Manual* requires that records and supporting documentation be retained and 29 CFR 97.42 requires all records to be retained for three years.

Recommendation: The Commission should maintain all imaged, electronic and manual records to comply with its record retention policies and federal requirements.

Agency Response: The Employment Security Commission agrees with the audit finding and will reinforce with staff the importance of record retention policies to insure all documents are retained as a scanned image or in paper form for the required period.

DISTRIBUTION OF AUDIT REPORT

In accordance with G.S. § 147-64.5 and G.S. § 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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June 28, 2002

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