



STATE OF NORTH CAROLINA

AUDIT RESULTS FROM

CAFR AND SINGLE AUDIT PROCEDURES

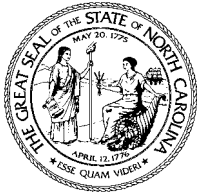
EMPLOYMENT SECURITY COMMISSION

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR



Ralph Campbell, Jr.
State Auditor

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March 25, 2003

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, 2002. Our audit was made by authority of Article 5A of Chapter 147 of the General Statutes.

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 which may require 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.

We noted internal control deficiencies and instances of noncompliance in the Unemployment Insurance Program and the Trade Adjustment Assistance Program for not having adequate documentation related to claimant eligibility. Additionally, adequate controls were not in place to ensure that computer access rights for separated employees were removed timely.

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 as we considered necessary:

Funds for the *Comprehensive Annual Financial Report*:

Enterprise Fund: Unemployment Compensation Fund

Special Revenue Fund: Employment Security Commission Fund

Federal Programs for the *Single Audit Report*:

Unemployment Insurance

Employment Service

Trade Adjustment Assistance – Workers

Workforce Investment Act

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." The signature is written in a cursive style with a large, stylized 'R' and a trailing flourish.

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 audit and describe conditions which represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants.

1. ACCESS RIGHTS FOR SEPARATED EMPLOYEES NOT REVOKED TIMELY

Our tests of thirty-three separated employees revealed two employees whose access rights to the computer system were not revoked immediately upon separation. Adequate internal control would prescribe that access to computer systems be revoked immediately upon an employee's separation.

These two employees had their rights revoked more than two weeks after the effective date of their separation. The Commission's *Internal Security Handbook*, Chapter 5.2, states "The immediate supervisor is responsible for revoking access to all ESC Computer Systems if their employee is promoted, transferred, or terminated."

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

Agency Response: The agency is evaluating a risk based approach to the standard to timeliness of access revocation. The internal Security procedures will be revised to better describe the standard.

2. CLAIMANT ELIGIBILITY DOCUMENTATION NEEDS IMPROVEMENT

During our audit we noted fourteen errors in our sample of ninety claimants that were receiving Unemployment Insurance (UI) benefits. The errors were due to the local Employment Security Commission (ESC) offices failure to produce the required eligibility documentation. The results of our test work are as follows:

- a. Nine of the claimants lacked the required Form 506E (Work Search Record). This form is a record kept by the claimants of their job searches. The claimant is required to turn in the Work Search Record when he/she reports to the local office for the continuation of UI benefits. Because likely questioned costs exceed \$10,000, we are questioning the known costs of \$3,283.
- b. Three of the claimants lacked a properly signed form NCUI 500, New Initial Intrastate Claim for Benefits. This form is used to document initial claimant eligibility. Because likely questioned costs exceed \$10,000, we are questioning the known costs of \$818.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

- c. Two of the claimants were not scheduled for required eligibility review interviews. As a result, one of the claimants was not disqualified for benefits. The second error relates to an employer who was allowed to file a total claim for several hundred employees, but when the claim was reopened as an additional initial claim, the required interviews were not conducted.

The Employment Security Law 96-13(a)(1) and Employment Security Commission Regulation 10.12(A) require claimants to register for work and report to the employment office, as directed, at regular intervals. The claimant's status must be reviewed at each reporting for continuing eligibility. Additionally, the signatures of both the claimant and the claimstaker are required by Section 3.5 of the Commission's *Local Office Claims Manual* to certify that the claimant has met the registration for work requirements and that the local ESC representative has explained the eligibility requirements.

Recommendation: The Commission should ensure that the local ESC offices are placing adequate emphasis on documenting the work registration and the continuation of Unemployment Insurance benefits. The signed NCUI 506E and NCUI 500 forms should be completed and maintained in accordance with the *Local Office Claims Manual*, Employment Security Law, and ESC regulations.

Agency Response: The agency is evaluating whether certain types of documentation continue to be needed in the development of electronic claims services. The claims manual will be updated to conform to current practices evolving from electronic submissions.

The agency has undertaken an initiative to review and reform its documented operational requirements. Records retention is a priority item. We are pursuing this through adaptation of the ISO 9001 standard and this system should be in place and operational this spring.

Other Current Year Findings and Recommendations - The following findings and recommendations were identified during the current audit and describe conditions which represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants.

3. JOB TRAINING NOT ALWAYS DOCUMENTED

The local Employment Security Commission (ESC) offices were unable to produce the required training attendance records for the claimants of four of forty benefits payments sampled and funded by the Trade Adjustment Assistance (TAA) program.

Twenty CFR section 617.11 provides that claimants, to be eligible for weekly TAA payments, must be enrolled in or have completed an approved job-training program unless a waiver from the training requirement has been issued.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Claimants are required to keep record of their training by completing Form NCUI 8-58 Request for Allowances by a Worker in Training (Attendance Record) and submitting it to the local ESC office every four weeks. Because likely questioned costs exceed \$10,000, we are questioning the known costs of \$984.

Recommendation: The Commission should implement procedures to ensure that all local ESC offices are maintaining Forms NCUI 8-58 as required to document claimant eligibility.

Agency Response: The agency has undertaken an initiative to review and reform its documented operational requirements. Records retention is a priority item. We are pursuing this through adaptation of the ISO 9001 standard and this system should be in place and operational this spring.

DISTRIBUTION OF AUDIT RESULTS

In accordance with General Statutes 147-64.5 and 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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The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. Harry E. Payne, Jr.	Chairman, Employment Security Commission

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Mr. James D. Johnson	Director, Fiscal Research Division

March 28, 2003

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