



STATE OF NORTH CAROLINA

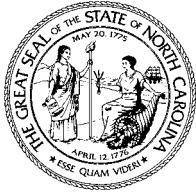
RESULTS OF STATEWIDE FINANCIAL AUDIT PROCEDURES AT THE EMPLOYMENT SECURITY COMMISSION

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR



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April 11, 2005

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 of North Carolina reporting entity as presented in the *Comprehensive Annual Financial Report (CAFR)* and *Single Audit Report* for the year ended June 30, 2004. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

In the *CAFR*, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor presents the results of tests of internal control and compliance with laws, regulations, contracts and grants applicable to the State's financial statements and to its federal financial assistance programs. Our 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 the Single Audit Act as applicable. Our audit scope at the Employment Security Commission included the following:

State of North Carolina's Financial Statements

Enterprise Fund: Unemployment Compensation Fund

State of North Carolina's Administration of Federal Financial Assistance Programs

Unemployment Insurance

Employment Service Cluster

Trade Adjustment Assistance – Workers

Workforce Investment Act Cluster

Our audit procedures at the Employment Security Commission were less in scope than would be necessary to report on the financial statements that relate solely to the Commission or its administration of federal programs. Therefore, we do not express such conclusions.

The results of our audit procedures yielded audit findings and recommendations for the Commission related to the State's federal financial assistance programs that may require disclosure in the aforementioned reports. These findings are included in the findings and recommendations section contained herein. Our recommendations for improvement and management's response follow each finding.

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.

A handwritten signature in black ink that reads "Leslie W. Merritt, Jr." in a cursive script.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting or Federal Compliance Objectives

The following findings and recommendations were identified during the current audit and discuss conditions that represent significant deficiencies in internal control and/or noncompliance with laws, regulations, contracts, or grants. Finding numbers 1 and 2 were also reported in the prior year.

1. CONTROLS OVER EQUIPMENT MANAGEMENT NEED IMPROVEMENT

The Commission did not have controls in place to ensure that fixed asset records were properly maintained for equipment purchased with federal funds. Inadequate controls increase the risk that items could be stolen and not detected. Our tests disclosed the following:

- The physical inventory performed during the period March 2004, to August 2004, was not completely reconciled. Two cost centers had not verified the missing and/or extra items identified during their physical inventory. As of January 2005, their Missing Asset Report and Error Report had not been returned to the Fixed Asset Unit;
- One item purchased during the year with Employment Service grant funds that cost \$2,611, was not recorded in the Magic Service Desk System (Magic) master file. The Magic System is used to record and track fixed assets;
- Three items had been transferred to the Surplus cost center, but a property transfer form (BM-51) could not be located. A BM-51 form should be initiated for property transfers in order for the correct location to be listed in the Magic System;
- A lack of segregation of duties exists at the local ESC offices. The fixed asset custodian inventories and tags the equipment.

Under Title 29 CFR Section 97.32, equipment records are required to include the description, location and disposition data of the equipment. Also it requires the State to use, manage, and dispose of equipment in accordance with its laws and procedures.

Recommendation: The Commission should strengthen procedures to ensure that the fixed assets physical inventory is completed and reconciled in a timely manner. The property transfer form should be used to properly document the transfer of items between cost centers. The Magic System should be updated for reconciled and transferred items. Fixed assets responsibilities in the local ESC offices should be properly segregated.

Agency's Response: Bullet 1: As of March 16, 2005, the missing reports have been received. Dates for completion of an inventory have been incorporated into the System Procedure on Fixed Assets requiring units to have inventories completed by February 1st of each year based on a July to June cycle.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

Bullet 2: The item in question pertains to an equipment rack that was ordered as a pair. The first item arrived and was tagged. The second rack arrived separately and was not tagged more than likely due to a notification failure. The Fixed Asset unit now has access to the electronic receiving reports which provides a next day notification of received items. The second rack is also now tagged.

Bullet 3: All of the items were not properly transferred by oversight. Those who should have completed the transfer documentation will be reminded of the process.

Bullet 4: The requirement for segregation of duties in the local office has been written into the System Procedure on Fixed Assets

2. UNEMPLOYMENT INSURANCE CLAIMANTS ELIGIBILITY DOCUMENTATION NEEDS IMPROVEMENT

Our tests of 120 claimants receiving Unemployment Insurance (UI) benefits revealed the following conditions:

- Three files lacked the Work Search Record and one file lacked the New Initial Intrastate Claim for Benefits. The claimant is required to complete the Work Search Record to document his/her job searches. Our review of other information in the files showed that these claimants were eligible to receive UI benefits;
- Eleven files contained the required forms but the Work Search Record form or the New Initial Intrastate Claims for Benefits form lacked either the claimant's or the agent's signature;
- In addition, the local ESC offices did not schedule an Eligibility Review Interview (ERI) for three claimants. The purpose of the ERI is to provide counseling and job finding assistance, advise to training options and review the claimant work search records.

The Employment Security Law 96-13(a)(1) and Employment Security Commission Regulation 10.12(A), requires the claimant 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 claims taker 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 local ESC offices should adhere to established policies and procedures by performing the eligibility reviews and signing, maintaining and documenting the work search and initial claim forms. All forms should be properly completed and maintained in accordance with the *Local Office Claims Manual*, Employment Security Law, and ESC regulations.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

Agency's Response: The Claims Manual is in the process of being updated. The revised version will be shared with Agency claims staff in an electronic format. Training and updates will be conducted on an as needed basis.

3. ERRORS FOUND IN BENEFIT PAYMENTS FOR TRADE READJUSTMENT ASSISTANCE

Controls were not in place to ensure that benefit payments were calculated correctly for participants of the Trade Adjustment Assistance (TAA) program, including Trade Readjustment Assistance (TRA). In addition, documentation was not always on file to show that the participants had met all the eligibility requirements of the program. We found 17 errors in our sample of 64 participants as described below:

- Two participants were overpaid TRA benefits because their TRA Maximum Benefit Amount was not reduced by the amount of Unemployment Insurance (UI) Temporary Extended Unemployment Compensation. Under Title 20 CFR Section 617.14(a), the maximum amount of TRA payable to an individual under a certification shall be reduced by the total sum of UI to which the individual was entitled. These participants were overpaid a total of \$4,980;
- One participant turned in the NCUI 506T Weekly Request for Allowance, but failed to document the performance of the required job searches. The local ESC office requires the participant to document searches with three different potential employers on three different days. Under Title 20 CFR Section 617.11(a)(2)(vi)(A), an individual must actively engage in seeking work and furnish the State agency tangible evidence of such efforts each week. The participant was paid \$292 in benefits for that week's undocumented claim;
- Eleven participants' files did not contain a copy of the NCUI 858A Request for Allowances by a Worker in Training. Participants are required to document the training on the NCUI 858A form that is signed by the training instructor. The form is submitted to the local ESC office every four weeks, if the participant uses the Voice Response Unit (VRU) to document training each week. The form is submitted weekly for participants who do not use the VRU. Under Title 20 CFR Section 617.11(a)(2)(vii), in order to qualify for TRA for any week of unemployment, the individual must be enrolled in approved training, have completed the approved training, or have a waiver from training requirement. The participants were paid a total of \$3,407 in benefits for undocumented claims.

Because likely questioned costs exceed \$10,000, we are questioning \$8,679, which represents the total TRA benefits payments to participants that were overpaid, or that did not have the required documentation to verify their eligibility.

Recommendation: The Commission and local ESC offices should implement procedures to ensure that benefit amounts be properly calculated and in accordance with federal program guidelines. Required documentation should be maintained in the files to support the TAA/TRA benefit eligibility.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

Agency's Response: Bullet 1: Procedure on reduction of TRA benefits due to the entitlement of TEUC was unclear at the onset of the TEUC program. Initial reductions were made based upon an understanding that only TEUC payments actually made to a claimant should be deducted from TRA benefits. Since North Carolina also went into on Extended Benefits (EB) period during this time frame, there was confusion on the difference in the reduction procedure between the TEUC and EB programs. It was not until several months into the TEUC Program that we received specific instructions from USDOL to reduce by TEUC entitlement rather than by TEUC actual payments made to TRA claimants. When the reduction requirements were clarified by USDOL, we immediately began making the full deduction of TEUC entitlement from TRA.

Bullet 2: In July 2002, NC experienced the largest layoff in history affecting one particular area with the closure of Pillowtex, Inc. As a result, ESC created a JobLink Center on site at Plant 1 to serve the large number of workers. New and existing ESC staff was placed at this site to assist workers with filing for TAA/TRA benefits. Even though training was provided, it was brief due to time constraints. In addition, staff enrolled these workers in two different federal programs, WIA & TAA, due to WIA National Emergency Grant funds being used to serve these workers. Therefore, it is conceivable to believe that some files may exist that all required documentation cannot be located, or there is lack of required documentation. When a participant transitions from UI to TRA benefits, it is likely that the change in work search requirements may not be conveyed to the worker timely, resulting in the worker not making the required work search contacts and documented on Form NCUI 506T. Additional training to staff, both on a regional and individual basis, has been provided to ensure that workers receiving TRA benefits meet the required work search contacts.

Bullet 3: ESC has always provided local staff with training on the federal requirements and operating procedures for the TAA program. Staff is aware that Form NCUI 8-58A, to verify attendance in training, is required. However, due to the increased number of workers being served, and the caseload many offices are managing with limited administrative staff resources from the TAA program, it is possible that some attendance records may be missing from the participant file. Many of the participants noted in the audit are no longer in training and are working; therefore, it would be difficult to collect the missing data from the participant or the training provider at this time. For those workers who are still enrolled in training or being provided TAA services, we will contact the worker to obtain the missing signatures on these documents. We will continue to provide staff with training to ensure that adequate documentation on attendance while in training is maintained.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

4. TRADE ADJUSTMENT ASSISTANCE PARTICIPANT ELIGIBILITY DOCUMENTATION WAS INCOMPLETE

The local Employment Security Commission office files for participants in the Trade Adjustment Assistance program were not always complete. Our tests of 64 participants receiving Trade Adjustment Assistance (TAA), including Trade Readjustment Assistance (TRA) revealed that 10 participants' files did not contain the required documentation or contained forms that were not signed. The results of the test work are described below:

- Five files lacked the required Form NCUI 856W TAA (Trade Adjustment Assistance) Waiver for Training Requirement form, for the period covering the payment tested. The written waiver is required in situations in which training is not feasible or not appropriate. However, the TRA Special Payment System, which is the system used to establish and monitor the activities of the TAA participants, indicated that a waiver had been granted;
- Five files lacked a properly signed copy of the NCUI 855 Request for Entitlement to TAA/TRA and the NCUI 856 TRA Questionnaire. Once the local office inputs the worker's separation information into the TRA Special Payment System, the NCUI forms are printed and signed by the participant. There was an unsigned copy available on the TRA Special Payment System.

Agencies are required under Title 20 CFR Section 617.19(d)(2), to retain a copy of every individual waiver for such time as the US Department of Labor requires.

Recommendation: The local ESC offices should adhere to established procedures for obtaining and maintaining the required waiver of training document. All forms should be properly completed, signed and maintained.

Agency's Response: Bullet 1: With the implementation of the HCTC program in the TAA Reform Act of 2002, the entire procedure and concept for issuance of waivers changed. For over 28 years, ESC staff was only required to issue training waivers to bridge the gap from exhaustion of UI benefits to receipt of TRA benefits. With implementation of HCTC, this procedure drastically changed which required ESC staff to follow different procedures and requiring three times as many workers to be issued waivers to meet federal HCTC eligibility requirements. With changes in the TAA program requirements with the implementation of the TAA Reform Act of 2002, local staff is currently being provided individual training. During these training sessions, procedures are being discussed in detail on the issuance of training waivers. In addition, system changes are being made to create the document, Form NCUI 856W, for the worker to sign when staff enters the waiver into the intranet TRA system. We anticipate that these changes will result in this problem being resolved.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Bullet 2: North Carolina leads the nation in serving the largest population of trade affected workers. With the large number of layoffs occurring, staff often takes the TAA/TRA initial claims (NCUI 8-55 & 8-56) in groups rather than individually. As a result, there may be an occasion when the worker's signatures are not obtained initially. For those workers who are still enrolled in training or being provided TAA services, we will contact the worker to obtain the missing signatures on these documents. In addition, required documentation in a TAA participant file is being reviewed with local staff during training sessions.

5. DOCUMENTATION FOR FEDERAL UNEMPLOYMENT TAX ACT CERTIFICATIONS NEEDS IMPROVEMENT

Documentation from the tax system was not on file to support the amounts certified on the Federal Unemployment Tax Act (FUTA) manual certifications. States are required to annually certify the unemployment contributions received by the State for each taxpayer. Manual certifications are required for payments that cannot be certified by a system match. Since the documentation was not attached to the certification, the Commission had to obtain the information from the tax system. Our test of 10 of the 119 unmatched records revealed:

- The Commission could not obtain information from the tax system to support the amounts certified in one sample item;
- There was no evidence to indicate that a certification was performed on one record.

Recommendation: The Commission should establish controls to ensure that all manual certifications are performed and documentation is maintained for the certified tax credit amounts.

Agency's Response: The Tax Department has established controls to ensure all manual certifications are performed and proper documentation is retained to support the transactions.

DISTRIBUTION OF AUDIT REPORT

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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April 19, 2005

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