



# STATE OF NORTH CAROLINA

**EMPLOYMENT SECURITY COMMISSION**

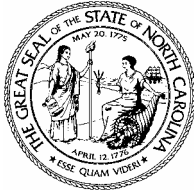
**STATEWIDE FINANCIAL AUDIT PROCEDURES**

**FOR THE YEAR ENDED JUNE 30, 2005**

**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**



STATE OF NORTH CAROLINA  
Office of the State Auditor

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March 31, 2006

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, 2005. 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 financial statements and federal financial assistance

programs that may require disclosure in the aforementioned reports. These findings are included in the audit 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**

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### **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 2, 3 and 4 were also reported in the prior year.

#### 1. CONTRIBUTIONS RECEIVABLE AND REVENUE ACCOUNTS WERE UNDERSTATED

The Commission did not have procedures in place to ensure that all receivables were identified and recorded on the financial statements correctly. Therefore, receivable and revenue account balances submitted for inclusion in the State's *Comprehensive Annual Financial Report* were understated.

During our audit of the Contributions Receivable Account we noted that the Commission failed to include the Employer Quarterly Contributions for the quarter ended June 30, 2005, that were collected during the month of July 2005. We also noted that the receivables recorded for the amounts collected during the period August 1 through August 15 were incorrect. In addition, the receivables were not reduced for the tax refunds during this period. These errors caused the Contributions Receivable Account and the Employer Unemployment Insurance Contributions to be understated by \$52.5 million.

The understatement was corrected once it was brought to the Agency's attention.

*Recommendation:* The Commission should place greater emphasis on year-end financial reporting and implement internal control procedures to ensure the completeness and accuracy of its financial statements.

*Agency's Response:* The accurate preparation and timely completion of the Comprehensive Annual Financial Report (CAFR) has always been a priority of the Commission. Our record reflects our commitment to this priority.

As required by the CAFR, the items in question were subject to the Management, Discussion, and Analysis (MD&A) process. The items were reviewed, in summary, by two levels of upper management and found that the yearly change was reasonable.

Internal controls will be implemented which require a detailed analysis of every item on the MD&A prior to final management review

#### 2. 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

## **AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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increase the risks that items could be lost and or stolen and not detected. Our tests disclosed the following:

- The Commission did not complete an inventory for the fiscal year 2005;
- The physical inventory taken for the prior year was never fully reconciled with the fixed asset system records. There were 408 missing assets as of November 2005. The Commission does not plan to investigate these missing items since it raised the dollar threshold for tagging and tracking fixed assets from \$500 to \$2,500;
- Written procedures, which were revised in April 2005, stated that computer equipment with a cost of \$500 or more would still be tracked and inventoried. These written procedures were further revised in November 2005 to eliminate tracking of computer equipment, unless it had a cost of \$2,500 or more. This policy effectively eliminates all tracking of personal computers. Of the 408 items missing from the prior year inventory, 28 are computers that were purchased with Employment Service grant funds in 2003. Since computers are no longer being tracked or tagged, there are concerns that computers may be sent to State Surplus to be sold without the sensitive data being removed from the hard drives.

Office of State Controller policy requires an inventory to be taken annually. Title 29 CFR section 97.32 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 taken annually and is reconciled to the fixed asset system. The reconciliation should include locating and or determining the disposition of all missing assets. The Commission should develop procedures that insure controls over computer equipment which may contain sensitive data.

*Agency's Response: Bullet 1:* The Commission did not complete an inventory for the fiscal year 2005. The inventory was begun but not completed in the fiscal year of 2005. The Commission was in the process of changing inventory cycles. We used to conduct our inventory on a fiscal year basis. We were in the process of moving to a calendar year cycle. We will update our procedures to reflect when inventories are to be conducted. We will perform one annually.

*Bullet 2:* We acknowledge that the inventory for the prior year was never fully reconciled with the fixed asset system. The items noted were under the \$2,500 threshold for tracking. We have consistently maintained that our threshold of record with the Office of the State Controller is \$2,500. The \$500 level was strictly an internal practice. Therefore, we maintain that we are in compliance with the tagging and tracking criteria for tracking equipment.

*Bullet 3:* Computer equipment costing less than \$2,500 is not tracked through our fixed asset system. It is tracked through a system in our Information Systems Division. We

## **AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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understand the importance of making sure that sensitive information is removed from the hard drives before we surplus the equipment. We will review our procedures to be certain that this concern is adequately addressed.

### **3. TRADE ADJUSTMENT ASSISTANCE PARTICIPANT ELIGIBILITY DOCUMENTATION WAS INCOMPLETE**

The local Employment Security Commission (ESC) office files for participants in the Trade Adjustment Assistance program were not always complete. Our tests of 104 participants receiving Trade Adjustment Assistance (TAA), including Trade Readjustment Assistance (TRA) revealed that nine participants' files did not contain the required signed documentation or contained forms that were not signed. The results of the test work are described below.

- One file 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 available, not feasible, or not appropriate. The forms are to be completed, signed by the participant and local office representative, and maintained in the local office files. 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. Title 20 CFR section 617.19(d)(2) states that each State Agency shall retain a copy of every individual waiver and revocation notice issued by the State, for such time as the US Department of Labor requires;
- One participant's file copy of their NCUI 856W did not agree to the information listed in the TRA Special Payment System nor was the file copy signed by the local office representative. The forms are to be completed, signed by the participant and local office representative, and maintained in the local office files;
- Two 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, signed by the participant, and are to be maintained in the local office files. There were unsigned copies available on the TRA Special Payment System;
- Five participants had unsigned NCUI 858A Request for Allowances by a Worker in Training or NCUI 506T Weekly Request for Allowances by a Worker Not in Training forms. Agency program procedures state that these forms must be signed by the participants in order to be valid.

Agency policies and procedures state that weekly forms submitted to indicate benefit eligibility such as the NCUI 858A Request for Allowance by a Worker in Training and

## AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

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NCUI 506T Weekly Request for Allowances by a Worker Not in Training, must be signed and dated in order to be valid.

*Recommendation:* The local ESC offices should adhere to established procedures for obtaining and maintaining the required TAA program documentation. All forms should be properly completed, signed, and maintained.

*Agency's Response:* Bullets 1-4: TAA administrative staff continues to provide training to local office TAA staff. On August 12, 2005, ES Management created Operating Procedures to provide guideline concerning documentation requirements for TAA participants. In addition, in September 2005, the *TAA Participant Folder Checklist* was distributed to each office in an effort to ensure required forms and supporting documentation are signed and maintained with each participant's file. During routine monitoring visits, TAA administrative staff randomly selects TAA participant records to ensure local staffs are maintaining participant documentation in compliance with established procedures and policies.

#### 4. ERRORS FOUND IN BENEFIT PAYMENTS FOR TRADE READJUSTMENT ALLOWANCES

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 Allowances (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 nine errors in our sample of 104 participant payments as described below.

- One participant's file did not have a copy of the NCUI 506T Weekly Request for Allowances by a Worker Not in Training form. Participants are required to document searches with three different potential employers on three different days. Participants are required to document and certify (sign) their searches on the NCUI 506T. Participants, who use the Voice Response Unit (VRU), must submit the form every four weeks. Participants who do not use the VRU must submit the form weekly. Title 20 CFR section 617.11(a)(2)(vi)(A) states that an individual must actively engage in seeking work and furnish the State Agency tangible evidence of such efforts each week. The participant was paid \$172 in benefits for that week's undocumented claim;
- Five participants were overpaid TRA benefits because their TRA Maximum Benefit Amount (MBA) was not reduced by the amount of their Unemployment Insurance (UI) Temporary Extended Unemployment Compensation (TEUC). Title 20 CFR section 617.14(a) states that 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. The Trade Adjustment Assistance Reform Act of 2002 further states that UI includes, among other assistance, TEUC. These participants were overpaid a total of \$16,487;

## AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

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- One participant erroneously received three additional weeks of Basic TRA weekly benefit payments. Title 20 CFR section 617.14(a) states that the maximum amount of TRA payable to an individual shall be determined by multiplying the weekly amount of TRA payable by 52 and then subtracting from the product derived the total sum of Unemployment Insurance to which the individual was entitled. The participant was overpaid a total of \$693 for the three additional weeks;
- One participant's TRA benefit determination was not revised as a result of the wage revision to his UI claim. Title 20 CFR section 617.13(a) describes the method for calculating TRA benefits. The weekly benefit amount for UI is a critical component of the TRA benefit calculation for cases where there is an established UI claim. Any changes to the UI benefits would require a change in the TRA benefit calculation. The participant was overpaid \$5,621;
- One participant's file did not have a copy of the NCUI 858A Request for Allowances by a Worker in Training or NCSES 2793 TAA Bi-Weekly Attendance Benefit Voucher form. Participants are required to document the training on the NCUI 858A or NCSES 2793 which is signed by the instructor and the claimant. Participants, who use the Voice Response Unit (VRU), must submit the form every four weeks. Participants who do not use the VRU must submit the form weekly. Title 20 CFR section 617.11(a)(2)(vii) states that 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 participant was paid \$204 in benefits for that week's undocumented claim.

We are questioning cost of \$23,177 which represents the total TRA benefit payments to participants who were overpaid or 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 are properly calculated in accordance with federal and agency program guidelines. Required documentation should be maintained in the files to support TAA/TRA eligibility.

*Agency's Response: Bullets 1 & 5:* Established policy require that TAA participants receiving TRA benefits report every 4 weeks with either form NCUI 506T, NCUI 8-55A or NCSES 2793, for previous 4 week period filed on the Voice Response Unit (VRU). TAA administrative staff continues to provide training to local office TAA staff. On August 12, 2005, ES Management created Operating Procedure to provide guidelines concerning documentation requirements for TAA participants. In addition in September 2005, the *TAA participant Folder Checklist* was distributed to each office in an effort to ensure required forms and supporting documentations are signed and maintained within each participant's file. During routine monitoring visits, TAA administrative staff randomly selects TAA participant records to ensure local staffs are



## AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

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maintaining participant documentation in compliance with established procedures and policies.

*Bullet 2:* When the TEUC program was activated, benefit reduction procedure of TRA benefits was not clear. For a period, services were provided with the best understanding available at the time. Once the procedure was clarified by USDOL, we initiated steps in our processing procedures at both the local office and central office levels to help ensure correct payment of TRA benefits by reducing full TEUC entitlements from TRA claims. We continue to provide training to agency personnel involved in the processing of TRA claims regarding this aspect of benefit payment. We are pursuing system enhancements which will assist in the identification of TRA claims requiring benefit reduction.

*Bullet 3:* The training of our personnel who are responsible for TRA benefit calculation is stringent and based on TAA/TRA program requirements as they are listed in the Code of Federal Regulations. We will continue to place an even greater emphasis on calculation of entitlement and document creation. We are pursuing further automation of our processing system in an effort to decrease human intervention to help alleviate the possibility of human error.

*Bullet 4:* At this time, UI claims and TAA/TRA claims are processed on separate systems which are almost totally independent of each other. Procedures are in place intended to prevent incorrect payment due to inadvertent failure to revise TRA claims to match UI claim records. Training which emphasizes these procedures is on-going. We will continue to provide this and other training which will promote a greater accuracy in the processing and payment of TRA claims. At the same time, we are investigating and pursuing technology which will enable us to enhance our existing systems while developing programming for automated processing.

## **ORDERING INFORMATION**

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