



STATE OF NORTH CAROLINA

EMPLOYMENT SECURITY COMMISSION

STATEWIDE FINANCIAL AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2006

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR



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March 9, 2007

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, 2006. 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

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 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." with a stylized flourish at the end.

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. ONE RECIPIENT RECEIVED EXCESSIVE PAYMENTS FOR TRADE READJUSTMENT ALLOWANCES

Our test of 74 participants of the Trade Adjustment Assistance (TAA) program revealed that one participant received excessive payments. An error in the benefit calculation allowed the recipient to receive two additional weeks of Basic Trade Readjustment Allowances (TRA) from the TAA program (Grant #14452-05-55, award year October 2004 - September 2005). When determining the claimant's monetary revision, an incorrect date was used to calculate the benefit payment.

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 \$590 for the two additional weeks. Because likely questioned cost exceeds \$10,000, we are questioning the \$590 overpayment.

Recommendation: We recommend that the TRA Maximum Benefit Amount be calculated in accordance with the provisions set forth in federal regulations. Extra care should be taken when determining dates and wages that are to be used for the benefit payment calculation.

Agency's Response: The State of North Carolina does not revise monetary determinations which are over a year old which this claim was at the time of the audit. G.S. 96-15 (b)(1) provided that at any time within one year from the date of the making of an initial determination, the Commission on its own initiative may reconsider such determination if it finds that an error in computation or identity has occurred in connection therewith or that additional wages pertinent to the claimant's benefits status have become available, or if such determination of benefits status was made as a result of a nondisclosure or misrepresentation of material fact. Based on this, no recouping of the monies paid in excess could occur.

The training of our personnel who are responsible for TRA benefit calculation is stringent and based on TTA/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 have initiated automating our monetary processing system in an effort to decrease human intervention to help alleviate the possibility of human error.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

2. CONTROLS OVER EQUIPMENT MANAGEMENT NEED IMPROVEMENT

The Commission failed to complete an annual inventory of equipment for the fiscal year ended June 30, 2006. The equipment includes items purchased with federal funds from the Employment Services Cluster with an approximate cost of \$1.9 million. The risk that items could be lost and or stolen and not detected increases when inventories are not taken and reconciled to the property records.

Title 29 CFR section 97.32 requires the State to use, manage, and dispose of equipment in accordance with its laws and procedures. Office of State Controller's Fixed Asset Policies requires inventory to be taken at least annually.

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.

Agency's Response: Our policy now states that we will do an annual inventory each calendar year. We began our inventory on July 1, 2006 and it was completed and reconciled by December 31, 2006.

3. CONTROLS OVER FEDERAL DEBARMENT VERIFICATION NEED IMPROVEMENT

The Commission did not have controls in place to ensure that covered transactions (contracts and procurements in excess of \$25,000) were made only to vendors that were eligible to participate in federal programs. Our tests of purchase orders over \$25,000 in the Employment Services Cluster (ES-14882-05-55, award period July 1, 2005 – June 30, 2008) disclosed that the Commission had not verified the federal debarment status for seven vendors out of 12 tested. Testing by the auditor determined that none of the vendors involved were currently debarred and there were no questioned costs. Inadequate controls increase the risk that contracts could be made with debarred or suspended parties resulting in questioned costs.

Title 29 CFR part 98 requires verification for procurement transactions, expected to equal or exceed \$25,000, to ensure that the recipients of federal funds are not suspended or debarred. This verification may be accomplished by checking the Excluded Parties List System maintained by the General Services Administration, collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

Recommendation: The Commission should establish and implement procedures to ensure compliance with federal suspension and debarment regulations.

Agency's Response: The Purchase Request form (BM-36) was revised to include a check-off for Federal Debarment. Our Agency delegation is \$25,000. Vendor selection is determined by either State Purchase & Contract or ITS for all purchases over \$25,000; however, we have put controls in place (by modification of our form) to ensure that vendors who are selected are not debarred by the State or the Federal Govt.

ORDERING INFORMATION

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