

DEPARTMENT OF LABOR
UNEMPLOYMENT INSURANCE FUND

The following was issued under a separate audit of the Unemployment Insurance Fund by Ketel Thorstenson, LLP.

PRIOR AUDIT FINDINGS

Financial Statement Audit Findings:

Finding No. 10000200801:

Repeated as Finding No. 10000200901 for the year ending June 30, 2009.

Finding No. 10000200802:

Repeated as Finding No. 10000200902 for the year ending June 30, 2009.

Finding No. 10000200803:

Repeated as Finding No. 10000200903 for the year ending June 30, 2009.

Finding No. 10000200804:

Tying of the manual trial balance to the automated trial balance.

Auditee's Corrective Action Plan:

Recommendation was implemented.

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Financial Statement Audit Findings:

Finding No. 10000200901:

Audit Adjustments

Analysis:

During the course of our audit engagement, we proposed material audit adjustments that resulted in significant changes in the Fund's financial statements. Adjustments included recording an adjustment to the Fund's cash balance, recording additional accounts receivable, federal benefit payments, a liability for the amount of investment fees due to other state fund, a liability for the amount owed to employers for May and June, a liability for the amount being held for fiscal administration, and a liability for interest and penalties from May and June owed to the Contingency Fund. These adjustments would not have been identified as a result of the Fund's existing internal controls, and therefore, could have resulted in a material misstatement of the Fund's financial statements.

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RECOMMENDATION:

1. Accounting staff should ensure that year-end balance sheet accounts are reconciled and recorded properly. Normal year-end adjustments should be made by accounting staff. In addition, we recommend changes in operations be continually reviewed for potential changes in accounting so that the appropriate entries can be made throughout the year.

Auditee's Corrective Action Plan:

During the next fiscal year we will utilize the senior internal auditor from the Department of Labor, Unemployment Insurance Division, to review our financial statements on a quarterly basis. Sharon Schnabel will be in charge of implementation and review of the corrective action plan.

Finding No. 10000200902:

Preparation of the Financial Statements

Analysis:

As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the Fund's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for you at the same time in connection with our audit. This is not unusual for us to do this with organizations of your size. It is our responsibility to inform you that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the Fund's management. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide the completed financial statements.

RECOMMENDATION:

2. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Auditee's Corrective Action Plan:

We are aware of the risk associated with not preparing our financial statements, but believe our review of the financial statements to be adequate to reduce this risk. Dan Nikolas will be in charge of implementation and review of the corrective action plan.

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Finding No. 10000200903:

Review of Journal Entry Posting

Analysis:

During the course of our audit engagement, we were informed that the Fund's balance sheet was out of balance by approximately \$60,000. Accounting staff had posted entries during fiscal year 2009 that resulted in the financial statements being out of balance. These entries were not reviewed by management, and the error was not discovered and corrected timely.

RECOMMENDATION:

3. Management should ensure that journal entry postings are accurate, and adjusting entries should be reviewed by someone independent of the person initiating the entry on a regular basis.

Auditee's Corrective Action Plan:

During the next fiscal year we will utilize the senior internal auditor to review financial statements on a quarterly basis. Sharon Schnabel will be in charge of implementation and review of the corrective action plan.

Finding No. 10000200904:

Postdating of Employer Batches and Reporting of Inaccurate Data

Analysis:

We noted that due to a glitch in the integration of a new internet program, the employer tax department experienced some set-backs in monthly batch processing. This resulted in the batching of May and June 2009 employer tax transactions in September 2009. In doing so, the Fund posted batches as if they had occurred in May or June resulting in a significant misstatement of the Fund's clearing account cash balance. This misstatement resulted in inaccurate reporting of the clearing account book cash balance submitted to the Federal Government.

RECOMMENDATION:

4. We recommend the Fund record transactions as of the date they are actually processed and paid.

Auditee's Corrective Action Plan:

Accounting processes were impacted by two events during this audit period. The first was federal legislation which created significant new benefit programs in response to the recession. These programs required administration, tracking and reporting at the state level. The second was implementation of a new internet program which caused delays in monthly batch processing. The May-June employer transactions were delayed until

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September. They were posted in May-June because the accounting system would not balance if they were not recognized in that quarter. Processing is now current so this type of delay will not happen again. In addition, the accounting group organization has been changed, a senior staff person added and the automated system is being reviewed to eliminate the type of system restrictions that caused this problem. Federal reports are now up-to-date and being filed timely and accurately.

Federal Compliance Audit Findings:

Finding No. 10000200905:

Filing of Late and Inaccurate Federal Reports

CFDA Title: Unemployment Insurance

CFDA Number: 17.225

Federal Award Number:

Federal Award Year:

Federal Agency: Employment and Training Administration

Type of Finding: Significant Deficiency

Category of Finding: Reporting

Analysis:

Due to the Fund falling behind in processing monthly batches, the Fund filed multiple monthly and quarterly federal reports delinquent. Additionally, the Department filed one report intentionally inaccurate to meet the filing deadline.

RECOMMENDATION:

5. We recommend the Fund file reports to the federal government timely and accurately.

Auditee's Corrective Action Plan:

Accounting processes were impacted by two events during this audit period. The first was federal legislation which created significant new benefit programs in response to the recession. These programs required administration, tracking and reporting at the state level. The second was implementation of a new internet program which caused delays in monthly batch processing. The May-June employer transactions were delayed until September. They were posted in May-June because the accounting system would not balance if they were not recognized in that quarter. Processing is now current so this type of delay will not happen again. In addition, the accounting group organization has been changed, a senior staff person added and the automated system is being reviewed to eliminate the type of system restrictions that caused this problem. Federal reports are now up-to-date and being filed timely and accurately.

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Finding No. 10000200906:

Overpayment of Benefit Payments

CFDA Title: Unemployment Insurance

CFDA Number: 17.225

Federal Award Number:

Federal Award Year:

Federal Agency: Employment and Training Administration

Type of Finding: Significant Deficiency

Category of Finding: Eligibility

Analysis:

We noted that one claimant was overpaid unemployment benefits by \$1,196 due to the duplication of wages during two quarters of the base period resulting in an overstated maximum benefit amount. The claim was originally a monetary denial and then was re-determined due to additional wage information received. The duplication of wages occurred as a result of the manual process of inputting wages during a redetermination and failure to zero out the original input of wages that resulted in the initial denial. The total sample tested was \$254,483 of a total population of \$55,717,189.

RECOMMENDATION:

6. We recommend that on claims which are originally denied, the individual manually entering the redetermination verify that the original data entered is properly cleared out.

Auditee's Corrective Action Plan:

We agree and will implement this recommendation. Sharon Schnabel will be in charge of implementation and review of the corrective action plan.