

LOUISIANA WORKFORCE COMMISSION  
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES  
MANAGEMENT LETTER  
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# Louisiana Legislative Auditor

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## Louisiana Workforce Commission

December 2016

Audit Control # 80160065

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## Introduction

As a part of our audit of the State of Louisiana's Comprehensive Annual Financial Report (CAFR) and the Single Audit of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2016, we performed procedures at the Louisiana Workforce Commission (LWC) to provide assurance on financial information that is significant to the CAFR; evaluate the effectiveness of LWC's internal controls over financial reporting and compliance; and determine whether LWC complied with applicable laws and regulations. In addition, we determined whether management has taken actions to correct the findings reported in the prior year.

LWC is a component of the State of Louisiana created within the executive branch of state government. LWC's mission is to put people to work. LWC's purpose is to operate an integrated workforce development delivery system in this state, in particular through the integration of job training, employment and employment-related education and training programs, vocational rehabilitation services, independent living services, and blind services; and to administer the state's unemployment and workers' compensation programs.

## Results of Our Procedures

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### Follow-up on Prior-year Findings

Our auditors reviewed the status of the prior-year findings reported in a management letter dated December 23, 2015. We determined that management has resolved the prior-year findings related to inadequate subrecipient monitoring for the Workforce Investment Act Cluster and inadequate subrecipient monitoring for Community Services Block Grant.

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## Current-year Findings

### Improper System Implementation

LWC did not adequately manage the implementation of the Helping Individuals Reach Employment (HiRE) system to ensure its compliance with all federal, state, and financial reporting requirements. As a result, data did not properly convert from the original system; interfaces to other systems did not properly function; and HiRE could not properly determine eligibility and benefits, process proper payments timely or without manual intervention, or produce reliable reports to support financial and federal reporting objectives.

The former LWC management contracted a license with Geographic Solutions, Inc. (GSI) as a sole source provider of HiRE, a proprietary web-based system for managing unemployment claims, benefits, and appeals processes. To assist in the implementation, LWC also contracted with GCR, Inc. (GCR) and Ciber, Inc. (Ciber). LWC, Ciber, GCR, and GSI worked together to convert the claims and benefit data from the existing mainframe system into the HiRE system. LWC determined the requirements for the data to be imported. Ciber's duties were to scrub and format the data from the old system for conversion to HiRE; GCR's duties were to manage the conversion and map the data to staging tables for import; and GSI's duties were to import the data into HiRE. LWC has paid GSI, GCR, and Ciber \$4.2 million in contract costs associated with this implementation as of June 30, 2016. The total contracts executed for these three vendors total almost \$8 million which also includes additional phases of HiRE implementations.

The HiRE implementation project was deficient in several respects, which were critical to the project's success as follows:

- Even though HiRE had not passed all testing necessary to demonstrate consistent functional operation, the former LWC management implemented HiRE on November 9, 2015, without the prior system as a parallel fallback. Additionally, improper conversion of data from the old system led to data imported into HiRE with missing or incompatible fields and missing historical records.
- LWC did not obtain all contractually-required project deliverables, including adequately-detailed system requirements for meeting LWC's specific business needs. LWC's poorly-defined plans, unclear assignment of duties, lack of documentation, and deficient monitoring led to increased risk of project failure.
- HiRE immediately issued erroneous payments after go-live. To identify these payments and to detect future errors, GSI developed a "payment exception report" screen to list weekly certifications with issues that need manual review and resolution prior to payment. Since LWC did not yet know all of HiRE's problems, LWC required continual modifications to this screen to detect new issues that LWC identified throughout the fiscal year. However, as of the end of the fiscal year, LWC could not produce a complete report of erroneous payments that occurred.

- Federal guidelines suggest that LWC review claims to determine final eligibility and meet an 87% target for initially paying claimants within 21 days after their first eligibility notification. Due to the volume of system problems after go-live, LWC could not timely review claims and make first payments within the acceptable target range. LWC estimated that 26% of first payments were issued late during the period between go-live and June 30, 2016. During this timeframe, LWC estimated that 13,197 claimants received late first payments, 3,920 of which did not receive payments for 43 or more days.

Reliable data and proper functioning of HiRE are critical to compliance with federal law and proper payment of eligible claimants. Without a functioning system, LWC could issue payments to ineligible claimants, issue payments untimely, inappropriately garnish tax refunds, charge erroneous penalties to claimants on overpayments, charge employers inaccurately due to errors in cross-wage data exchanged between states, issue improper payments, or fail to recover overpayments from the IRS and other states.

Management should develop a comprehensive plan to resolve issues with HiRE, its data, and its interfaces. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page A.13).

### **Improper Change Management**

LWC did not establish adequate policies and procedures to manage requests to modify the HiRE system. LWC uses the HiRE system to administer the Unemployment Insurance (UI) program. Failure to establish adequate change request policies and procedures may worsen LWC's current HiRE system problems, including increased risk of errors, overpayments, financial misstatements, fraud, or unauthorized disclosure of data.

LWC transmits messages through an "Online Project Communication" (OPC) portal to report problems or request changes known as "OPCs" in collaboration with GSI, the vendor of the web-based HiRE system. The following deficiencies were noted during our audit:

- LWC did not effectively prioritize requests due to the high volume of tickets associated with system problems. OPC tickets cluttered the ticket queue due to duplicated requests or problems that remained unaddressed. Although LWC rates the importance of changes, it lacks standard procedures for the rating. As a result, LWC and GSI may lack clear direction on dedicating resources to resolving system problems and may not address truly critical problems, leading to compounding errors.
- LWC's tickets lacked necessary detail to support changes in many instances, and LWC closed tickets before appropriately testing the impact of these changes on other aspects of the system.
- Since GSI owns the HiRE system, GSI made changes that impacted LWC that LWC did not test, approve, or monitor.

- LWC did not obtain continual system documentation and training program updates from GSI as major changes occurred.

Management should establish and follow policies and procedures for using the OPC system that require supporting documentation, prioritization, timely testing of proposed changes, and evidence of resolution, and establish a change management review board to coordinate, prioritize, monitor, and approve all changes to HiRE that impact LWC. In addition, LWC should establish contractual service levels and performance measures that require GSI to practice appropriate change and release management, prevent unauthorized changes to HiRE that may adversely impact operations, and fully update all documentation and training programs relevant to the HiRE system. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page A.8).

### **Weak Security Controls**

LWC did not properly secure its data by fully testing HiRE's security functionality, appropriately restricting administrative access, reporting on the access of its employees, and monitoring system activity. Inadequate security of LWC's systems may lead to errors, fraudulent payments, unauthorized view or theft of unemployment insurance and tax data, or noncompliance with privacy laws. Due to the weaknesses described below, we are unable to determine whether unauthorized changes or inappropriate exposure of data have taken place.

Our procedures identified the following:

- LWC did not complete testing of HiRE before its implementation and therefore lacked assurance that HiRE's security functions, privileges, and groups' accesses were restricted as intended. In addition, GSI can modify security functions that impact LWC employee access. LWC lacked established procedures for monitoring and testing GSI's security modifications. These security modifications may result in changes to employee access without LWC's authorization and knowledge.
- Although LWC maintained a manual record of accesses, HiRE could not readily generate reports of employee user IDs that contained their specific access and dates activated or revoked. Because this reporting was not available from the system, LWC lacked support that it maintained proper access for each employee and timely revoked unnecessary access. LWC also lacked established procedures for adding, revoking, and monitoring access to HiRE, including vendor access and the role of human resources' in changing access based on the user's employment status. As a result, users may have had inappropriate access without LWC's knowledge.
- LWC did not practice appropriate access control over modifications of predetermined access privileges. LWC administrators modified predetermined privileges after assignment to users and could not generate and monitor reports of these changes. Additionally, the security documentation did not sufficiently describe what each privilege restricts, how settings affect each privilege, and how

LWC designed privileges based on job duties. Because requests to change access generally occur through an informal process, administrators lack the information necessary to properly assign access based on business need and the informal process makes it difficult to track appropriateness of changes.

- LWC granted 59 known users administrative capabilities to change system functions or user access to the HiRE system, including nine workforce development employees with no business reason to change or grant access to UI data. Due to inadequate security access reporting by HiRE, LWC could not readily support that these accesses were properly limited through other privileges.
- Although security logs exist in the HiRE system, these logs display on separate screens throughout the system, hampering LWC's ability to comprehensively monitor user activity. In addition, because LWC had not fully tested HiRE's security functionality, these logs may not be reliable. Finally, LWC has no policies and procedures in place to require periodic review of these logs. As a result, LWC may be unaware of system activity that may have occurred due to inappropriate access.
- LWC uses the OPC system to communicate HiRE system problems to GSI. GSI customers in other states also use the OPC system and can view LWC's OPC data. LWC lacks established policies and procedures for using, granting, and revoking access to the OPC system. In addition, when reporting problems through the OPC system, LWC employees attached support that contained confidential data. Although law permits Louisiana to share confidential data with participating states in certain instances, LWC should limit sharing personally identifiable information (PII) to what is specifically required.
- The Louisiana Wage and Tax System (LaWATS) is a portal that allows employers to enter wages. LWC granted one IT personnel overlapping duties that permit back-end changes to the data in the LaWATS database, access to all change files on LWC's internal network, management of encryption keys, and access to change benefit payment files generated from HiRE without authorization or independent monitoring. Using this access, the person could change virtually any data without LWC's knowledge.

Additional information relating to LWC security access was not included in this report due to the sensitive nature of the issues. This information has been separately communicated to management and those charged with governance.

Management should develop controls and processes to adding, revoking, monitoring, and reporting access, including maintaining proper documentation or logs, to allow only necessary access to systems, ensure compatible duties, and ensure accesses are revoked timely. Management should ensure GSI notifies them immediately of any security changes GSI makes and should work with GSI to develop any necessary reports that would aid LWC in monitoring all security accesses. Furthermore, management should require GSI to thoroughly test and document security as a key component of resolving other problems with the HiRE system.

Management should also remove all PII contained in the OPC system and establish OPC procedures that prevent its disclosure.

Management concurred with all issues identified in this finding, except for the last bullet, and outlined a plan of corrective action. While LWC management agreed that the one IT personnel with overlapping duties has broad access, it did not agree that virtually any data could be changed without those changes being noticed by other LWC staff and/or monitoring tools (see Appendix A, pages A.9 - A.10).

**Additional Comments:** The one IT personnel at issue has access to manage LWC's security monitoring tools, and LWC lacks adequate procedures to review for unauthorized changes made by this person. Therefore, this person can override monitoring controls, and unauthorized changes may go unnoticed by LWC staff. In addition, management should ensure that allowing the IT user to have access to more than one ID, as described in management's response, does not permit circumvention of controls.

### **Noncompliance with Federal Regulations over Benefit Overpayments**

LWC did not ensure compliance with UI regulations to improve program integrity and reduce overpayments. Failure to properly determine and handle overpayments results in noncompliance with federal regulations, which could result in disallowed costs that would require repayment and/or affect future funding for the administration of the UI program.

Federal regulations require states to properly identify and handle overpayments, including the assessment of penalties and offsetting of applicant debt for overpayments. In order to meet this objective, LWC has established a Benefits Payment Control (BPC) unit which is responsible for the establishment and collection of benefit overpayments. As such, BPC promotes and maintains the integrity of the UI program through: prevention of errors, recovery of overpaid benefits, investigation of overpayment and fraud cases, detection of benefits paid in error because of willful misrepresentation, and enforcement/prosecution of law in fraud cases.

LWC did not ensure overpayment claims data properly converted from the original mainframe system to HiRE or that critical interfaces to other systems functioned properly. As a result, the following deficiencies were noted:

- The Investigations Portal, a system used for tracking and investigating potential overpayments due to fraud, did not work because its interface with HiRE lacks database compatibility. As a result, LWC estimated that approximately 35,000 cases remained unworked as of September 2016. However, until LWC works these cases, management cannot adequately determine which cases involve improper overpayments nor can it attempt to collect on these amounts.
- HiRE-BPC is a system separate from HiRE which LWC uses to offset overpayments with repayments and intercept federal tax refunds in compliance with the Treasury Offset Program (TOP) Agreement. Federal regulations require states to utilize TOP to recover overpayments that remain uncollected one year after the debt was determined to be due.



Until March 2016, because of errors in HiRE's interface with HiRE-BPC, LWC could not properly exchange TOP data with the IRS to offset overpayments. Since March 2016, LWC could not explain, account for, or prevent reoccurrence of overpayment balance discrepancies between HiRE and HiRE-BPC. Therefore, LWC stopped exchanging TOP data with the IRS because it could not reconcile amounts it received from the IRS to the amounts applied to applicant overpayments.

- HiRE did not function correctly with HiRE-BPC to properly assess penalties for overpayments. As penalties were paid by claimants, HiRE was not reducing the penalty balances by the payments. As a result, further penalties were being assessed to claimants who have already paid their penalties in full.
- Federal regulations require states to enter into the Interstate Reciprocal Overpayment Recovery Agreement, which allows states to recover overpayments from benefits being administered by another state. Prior to fiscal year ending June 30, 2015, LWC did not fully participate in this program as federal law required. In response to a U.S. Department of Labor (USDOL) finding, LWC management stated that it would fully automate its offsets to other states once HiRE was implemented. However, LWC could not automate this process as planned and did not recover overpayments from other states during the fiscal year.
- LWC implemented a lockbox system for the collection of overpayment receipts. The lockbox payment records received from the bank did not properly interface to HiRE-BPC. As a result, BPC staff must manually compile a list of payments for entry into the HiRE-BPC system. Thus, these employees were capable of performing incompatible duties such as receiving checks, recording receipts prior to deposit, and performing bank reconciliations.
- LWC was unable to produce a reliable report of overpayments that occurred during the fiscal year because of the issues noted above. While LWC did attempt to provide a report of overpayments that were established during the fiscal year, it was deemed unreliable since it was inconsistent with other information provided by the department and could not be reconciled to ensure completeness. Our test of unemployment compensation benefits disclosed overpayments that were identified but were not properly established in HiRE, and some overpayments that were in HiRE but not properly included in the report provided by management.

Management should continue working to identify and recover overpayments. In addition, management should develop a comprehensive plan to resolve issues with HiRE, its data, and its interfaces to ensure it can comply with federal regulations over benefit overpayments. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page A.14).

## Unreliable Financial Reporting

LWC did not have adequate controls to ensure proper financial reporting for the Unemployment Trust Fund (UTF). As a result, LWC submitted an unreliable Annual Fiscal Report (AFR) to the Office of Statewide Reporting and Accounting Policy for the fiscal year ending June 30, 2016.

The amounts reported in the UTF's AFR are largely supported by data and reports contained in the HiRE system. During the implementation of HiRE, data did not properly convert from the original mainframe system and critical interfaces to other systems did not function properly. As a result, HiRE could not make proper eligibility determinations which caused improper payments to claimants. In addition, HiRE cannot produce reliable reports to support financial reporting objectives.

Because of the issues noted above, we are unable to rely on the system to provide sufficient, appropriate audit evidence to support amounts contained in the AFR. In addition, we were unable to confirm or verify the following accounts by alternate means:

- Unemployment Insurance Benefits (\$251,174,718) represents payments made to claimants for unemployment claims.
- Accounts Receivable - Other (\$84,661,215) less allowance for Uncollectibles (\$60,701,072) represents amounts due from claimants for overpayments of unemployment benefits.
- Due to Federal Government (\$9,110,435) represents amounts due to the federal government for overpayments to claimants related to federal unemployment programs.
- Other Current Liabilities - Benefits Payable (\$1,172,323) represents amounts of unemployment benefits expected to be paid to claimants in the next year associated with claims for the current year.
- Other Current Liabilities - Interstate Claims Payable (\$14,412) represents amounts due to other states for interstate claims.
- Assessments (\$7,421,489) represent income associated with reimbursable employers.

Failure to establish adequate internal control over financial reporting increases the risk of material misstatement in the fiscal reports which could cause misstatements in the CAFR for the State of Louisiana.

LWC management should develop a comprehensive plan to resolve issues with HiRE, including its data, its interfaces, and its reporting functions. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages A.4 - A.5).

## Improper Benefit Payments

LWC failed to properly design and implement controls to ensure that UI benefit payments were made to eligible claimants in the proper amounts. As a result, LWC issued payments to ineligible claimants and overpaid and underpaid benefits to claimants during the fiscal year. In addition, LWC is noncompliant with federal regulations and state laws.

LWC is responsible for determining claimant eligibility and disqualification provisions and making payment of UI benefits to claimants. On November 9, 2015, LWC implemented HiRE, a web-based system to automate the process for determining eligibility and making payments. HiRE replaced the UI Mainframe system that had previously been used to perform these functions. The HiRE system was not adequately tested before implementation increasing the risk of improper payments.

Our procedures identified exceptions with 18 (29%) of the 62 claimants tested. One of the 18 claimants had multiple exceptions.

- Ten of the 62 claimants tested (16%), as noted below, were improperly overpaid \$4,535. Of those 10 claimants, four (40%) have not been properly set-up as overpaid in the HiRE system as of fiscal year-end. As a result, LWC did not take any action to recoup \$1,026 of monies paid in error.
- To comply with state regulations, LWC requires claimants to complete the reemployment services program. Throughout the claims process, claimants are required to prepare resumes, utilize the virtual recruiter within the HiRE system, visit Business Career Solutions Centers for assistance, submit work search histories, and meet with job counselors. Claimants must meet these requirements to remain eligible for UI benefits. Four (6%) of the 62 claimants tested failed to complete these requirements and edits were not functioning properly in HiRE to stop their payments. As a result, these four claimants continued to receive unemployment insurance payments. Two of the four claimants were overpaid \$2,423 over a seven-week period but eventually repaid LWC for the overpayments. The other two claimants received \$637 in overpayments over a one to four week period, which LWC has yet to recoup. We consider the \$637 to be questioned costs.
- State law requires that for an individual to be eligible to receive benefits, he must have been unemployed for a waiting period of one week. Four claimants (6%) were incorrectly paid the waiting week. These claimants were overpaid by \$943, which we consider to be questioned costs. For two of the four claimants, LWC did not establish them as overpayments and therefore no collection efforts have been made.
- After a claimant is determined to be eligible for benefits, the claimant is entitled during any benefit year to a total amount of benefits paid equal to 26 times his weekly benefit amount, referred to as the Maximum Benefit

Amount (MBA). Two (3%) of the 62 claimants tested were paid more than the MBA allowed. As a result, LWC overpaid these claimants \$532, which we consider to be questioned costs. As of the end of the fiscal year, neither was established as an overpayment, and therefore no collection efforts have been made.

- Six (10%) of the 62 claimants tested had potential overpayments of \$11,200 due to the following:
  - Federal regulations require LWC to conduct National Directory of New Hires (NDNH) cross-matches. This cross-match is designed to detect individuals who are filing unemployment claims and are also employed. When a claimant is “flagged” through the NDNH cross-match process, any flags should be timely investigated by LWC to prevent improper payments. Of the 62 claimants tested, five (8%) were flagged by the NDNH system but continued to receive unemployment benefits for between two weeks and 22 weeks. As of June 30, 2016, LWC did not properly investigate these cross-matches and none of the issues had been resolved. As a result, we consider these potential overpayments totaling \$10,227.
  - One (2%) of the 62 claimants tested refused a job offer as shown on his weekly certification but continued to receive unemployment benefits for seven weeks. As of June 30, 2016, LWC did not properly investigate this issue and it has not been resolved. As a result, we consider these potential overpayments totaling \$973.
- Three (5%) of the 62 claimants tested were underpaid amounts that they were entitled to receive. Because of system calculation errors, these claimants were underpaid \$197.

LWC management should continue working to identify and recover improper payments to claimants. In addition, management should develop a comprehensive plan to resolve issues with HiRE. Management concurred in part with the finding outlining corrective action for certain issues and noting no corrective action was needed for others (see Appendix A, pages A.6 - A.7).

**Additional comments:** LWC’s response indicates that reemployment interfaces are working appropriately, and coding corrections were implemented to eliminate system derived improper payments. However, these conclusions are primarily supported by system-generated queries obtained from and/or changes made by GSI. Based on work performed throughout our audit, we questioned HiRE’s ability to produce reliable reports, as well as management’s controls over appropriately testing, approving, or monitoring changes made to the system. Additionally, our test revealed a 29% exception rate and some of the exceptions noted in this finding occurred after the purported resolution dates specified by management. For example, two claimants noted in our finding were paid more than the maximum benefit amount after January 19, 2016, the date the system enhancement was implemented. Additionally, we determined the Payment Exception Report, used to detect errors of this nature, required continual modification throughout the fiscal

year to address further issues identified by LWC. While this report may have reduced improper payments, it did not effectively prevent further recurrences and management could not ensure that it was accurate or complete.

### **Noncompliance with Interstate Benefit Payment Plan**

LWC did not properly report unemployment claims information to other states. Failure to properly report required information could cause LWC to make improper payments to claimants and other states and could cause improper charges to employers' accounts. In addition, failure to report the required information accurately could result in noncompliance with federal regulations.

The State of Louisiana participates in the Interstate Benefit Payment Plan, which is an interstate agreement that allows an unemployed worker with employment and wages in more than one state to elect to combine his wages from all such states in order to satisfy the wage qualifications requirements of the paying state, or as a means of increasing his weekly or maximum benefit amount. The states where the wages are earned are charged for the unemployment paid by the paying state. All state Workforce Agencies utilize the Interstate Connection Network (ICON) provided by the USDOL to facilitate the exchange of information needed to process Interstate Benefits, Combined Wage Claims, and other Unemployment Insurance related information between states and to coordinate the payment of these claims with other states.

During the implementation of the HiRE system, LWC did not ensure the interface with the ICON system was functioning properly. Our procedures identified deficiencies in the information reported to other states as a result of interface problems between ICON and HiRE that included reporting duplicate wages for claimants, combining of wage data for different individuals, improper reporting of claimant eligibility to other states, erroneous or missing quarterly billing adjustments to other states, and miscoding messages sent to other states.

LWC should develop a comprehensive plan to resolve issues with the HiRE and ICON interface. In addition, LWC should coordinate with other states and federal officials, as necessary, to address errors in interstate benefits and combined wage claims. Management concurred with the finding and noted that all issues have been resolved so no additional corrective action is required (see Appendix A, page A.3).

**Additional Comments:** LWC concurred with the finding but states that it only failed to comply with the Interstate Benefit Payment Plan "for a brief period of time." In stating so, LWC cites that errors due to truncated message IDs and incorrect quarterly billing calculations "were identified and corrected." Although LWC may have deployed fixes to address specific problems already found, our procedures identified problems continued to occur after these fixes were deployed.

According to LWC's system records, the truncated message IDs cited by LWC resulted in claimants paid incorrect amounts due to combined wage claim errors submitted to affected states. According to our inquiry, LWC corrected errors found but could not fully determine overpayments that occurred due to improper combination of wages. Although LWC indicates a

fix was implemented on January 12, 2016, when requested by the auditor after that point, LWC could not provide a reliable report of affected claimants and their overpayments to request reimbursement from these states.

IB-6s are quarterly billings that LWC charges other states for combined wage claims. In its response, LWC stated that it resolved the cited IB-6 billing calculation issue on February 18, 2016. However, according to LWC's system records, several other issues caused billing errors that LWC did not resolve until after this date. In one instance LWC discovered on February 29, 2016, and resolved on June 15, 2016, HiRE may have caused incorrect billing of certain states because it combined rather than replaced wages transferred for specific records. In another instance LWC discovered on March 23, 2016, and resolved July 18, 2016, HiRE incorrectly billed Alabama and Puerto Rico because these states' codes did not agree between HiRE and ICON.

LWC should comprehensively address the root causes of these and other ongoing system problems to provide for consistent exchange of accurate combined wage claim data between LWC and other states.

### **Poor Contract for Services**

LWC did not document its business case for licensing the HiRE system and failed to ensure key contract terms were formalized with GSI. Failure to establish a business case that determines whether a project is a worthwhile investment could result in unnecessary spending and failure to formalize key contract terms increases the risk of misunderstandings and/or nonperformance of services and may lead to LWC's inability to continue operations if GSI can no longer provide services.

On May 20, 2012, the former LWC management contracted a license and hosting agreement for approximately \$4.8 million with GSI as a sole source provider of the HiRE system. The HiRE system is used to administer the state's UI program and GSI performs critical services without which LWC could no longer operate the program. The services provided by GSI include, but are not limited to, the following:

- Online data processing related to claims, benefit determinations, weekly applicant certifications, overpayments, collections, penalties, tax offsets, interstate billing, and investigation of fraudulent claims;
- Ongoing maintenance of the hardware, software, and related infrastructure platforms related to the HiRE application;
- Changes to the database and its financial data content, if necessary, for proper operation of the HiRE system;
- Generation of payment output for further processing at LWC;

- Development of reporting and other output required for LWC's financial statements, federal compliance, and other states that provide unemployment benefits; and
- Security of stored, processed, and transmitted confidential data.

The former LWC management contracted a license to use HiRE rather than build or purchase a system. However, LWC did not establish a business case or similar document that shows the conclusions reached when determining whether this decision was in the best interest of LWC and the State. In addition, the executed contract with GSI lacked the following essential items:

- An escrow clause to enable LWC to resume ownership of the system in the event GSI fails to meet contract terms. When an IT service provider owns systems critical to an entity's operations, its contract may include an "escrow agreement" whereby the entity may retain ownership of the system if the provider can no longer provide services or similar protective measures. For example, under this arrangement, an independent agent could retain a working copy of the system that it would remit to the entity only in case of contractual default. An escrow agreement protects the dependent entity in the event the service provider can no longer provide services.
- A requirement to obtain a Type 2, Service Organization Control (SOC) 1 report for fiscal year ending June 30, 2016. GSI manages key controls over LWC's financial reporting and compliance objectives. A vital means of gaining assurance on service providers that manage key controls over financial reporting is through a Type 2, SOC 1 report. A Type 2, SOC 1 report includes an auditor's opinion on the presentation of a service provider's description of its internal controls over financial reporting during the period under audit. The report also assesses the suitability of the design and operating effectiveness of these controls. Although GSI was able to provide a Type 2, SOC 2 report for the period under review, a SOC 2 report differs from a SOC 1 in that the SOC 2 was not designed to address GSI management's assertions related to its internal controls over LWC's financial reporting or system processing in compliance with federal program requirements.

Management should amend and enforce contracts with GSI to establish a system escrow agreement and require an annual Type 2, SOC 1 report on all controls critical to LWC's financial reporting and compliance objectives. In addition, management should monitor and periodically evaluate the performance of GSI. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page A.12).

### **Inadequate Controls over Federal Reporting Requirements**

LWC did not have adequate controls in place to ensure required federal reports were accurate, complete, and properly prepared. In addition, LWC did not submit the required reports timely. Failure to accurately complete and submit required federal reports results in noncompliance with federal regulations, which could affect future funding for the administration of the Unemployment Insurance Program.

LWC is required to submit the quarterly report, *ETA 227 Overpayment Detection and Activities*, to the USDOL. This report helps monitor the integrity of the benefit payment process in the UI system by providing information on overpayments of UI claims for the state and federal unemployment insurance programs. This report is due on the first day of the second month after the calendar quarter has ended. LWC is also required to submit the quarterly report, *ETA 191 Financial Status of Unemployment Compensation for Federal Employees (UCFE)/Unemployment Compensation for Ex-Service Members (UCX)*. This report notifies federal agencies of unemployment claims made against their agency. This report is due on the 25<sup>th</sup> day following the end of the quarter. Both reports are generated from the HiRE system.

HiRE does not readily produce accurate federal reports. HiRE's reporting relies on queries against its underlying database. These queries require proper design and programming using the appropriate database tables and fields. The queries also depend upon properly processed source data. Because of incomplete testing and data conversion errors during HiRE's implementation, LWC has not fully validated HiRE reports.

While LWC attempted to file the March 31, 2016, ETA 227 report timely, the USDOL reporting system detected errors that prevented transmission. LWC subsequently filed this report on October 15, 2016, five-and-a-half months after its due date. The June 30, 2016, ETA 227 report was also filed on this date, two-and-a-half months after its due date. Because of the issues noted above, we were unable to confirm or verify the information contained in these reports. Although the ETA 191 reports were filed timely, we were once again unable to confirm or verify information contained in the reports because of these same system issues.

LWC management should establish and implement adequate controls to ensure that required federal reports are accurately prepared and submitted in accordance with federal regulations. Because reports are system-generated, LWC should ensure HiRE is properly designed and programmed to achieve federal reporting objectives. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page A.11).

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### **Comprehensive Annual Financial Report – State of Louisiana**

As a part of our audit of the CAFR for the year ended June 30, 2016, we considered internal control over financial reporting and examined evidence supporting certain account balances and classes of transactions of LWC's Unemployment Trust Fund as follows:



**Statement of Net Position**

**Assets** - Cash in U.S. Treasury and receivables

**Liabilities** - Due to federal government and other current liabilities

**Statement of Revenues, Expenses, and Changes in Net Position**

**Revenues** - Assessments and use of money and property

**Expenses** - Unemployment insurance benefits

Based on the results of these procedures on the financial statements, we reported internal control deficiencies related to financial reporting. As previously noted, we were unable to rely on LWC's system to provide sufficient appropriate audit evidence to support amounts contained in the financial statements and as a result, we were unable to confirm or verify the following accounts by alternate means: Unemployment Insurance Benefits, Accounts Receivable - Other, Due to Federal Government, Other Current Liabilities - Benefits Payable, Other Current Liabilities - Interstate Claims Payable, and Assessments - Reimbursable Employers.

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**Federal Compliance – Single Audit of the State of Louisiana**

As a part of the Single Audit for the year ended June 30, 2016, we performed internal control and compliance testing as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) on LWC's major federal programs, as follows:

- Unemployment Insurance (CFDA 17.225)
- Workforce Investment Act (WIA) Cluster (CFDA 17.258, 17.259, and 17.278)
- Community Services Block Grant (CSBG) (CFDA 93.569)

Those tests included evaluating the effectiveness of LWC's internal controls designed to prevent or detect material noncompliance with program requirements and tests to determine whether LWC complied with applicable program requirements. In addition, we performed procedures on information submitted by LWC to the Division of Administration's Office of Statewide Reporting and Accounting Policy on the status of the prior-year findings for the preparation of the state's Summary Schedule of Prior Audit Findings, as required by Uniform Guidance.

Based on the results of these Single Audit procedures, we reported findings related to the Unemployment Insurance Program (see Current-year Findings section). These findings will also be included in the Single Audit for the year ended June 30, 2016. In addition, the information submitted for the preparation of the state's Summary Schedule of Prior Audit Findings, as adjusted, was materially correct.

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of LWC. The nature of the recommendations, their implementation costs, and their potential impact on the operations of LWC should be considered in reaching decisions on courses of action.

Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in blue ink that reads "Daryl G. Purpera". The signature is written in a cursive style with a large, stylized initial "D".

Daryl G. Purpera, CPA, CFE  
Legislative Auditor

JO:CR:BH:EFS:aa

LWC 2016

## **APPENDIX A: MANAGEMENT'S RESPONSES**





1001 North 23<sup>rd</sup> Street  
Post Office Box 94094  
Baton Rouge, LA 70804-9094

(O) 225-342-3001  
(F) 225-342-2051  
[www.laworks.net](http://www.laworks.net)

John Bel Edwards, Governor  
Ava DeJole, Executive Director

Office of the Executive Director

December 8, 2016

Mr. Daryl G. Purpera, CPA, CFE  
Louisiana Legislative Auditor  
1600 North Third Street  
Post Office Box 94397  
Baton Rouge, Louisiana 70804-9397

Dear Mr. Purpera:

The Louisiana Workforce Commission (LWC) respectfully submits its responses to your Information Technology Audit for the fiscal year ending July 2016. For the reasons outlined herein, we concur with each audit finding, except as specifically outlined in our response section.

Upon contacting your office early in February 2016, your staff was ready to assist us within a week of our initial contact with your office. I sincerely thank you and your team for your promptness in performing an IT audit for LWC's HiRE system.

Current management has taken extraordinary measures to ensure public confidence in the Unemployment Trust Fund by implementing reliable financial reporting, compliance with the Interstate Benefit Payment Plan, proper change management, and strong security controls. The UI Trust Fund remains secure. A certification of deposits from the United States Treasury received on September 14, 2016, validates a trust fund balance of \$930,804,373.92 (LWC Response Attachment A).

On November 9, 2015, HiRE Phase II went live despite a July 2015 Partner Evaluation Report by the state's Office of Technology Services (OTS) rating of 1 on the IT Service Management (ITSM) Service Model. The model measures process on a scale of 1-5, with 1 being the lowest and 5 being the highest. Most if not all of the areas include in your findings were rated high risk in the OTS report. A decision was still made to go live in November, despite OTS specific recommendation that "contingency planning should begin should begin in the event that the August 11, 2015, date is not met."

The current administration has worked diligently to resolve all issues. I pledge my complete cooperation with your office in addressing any remaining or additional deficiencies. Your review and report significantly contributes to LWC's improvement efforts. Our actions, as detailed below, both independently of and in response to your staff's input, are moving HiRE to the

Mr. Daryl Purpera, CPA  
December 8, 2016  
Page Two

performance and accountability levels it must achieve. Agency management is committed to completing this process with dispatch, and our progress has and will continue to be substantial.

Should you have any questions, please contact me at your convenience.

Sincerely,



Ava M. Dejoie

AMD:ka

Attachments

## **Noncompliance with Interstate Benefit Payment Plan**

The Louisiana Workforce Commission (LWC) concurs with this finding—that is, for a brief period of time, it failed to comply with the Interstate Benefit Payment Plan.

ICON (Interstate Connection Network)<sup>1</sup>, in HiRE, was developed using a new Web Service interface that Xerox had recently created independent from our modernization project. During the initial implementation of HiRE, there were problems in both systems that were identified and corrected. The main problems were as follows:

- For a two-week period at the end of December 2015 through the beginning of January 2016, HiRE erroneously sent duplicate message IDs because it truncated 7-digit message IDs to 6 digits. As a result, ICON combined wages due to the duplicate Message IDs. A fix was implemented on January 12, 2016. The fix, resolved issues related to the reporting of duplicate wages for claimants, combining of wage data for different individuals, and improper reporting of claimant eligibility to other states.
- Upon implementing HiRE Phase 2, there were issues also associated with IB-6s and the related quarterly billings. The LWC discovered the IB-6<sup>2</sup> discrepancies were attributable to incorrect comparisons within HiRE's calculation logic for the "amount charged" value to the "liability percentage" and "benefit paid amount". This issue was ultimately resolved February 18, 2016.
- Other issues detected during the IB-6 billing reconciliation process included: IB6 bill omissions, missing IB-6 screen fields, incorrect effective dates on outgoing IB-6s and duplication of IB-6 records after export. Although these issues were resolved, incoming and outgoing IB-6 bill reconciliations were not completed within 45 days after the end of the quarter, as mandated by the Interstate Arrangement for Combining Employment and Wages. The issues outlined above have been resolved as of October 30, 2016, and this quarter's billing cycle has been completed.

**Corrective Action:** All of the issues identified in the reportable finding have been resolved with no known reoccurrences. What is more, within the first few days of implementing Phase 2 of HiRE, the LWC sent written communication to every state and the United States Department of Labor to advise them of known errors in interstate benefits and combined wage claims and to provide them with instructions for obtaining the correct information. The LWC has utilized the same messaging efforts each time an issue has been discovered.

Finally, to ensure the validity of our IB-6 billings, the LWC has designated staff to perform random sampling of IB-6 quarterly billings.

It is the LWC's position, then, that no additional corrective action is required.

**Contact Person for Corrective Action:** Patrick Smith, PSmith1@lwc.la.gov.

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<sup>1</sup> The UI program uses the ICON network to exchange employer reported wage information among the states.

<sup>2</sup> The IB-6 is used by the paying State of a combined wage claim to provide the detail quarterly charges to the transferring State for reimbursement and is the final application needed to complete the automation of combined wage claim activities.

## **Unreliable Financial Reporting**

The Louisiana Workforce Commission (LWC) concurs with this reportable finding.

The LWC has taken extraordinary measures to mitigate improper payments and to ensure public confidence in the Unemployment Trust Fund for which we are a steward. Upon implementing Phase 2 of HiRE on November 9, 2015, LWC staff identified a number of data conversion issues and problems related to system interfaces. As a means of validating benefit payments, 25 staff members were assigned to audit the daily payment register.

The assigned staff performed a review of every post go-live benefit payment and audited the current day's payment register by performing a benefit quality check of each claim. The findings of their daily audits were recorded in an Excel spreadsheet and analyzed for commonalities. The results provided the conceptual framework for the creation of the "Payment Exception Report", an automated tool in HiRE that identifies and prevents improper payments.

The LWC assigned an additional 10 staff members to daily audit overpayment establishments for accuracy. The results of their audits were memorialized in an OPC (Online Project Communication) and, subsequently, led to the discovery of the underlying cause of the erroneous overpayments. More specifically, some of the legacy mainframe overpayment data was not sufficiently "scrubbed" before being migrated into HiRE. Despite this pre-conversion misstep, the LWC was able to identify the problem and successfully work with GSI to correct the converted data in HiRE.

In addition, UI accounting has established procedures to review and evaluate data integrity by reviewing underlying claims data against the daily payment register. UI accounting will also periodically review prior period reports to insure data stability to include the underlying data. These steps will insure that no data is being manipulated outside the required processes and will increase the reliability of the data and reports. Any discrepancies will be referred for investigation by the appropriate staff. Detailed logs of these discrepancies and the results of the investigation and appropriate corrective action will be maintained.

For the reasons ascribed above, the LWC has a high degree of confidence that current payments made to claimants in HiRE are accurate. These controls have also improved the accuracy of current financial reports generated by HiRE.

With respect to the AFR, out of an abundance of caution, the LWC will undertake the following corrective action plan:

- (1) The LWC and Geographic Solutions, Inc. have developed a process to validate that all benefits payments are accurately reported in the UI Accounting Reports. LWC staff will use HiRE generated reports and bank reconciliation statements to validate and reconcile all payments related to a claim; specifically, the benefit payment amount, federal tax withholdings, the amount recouped for in-state and out-of-state Child Support garnishments, and overpayment offsets. Any defects found will be addressed and corrected in accordance with agency policy. At the time of writing, no known defects existed as relating to payments made to claimants for HiRE-generated unemployment claims.



(2) Geographic Solutions has recently identified the issue impacting Accounts Receivables. The root cause of the issue is that accounting records were not correctly associated with the appropriate overpayment case number. This defect excluded overpayments from being included in the report. The necessary scripts are being written and tested with an expected release date of mid-December. Once the appropriate fixes are pushed into production, all known defects will have been corrected. LWC and GSI will continue to monitor these reports for accuracy.

(3) There are no known issues with respect to the Other Current Liabilities and Assessments accounts.

**Contact Person for Corrective Action:** Patrick Smith, PSmith1@lwc.la.gov.

## **Improper Benefit Payments**

For the reasons expounded below, the Louisiana Workforce Commission (LWC) concurs, in part, with the reportable finding that it made improper benefit payments.

### **Reemployment Assistance-Related Overpayments**

The LWC disagrees that \$637 are questioned costs and that it failed to take any action to recoup the overpayments associated with the two claims. Agency records show that contemporaneous overpayment determinations and monthly bills were mailed to both claimants at issue. Because both overpayments are non-fraud overpayments, the LWC may only recoup the overpaid amounts in three ways: (1) voluntary reimbursement, (2) offset of benefits, and (3) state tax garnishment.

Despite written demands for payment, neither claimant has made voluntary reimbursement. Likewise, neither claimant has claimed a week of benefits to offset the outstanding debt. Finally, the Louisiana Workforce Commission did not have opportunity to submit the claimants' debts to the Louisiana Department of Revenue for tax offset, as the LDR only accepts one file per year beginning in November. Both claimants' names, however, have been submitted to the LDR for garnishment of their 2016 tax refunds.

The staffs of the Office of Workforce Development and Office of Unemployment Insurance Administration have worked extensively with Geographic Solutions, Inc. (GSI) to ensure full compliance with all federal and state reemployment requirements. We now believe that the reemployment interfaces are working appropriately, and a review of current data shows that improper payments are no longer occurring because of this issue. Geographic Solutions has determined that since HiRE went live on November 9, 2015, 338 instances (0.37%) occurred where claimants were paid for a week that should have been disqualified through the reemployment assistance process. During the weeks of January 17, 2016, and January 24, 2016, the 338 instances were corrected and overpayments created, where appropriate.

**Corrective Action:** HiRE has been augmented to provide a notice to GSI and LWC staff if a reemployment job failure is detected. No further corrective action is required

The LWC concurs with all other statements made in this reportable finding. More specifically, the LWC agrees there have been instances when HiRE has improperly overpaid a small percentage of claimants. The LWC has, however, diligently worked with GSI to make corrections in HiRE to prevent system-initiated overpayments from occurring. Moreover, several code corrections have been pushed to ensure that system-derived improper payments are eliminated.

### **Payments in Excess of WBA and MBA**

Of particular note, at the request of the LWC, GSI implemented a Payment Exception Report that detects when the weekly benefit amount (WBA) is exceeded and prevents the payment from being released unless manually approved by LWC staff. This system enhancement was implemented on January 19, 2016. Similarly, on the same date, GSI implemented a Payment Exception Report that detects when the maximum benefit amount (MBA) is exceeded and stops payment until approved by LWC staff. Since these Payment Exception Reports were implemented, improper benefit payments have been significantly reduced. A query of the system reveals that less than 0.3% of all claims paid had payments

that exceeded their weekly WBA. We have established overpayments for each claim identified in your report. The Payment Exception report now prevents this from occurring.

**Corrective Action:** The LWC has directed Geographic Solutions to identify all claimants that were paid in excess of their weekly benefit amount (WBA) or maximum benefit amount (MBA). The results will be used to create an overpayment for any excess benefit payment. We anticipate that this corrective action will be completed by December 30, 2016.

#### **Week of Waiting Overpayments**

Immediately after HiRE went live on November 9, 2015, some converted claims began to pay a week previously held as a waiting week. This defect primarily occurred because the waiting week on the converted claim was not necessarily the first compensable week in HiRE. The LWC resolved this defect on February 7, 2016, when Geographic Solutions added a “locked” field on converted weeks to prevent converted claims from paying the week of waiting.

**Corrective Action:** The LWC has directed Geographic Solutions to identify every claimant that was paid benefits for their week of waiting. Geographic Solutions has determined that there are 546 instances (0.59%) where the waiting week was paid and there was not an overpayment associated with the waiting week. The LWC will review the list of claimants and work in concert with Geographic Solutions to create an overpayment for each improper payment of benefits. We anticipate that this corrective action will be completed by December 30, 2016.

#### **Potential Overpayments of \$11,200**

The LWC’s Investigations Portal will be operational on December 2, 2016, at which time it will be able to fully investigate the cross-matches detected by the National Directory of New Hires (NDNH) interface. In addition, the LWC has adjudicated the job refusal case identified during the course of the audit.

**Corrective Action:** No corrective action is required. The re-launching of the Investigations Portal should resolve this issue.

#### **Underpayment of Benefits**

For a period of time, HiRE underpaid the claimant’s MBA as a result of the system miscalculating the final payment. LWC staff notified GSI of the defect, and a fix was deployed on October 15, 2016. Supplemental payments have been issued for each underpaid claim. Since the deployment of the fix, there are no known instances of underpayments of benefits.

**Corrective Action:** No Corrective Action is required.

**Contact Person for Corrective Action:** Patrick Smith, PSmith1@lwc.la.gov.

## **Improper Change Management**

The Louisiana Workforce Commission (LWC) concurs with this finding.

The LWC has reviewed its existing processes regarding creation of an OPC and has drafted more robust policies and procedures to support the OPC Guide created by Geographic Solutions, Inc. Promulgation and implementation of the new policies and procedures will occur no later than December 9, 2016.

The new policy requires that each OPC provide detailed information regarding the defect along with an explanation of the expected outcome. It further requires that a form be completed by the individual who has identified the defect and requires supervisory approval. Once the necessary approvals are obtained, the priority of the OPC is set through a committee of LWC employees from each area. Among its various roles, the change management committee will discuss defects and their impact on other areas, triage defects to reduce the duplication of OPCs, and identify testing needs to cover areas of impact.

At the request of the LWC, on November 2, 2016, GSI modified its OPC system to restrict states to viewing OPCs that are assigned to their state. In addition, GSI has provided the LWC with documentation on all major releases since implementing HiRE Phase 1 in March of 2013. The LWC has requested and will receive minor release notes for OPC-related code deployments on a weekly basis, beginning the first week of January 2017. The LWC now requires GSI to provide release notes prior to implementing any enhancements to the system similar to the Feature Enhancement Release Notes (FERN) document provided for the annual system version updates.

Finally, on November 23, 2016, the LWC hired a UI training manager, who will coordinate and lead efforts to document all HiRE-related training material.

**Contact Person for Corrective Action:** Patrick Smith, PSmith1@lwc.la.gov.

## Weak Security Controls

For the reasons explained herein, the Louisiana Workforce Commission concurs, in part, with this finding.

While we do agree that the IT person at issue has broad access, we do not agree that virtually any data could be changed without those changes being noticed by other LWC staff and/or monitoring tools. The IT person at issue serves as the primary data and web server administrator at LWC and requires administrative access to data and keys as a part of the primary assigned duties. This person also shares responsibility for general server administration. While it would be theoretically possible to remove this shared responsibility, it would impact our ability to provide support to LWC users. We have extensive logging in place for files and databases on our most critically sensitive data servers. We also have alerts in place to notify security personnel of questionable activity. We have other IT and user personnel who are constantly querying UI data for reporting and problem resolution. These activities would make it unlikely that unwarranted changes to data would go unnoticed.

To mitigate any concerns, however, we will provide the IT person at issue an alternate userID to be used only as needed for general server administration by December 30, 2016. The primary userID will no longer have access to administer servers where administration duties are shared.

The LWC concurs with all other statements contained in this finding and has begun implementing the following corrective actions.

**Corrective Action 1:** The LWC has requested that Geographic Solutions create a screen that will provide a chronology of when staff members received permission to access HiRE and when and if that permission was revoked. This would also include which LWC staff member authorized or revoked that access. Further, this screen would identify the privileges that staff member had been granted, the date it was granted or changed, and which staff member authorized the privilege. Although this information is available in HiRE Admin, we are requesting Geographic Solutions to provide a specific report. After discussions on specific format, this administrative feature will be available January 2017.

**Corrective Action 2:** The LWC is currently reviewing all accesses to assign access based on the business of each unit. A formal policy will be promulgated by January 31, 2017, and the appropriate privileges will be customized no later than February 28, 2017.

**Corrective Action 3:** On November 7, 2016, the LWC removed all staff's administrative capabilities with the exception of HMO (HiRE Management Office) and PMO (Project Management Office) staff.

**Corrective Action 4:** The LWC has requested that Geographic Solutions create a screen that will provide a chronology of when staff members accesses HiRE (both logging on and off) and what claim and claim functions they may have accessed during their session. This administrative feature will be available January 16, 2017.

**Corrective Action 5:** On November 2, 2016, the OPC system was modified so that states could only view OPCs that were assigned to their state. Concomitant to this change, the LWC drafted an OPC Access Policy. The policy will be fully promulgated no later than December 9, 2016.

**Contact Person for Corrective Action:** Patrick Smith, PSmith1@lwc.la.gov.

### **Inadequate Controls over Federal Reporting Requirements**

The Louisiana Workforce Commission (LWC) concurs with this reportable finding.

The ETA-227 and ETA-191 reports are actively being worked on and tested by both the LWC and Geographic Solutions. Significant progress has been made on both of these reports, with the United States Department of Labor (USDOL) providing extensive and ongoing technical assistance for the ETA-227. The recent ETA-191 was successfully submitted to USDOL. Though with errors, the ETA-227 has been submitted for quarters 1, 2, and 3. LWC intends to amend these quarters once lingering data-related issues with the ETA-227 have been resolved.

When issues with data are discovered, corrections are being made. Reports are then retested and validated with LWC. The ETA-227 report, with its known issues, is currently being addressed in the State Quality Service Plan (SQSP) and a corrective action plan (CAP) has been submitted. In general, the target date for resolution is mid-December 2016.

**Corrective Action:** There are no known corrective issues with the ETA-191 report. LWC and Geographic Solutions meet twice weekly to discuss the ETA-227 report. Currently, all the sections balance except section E. USDOL will be onsite the week of December 5-9, 2016, to assist the LWC and USDOL with resolving all outstanding issues related to reporting. The target date for resolution is mid-December.

**Contact Person for Corrective Action:** Patrick Smith, PSmith1@lwc.la.gov.

### **Poor Contract for Services**

The Louisiana Workforce Commission (LWC) concurs with this reportable audit finding. To rectify material deficiencies in the original contract, on November 10, 2016, the LWC amended its contract with Geographic Solutions, Inc. (GSI) to include a software escrow clause.

**Corrective Action:** Though the original contract did not require a SOC report, by January 31, 2017, the LWC will amend the terms of its current contract with GSI to require an annual Type 2, SOC 1 report. As of November 10, 2016, GSI has concluded the first phase of its Type 2, SOC 1 audit. The second phase of GSI's SOC audit will be concluded within six months of its start date.

The LWC is currently working to develop key performance indicators (KPIs) to be used as the basis for monitoring and evaluating the performance of GSI. We will formally evaluate the performance of GSI by no later than December 31, 2017.

**Contact Person for Corrective Action:** Mike Broussard, MBroussard3@lwc.la.gov.



### **Improper System Implementation**

The Louisiana Workforce Commission (LWC) concurs with this reportable audit finding. LWC's current management cannot respond to system implementation decisions made by previous management. Current management has diligently sought to mitigate every issue caused by the implementation of HiRE. Daily meetings are held to facilitate the ongoing debugging of the system. Management has also required its vendor, Geographic Solutions, Inc., to work onsite at least one week per month to ensure that lingering data-related and interface issues are resolved.

## **Noncompliance with Federal Regulations over Benefit Overpayments**

The Louisiana Workforce Commission (LWC) concurs with this reportable audit finding.

### **Investigations Portal**

**Corrective Action 1:** The various programming issues with the Investigations Portal have been resolved as of December 1, 2016. As such, the Investigations Portal will be operational on December 2, 2016, at which time staff members will resume fraud investigations. Internal instructions and procedures have been disseminated to staff to facilitate the orderly dispensation and resolution of the backlog of investigations.

### **HiRE BPC**

**Corrective Action 2:** HiRE BPC is the system interface that houses the details of overpayment data that is transmitted to the Internal Revenue Service (IRS). For an extended period of time, penalty balance reductions between HiRE BPC and HiRE were not in sync. To avoid sending incorrect overpayment balances to the IRS's Treasury Offset Program (TOP), the LWC temporarily halted updates to TOP until all penalty balances could be reconciled. The LWC has resolved the penalty reduction issue and will resume transmitting the weekly TOP update file by December 31, 2016.

### **IRORA**

**Corrective Action 3:** The IRORA (Interstate Reciprocal Overpayment Recovery Agreement) remains under development. IRORA will be implemented in two phases. The first phase of implementation entails collecting IRORA overpayments for other states. The go-live date of Phase 1 will occur by December 31, 2016. Development priorities for the Investigations Portal delayed a few minor changes needed to further automate the creation of Phase 1 IRORA overpayments in the HiRE system but will not affect the go-live date. Louisiana will transmit its overpayments to other states as Phase 2 of the IRORA implementation. The target go-live for Phase 2 is March 31, 2017.

### **Lockbox**

**Corrective Action 4:** Since Chase Bank has moved its lockbox operations to Dallas, Texas, the LWC will phase out overpayment lockbox payments by March 31, 2017. Procedural changes have been made to segregate incompatible duties related to the manual entry of overpayment reimbursements.

### **Unreliable Overpayments Establishments Report**

**Corrective Action 5:** The LWC has determined that the overpayment establishment report was inaccurate because HiRE erroneously omitted manually created overpayments when calculating the total overpayment establishments. Geographic Solutions, Inc. will correct this known defect by December 31, 2016.

**Contact Person for Corrective Action:** Michael McMahan, MMcMahan@lwc.la.gov.



DEPARTMENT OF THE TREASURY  
BUREAU OF THE FISCAL SERVICE  
PARKERSBURG WV 26106-5312

ATTACHMENT A

September 14, 2016

Department of Labor  
Attn: N Carpenter  
1001 N 23<sup>rd</sup> Street  
PO Box 94094  
Baton Rouge, LA 70804-9094

RE: CERTIFICATION OF BALANCE OF THE LOUISIANA UNEMPLOYMENT TRUST FUND ON  
DEPOSIT IN THE UNITED STATES TREASURY AS OF AUGUST 31, 2016

Dear Sir or Madam:

We are happy to provide you with the information you requested. Please find the amount listed below.

STATE: Louisiana

August 31, 2016 trust fund balance \$930,804,373.92

If you have any questions, please feel free to contact me at any time at 304-480-6120.

Sincerely,

Stacy L.  
Skinner

Digitally signed by Stacy L. Skinner  
DN: cn=Stacy L. Skinner, o=U.S. Government,  
ou=Department of the Treasury,  
ou=Bureau of the Fiscal Service,  
ou=Stacy L. Skinner  
Date: 20160914094214Z

Stacy Skinner  
Accountant  
Funds Management Branch

---

Department of the Treasury • Bureau of the Fiscal Service  
PO Box 5312 Parkersburg, WV 26106-5312  
LEAD TRANSFORM DELIVER



## APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Louisiana Workforce Commission (LWC) for the period from July 1, 2015, through June 30, 2016, to provide assurances on financial information significant to the State of Louisiana's Comprehensive Annual Financial Report (CAFR) and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. The procedures included inquiry, observation, review of policies and procedures, and a review of relevant laws and regulations. Our procedures, summarized below, are a part of the audit of the CAFR and the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2016.

- We evaluated LWC's operations and system of internal controls through inquiry, observation, review of its policies and procedures, and a review of the laws and regulations applicable to LWC.
- Based on the documentation of LWC's controls and our understanding of related laws and regulations, we performed procedures to provide assurances on certain LWC account balances and classes of transactions to support the opinions on the CAFR.
- We performed procedures on the following federal programs for the fiscal year ended June 30, 2016, as a part of the 2016 Single Audit:
  - Unemployment Insurance (CFDA 17.225)
  - Workforce Investment Act Cluster (CFDA 17.258, 17.259, and 17.278)
  - Community Services Block Grant (CFDA 93.569)
- We performed procedures on the status of the prior-year findings for the preparation of the state's Summary Schedule of Prior Audit Findings for the year ended June 30, 2016, as a part of the 2016 Single Audit.
- We compared the most current and prior-year financial activity using LWC's annual fiscal reports and/or system-generated reports to identify trends and obtained explanations from LWC management for significant variances.

The purpose of this report is solely to describe the scope of our work at LWC and not to provide an opinion on the effectiveness of LWC's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purposes.

We did not audit or review LWC's Annual Fiscal Report, and accordingly, we do not express an opinion on that report. LWC's accounts are an integral part of the State of Louisiana's CAFR, upon which the Louisiana Legislative Auditor expresses opinions.