

LOUISIANA WORKFORCE COMMISSION

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
MANAGEMENT LETTER
ISSUED DECEMBER 23, 2019

**LOUISIANA LEGISLATIVE AUDITOR
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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

Louisiana Workforce Commission



December 2019

Audit Control # 80190078

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, 2019, we performed procedures at the Louisiana Workforce Commission (LWC) to provide assurances on financial information that is significant to the state's 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.

Results of Our Procedures

Follow-up on Prior-year Findings

Our auditors reviewed the status of the prior-year findings reported in the LWC management letter dated February 4, 2019. The prior-year findings related to Weak Security Controls and Inadequate Source Code Escrow Agreement have not been resolved and are addressed again in this letter.

Current-year Findings

Weak Security Controls

LWC did not have adequate security controls over the Louisiana Wage and Tax System (LaWATS) and the Unemployment Insurance (UI) mainframe. LaWATS is a portal that allows employers to enter wages, and it interfaces with the UI mainframe, which contains employment tax records. Both systems are utilized for the UI program. Our audit procedures revealed the following:

- LWC has not established responsibilities for monitoring OTS employees with access to the operating systems and databases for LaWATS and the UI mainframe to ensure they have a valid business need. Without adequate monitoring, LWC may be unable to detect unauthorized user access to LaWATS and the UI mainframe.

- Other information relating to security access was not included in this report due to the sensitive nature of the issues. This information has been separately communicated to LWC.

Inadequate security of LWC's systems may lead to unauthorized view or theft of unemployment insurance and tax data, or noncompliance with privacy laws. LWC should establish responsibility for regular monitoring of OTS employees with access to LaWATS and the UI mainframe. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 1).

Inadequate Source Code Escrow Agreement

For the third consecutive audit, LWC's contract with Geographic Solutions, Inc. (GSI) lacks an adequate source code escrow agreement that would allow LWC to continue operations of the Unemployment Insurance (UI) program if GSI can no longer provide services.

LWC contracts with GSI as a sole source provider of the Helping Individuals Reach Employment (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.

Although LWC amended its contract with GSI in fiscal year 2018 to address problems noted during a previous audit, the amended contract does not address the infrastructure and other systems that HiRE's source code requires for execution. During fiscal year 2018, LWC drafted an addendum to this contract whereby HiRE will duplicate to another location for LWC's use as a working copy in the event of GSI default. However, GSI has not signed this addendum. As a result, LWC may not be able to use the source code in the event of GSI's contractual default.

Management should continue to seek GSI's acceptance of the addendum that establishes a complete escrow arrangement. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 2).

Noncompliance with Subrecipient Monitoring Requirements

LWC did not adequately monitor subrecipients under the Workforce Innovation and Opportunity Act (WIOA) Cluster programs. Failure to perform adequate monitoring impairs LWC's ability to ensure that program funds passed through to its subrecipients are spent in accordance with program regulations and increases the risk of improper payments that the state may have to repay to the federal government. WIOA program expenditures totaled \$39 million during fiscal year 2019, with approximately \$36 million provided to subrecipients who were not adequately monitored.

Audit procedures identified the following:

- LWC did not conduct timely annual on-site monitoring reviews of its subrecipients for compliance with federal laws and regulations. During fiscal year 2019, on-site reviews were conducted for only five of the 15 subrecipients and these reviews related to fiscal year 2017 program activity.

- LWC did not ensure that required audits were completed within nine months of the subrecipient's fiscal year-end. Although LWC requested subrecipients to provide the required audits, documentation showed that nine of the 15 subrecipients' audits were received between 39 and 220 days after the due date.

Federal regulations require annual on-site monitoring reviews of all LWC subrecipients' compliance with federal requirements to include reviews of its subrecipients' fiscal and administrative functions. Regulations also require that pass-through entities are responsible for ensuring that subrecipients expending \$750,000 or more in federal awards during the subrecipient's fiscal year receive an audit, and that the required audits are completed within nine months of the end of the subrecipient's audit period. LWC management indicated there was a significant turnover in personnel that did not allow them to perform adequate subrecipient monitoring.

LWC management should ensure that annual on-site monitoring reviews are performed for all subrecipients as required by federal regulations. In addition, management should ensure all required audits are received in a timely manner. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 3).

Comprehensive Annual Financial Report (CAFR) – State of Louisiana

As a part of our audit of the CAFR for the year ended June 30, 2019, 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, Amounts Held in Custody for Others, 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

The account balances and classes of transactions tested, as adjusted, are materially correct.

Federal Compliance - Single Audit of the State of Louisiana

As a part of the Single Audit for the year ended June 30, 2019, 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 Innovation and Opportunity Act Cluster (CFDA 17.258, 17.259, and 17.278)
- Employment Service Cluster (CFDA 17.207, 17.801, and 17.804)

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 for the preparation of the state's Schedule of Expenditures of Federal Awards (SEFA) and 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 Weak Security Controls, Inadequate Source Code Escrow Agreement, and Noncompliance with Subrecipient Monitoring Requirements. These findings will also be included in the Single Audit for the year ended June 30, 2019. In addition, LWC's information submitted for the preparation of the state's SEFA and the state's Summary Schedule of Prior Audit Findings, as adjusted, is 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. The finding related to LWC's compliance with applicable laws and regulations should be addressed immediately by management.

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

Respectfully submitted,



Thomas H. Cole, CPA
First Assistant Legislative Auditor

BL:CR:BH:EFS:aa

LWC2019

APPENDIX A: MANAGEMENT'S RESPONSES



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John Bel Edwards, Governor
Ava DeJole, Secretary

Office of the Undersecretary

December 13, 2019

Daryl G. Purpera, CPA, CFE,
Legislative Auditor
1600 North Third Street
Post Office Box 94397
Baton Rouge, Louisiana 70980-9397

RE: LWC Response to Legislative Audit Finding – Weak Security Controls

We concur with the finding that the Louisiana Workforce Commission (LWC) has not established responsibilities for monitoring Office of Information Services (OTS) employees with access to LWC systems. OTS has statutory authority over all information technology services for the state and is charged with managing all IT systems and services. While LWC may raise issues with regard to access to LWC systems, we have no legal authority or control over OTS assigning personnel administrative rights to LWC systems that are in their possession and control. However, LWC will create a written procedure to monitor employees who have access to the UI mainframe and LaWats systems. This procedure will require a quarterly report that will generate a list of all users that have been granted membership to an access control group and internal application level permissions to ensure that all access is authorized. This procedure will be complete by 12/31/2019 and monitoring will begin in January 2020.

LWC is also working closely with OTS to resolve other security issues within their realm of responsibilities.

If you have any questions or need additional information, please contact me at 225-342-3110.

Sincerely,

A handwritten signature in blue ink that reads "Bennett Soulier".

Bennett Soulier
Undersecretary



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John Bel Edwards, Governor
Ava Dejoie, Secretary

Office of the Undersecretary

December 10, 2019

Daryl G. Purpera, CPA, CFE,
Legislative Auditor
1600 North Third Street
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RE: LWC Response to Legislative Audit Finding - Inadequate Source Code Escrow Agreement

The Louisiana Workforce Commission (LWC) concurs with the finding. The Geographic Solutions, Inc. (GSI) contract was amended during 2017 to include an escrow clause to require that the source code be placed in possession with a third party vendor. However, in 2018 the audit finding concluded that the amendment should include a provision for the inclusion of infrastructure, such as computer hardware and other systems that might be required for execution of the source code. This requirement essentially mandates that LWC completely replicate the HIRE system for testing purposes and the hardware and licensing costs are well over \$625,000, which appears to be excessive as funding for unemployment insurance administration continues to decline.

Negotiations with GSI continue in an effort to find a reasonably priced solution to create a separate production environment to be used in the event of a default by GSI. Additionally, LWC will continue to work with GSI, Inc., other third party vendors, other states that have invested in GSI's product, United States Department of Labor, and the Office of Technology Services to identify other potential solutions that appropriately balances the risk imposed versus the cost of mitigating it.

Sincerely,

A handwritten signature in blue ink, appearing to read "Bennett Soulier".

Bennett Soulier
Undersecretary



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John Bel Edwards, Governor
Ava Dejoie, Secretary

Office of the Secretary

December 16, 2019

Daryl G. Purpera, CPA CFE
Legislative Auditor
1600 North Third Street
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Baton Rouge, LA 70804-9397

RE: LWC Response to Legislative Audit Finding – Noncompliance with Subrecipient Monitoring Requirements

Dear Mr. Purpera,

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

Corrective Action: LWC is reconstructing the monitoring process for the Workforce Innovation and Opportunity Act (WIOA) and is currently developing tools that will serve to document the monitoring activities required. Onsite monitoring of all subrecipients and issued reports will be completed no later than April 30, 2020. In addition, staff will be properly trained in the application and use of the tools to ensure that effective monitoring of the fifteen recipients is conducted in accordance with federal laws and regulations and that all work performed is properly documented in supporting records.

LWC also determined that all fifteen sub recipients submitted their required audits to the Legislative Auditor within nine months of the end of their fiscal year. These reports were publicly issued by the Legislative Auditor; unfortunately, they were not all submitted to LWC as timely, even after repeated requests for the reports. LWC will begin to use the Legislative Auditor's database to obtain and review these reports in the future when they are not submitted to LWC as required by the grant provisions. LWC will review these reports to ensure that the reports do not include issues that impact the use of WIOA funds.

If you have any questions or need additional information concerning this corrective action, please feel free to contact Harlen Henegar at hhenegar@lwc.la.gov or (225) 223-7479.

Sincerely,

Ava Dejoie
Secretary

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Louisiana Workforce Commission (LWC) for the period from July 1, 2018, through June 30, 2019, 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. 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, 2019.

- We evaluated LWC's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including 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 account balances and classes of transactions to support our opinions on the CAFR.
- We performed procedures on the Unemployment Insurance (CFDA 17.225), the Workforce Innovation and Opportunity Act Cluster (CFDA 17.258, 17.259, and 17.278), and the Employment Service Cluster (CFDA 17.207, 17.801, and 17.804) federal programs for the year ended June 30, 2019, as a part of the 2019 Single Audit.
- We performed procedures on information for the preparation of the state's Schedule of Expenditures of Federal Awards and on the status of prior-year findings for the preparation of the state's Summary Schedule of Prior Audit Findings for the year ended June 30, 2019, as a part of the 2019 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's 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 Reports, and accordingly, we do not express an opinion on those reports. LWC's accounts are an integral part of the state of Louisiana's CAFR, upon which the Louisiana Legislative Auditor expresses opinions.