VIRGINIA EMPLOYMENT COMMISSION

RICHMOND, VIRGINIA

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 1999

AUDITOR OF
PUBLIC
ACCOUNTS

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Virginia Employment Commission for the year ended June 30, 1999, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System and in the Commission's Tax and Benefits Systems;

- no material weaknesses in internal controls,

- no instances of noncompliance that are required to be reported; and

- adequate implementation of corrective action on the previous year audit findings.

December 23, 1999

The Honorable James S. Gilmore, III Governor of Virginia State Capitol Richmond, Virginia	The Honorable Richard J. Holland Chairman, Joint Legislative Audit and Review Commission General Assembly Building Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Virginia Employment Commission** for the year ended June 30, 1999. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System and the Commission's Tax and Benefits Systems, review the adequacy of the Commission's internal control, and test compliance with applicable laws and regulations. We also reviewed the Commission's corrective actions of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Commission's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Unemployment Benefit Payments	Federal Grants Management
Taxes and Cash Receipts	Expenditures
Accounts Receivable	Payroll and Compensated Absences
Accounts Payable	

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Commission's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Commission's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Commission properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in the Commission's Tax and Benefits Systems. The Commission records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System as well as the Commission's Tax and Benefits Systems.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The Commission has taken adequate corrective action with respect to audit findings reported in the prior year.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on February 3, 2000.

AUDITOR OF PUBLIC ACCOUNTS

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SELECTED AGENCY INFORMATION

The Virginia Employment Commission's mission statement reads: "We provide workforce services that promote maximum employment to enhance the economic stability of Virginia." The Commission accomplishes this goal through the Unemployment Insurance and Job Service programs. The Commission also compiles and provides labor market and economic information through the Economic Information Services Division.

The Unemployment Insurance program, established by the Social Security Act of 1935, makes benefit payments to laid-off workers, ensuring that they have minimal income during the course of a job search. The Commission processes and pays benefit claims, and resolves any disputed claims through the Administrative Law division. The Commission also collects employers' taxes used to fund the Trust Fund that pays all benefit claims.

The Wagner-Peyser Act of 1933 created the Job Service program, which aims to provide public employment services to individuals. Such services include referrals for unemployed persons, recruiting for employers looking for qualified employees, and job search skill training.

The Commission accumulates, collects, and reports labor market data through the Economic Information Services division. The data, reported in cooperation with the Bureau of Labor Statistics, provides various information including employment statistics, wages, and layoffs. Staff can compile information upon request or users can arrange access to some data by using the Automated Labor Information on the Commonwealth's Economy system.

WORKFORCE INVESTMENT ACT OF 1998

The Workforce Investment Act (WIA), passed on August 7, 1998, makes major changes in the delivery of employment and training programs at the state and local levels. The key elements are the state workforce investment board, local workforce investment boards and their youth councils, and local one-stop delivery systems. Workforce Investment Act requires program implementation by July 1, 2000.

The General Assembly created the Virginia Workforce Council to assist the governor in meeting workforce training needs in the Commonwealth. The Council will create Virginia's workforce strategy, serve as the state Workforce Investment Board, and oversee workforce-training issues for the Virginia Community College System.

Under the provisions of the Workforce Investment Act, the Virginia Workforce Council will divide the state into local workforce investment areas. Each area will have a board, appointed by local elected officials, that will include representatives of business, education, labor organizations, community organizations, economic development agencies, and each of the one-stop partners. These local boards are responsible for:

?? Developing a five-year plan for the local workforce investment program,
?? Designating eligible providers of services,
?? Negotiating performance measures for local employment and training activities,
?? Conducting oversight with respect to the local one-stop delivery system and programs conducted under that system, and
?? Assisting in the development of a statewide employment statistics system.

Under the Workforce Investment Act, there are three established levels of services for adults and dislocated workers:

Core services – the initial effort to place workers in jobs
Intensive services – provided to unemployed workers who cannot obtain employment through core services and employed workers who need additional assistance to remain employed
Training services – only available to individuals who are unable to obtain or retain employment through intensive services.

Core and intensive services are need-driven, whereas training services are eligibility driven.

The Workforce Investment Act will provide enhanced services for youth. Subgroups of local boards will plan youth activities. These subgroups will not have voting authority in board meetings. Members of the subgroups will be required to have experience working with youth.

The Workforce Investment Act also mandates that states establish one-stop delivery systems in each local service delivery area, which will directly deliver core employment services such as job search assistance and career counseling. The local centers will also provide customers access to more intensive services such as case management, short-term prevocational services, and training. The Workforce Investment Act allows, in addition to the one delivery center, a network of affiliated centers.

Currently, the U.S. Department of Labor is developing WIA regulations. The Council has tentatively designated local areas for establishment of boards, and has set out criteria for the establishment of Local Workforce Investment Boards.

The Governor designated the Commission as the lead agency in implementing the WIA within Virginia. The Commission will oversee the development of the one-stop centers and coordinate the delivery of various agencies' services to customers. Other agencies that may be involved with WIA programs include the Departments of Rehabilitative Services, Social Services, and Education.

UNEMPLOYMENT TRUST FUND

When the Commission collects unemployment taxes from employers, it deposits the collections into the Unemployment Trust Fund, for which the Commission is the trustee. The Commission then makes all benefit payments from the trust fund. State law requires that any individual receiving benefits must have earned a minimum amount of total wages in two of the first four of the last five calendar quarters, referred to as the base period. State law also dictates the minimum and maximum weekly benefit amounts that an individual can receive.

The Commission levies taxes on employers' wages according to rates set by the General Assembly, which reflect the trust fund's solvency. The tax also includes an experience rating, based on past claims against an employer's payroll. This rating requires employers with a history of higher claims to pay a greater rate, and allows those with fewer claims to pay less. Under current law, employers only pay taxes on the first $8,000 of each employee's wages. The maximum calculated rate that an employer can be required to pay on those taxable wages is currently 5.4 percent, while the minimum rate is 0 percent.

Unemployment Compensation Law Changes

In 1997, the General Assembly increased the maximum weekly benefit payment and decreased the minimum weekly rate. Legislators also decreased the minimum qualifying earnings. A summary of the changes follows.

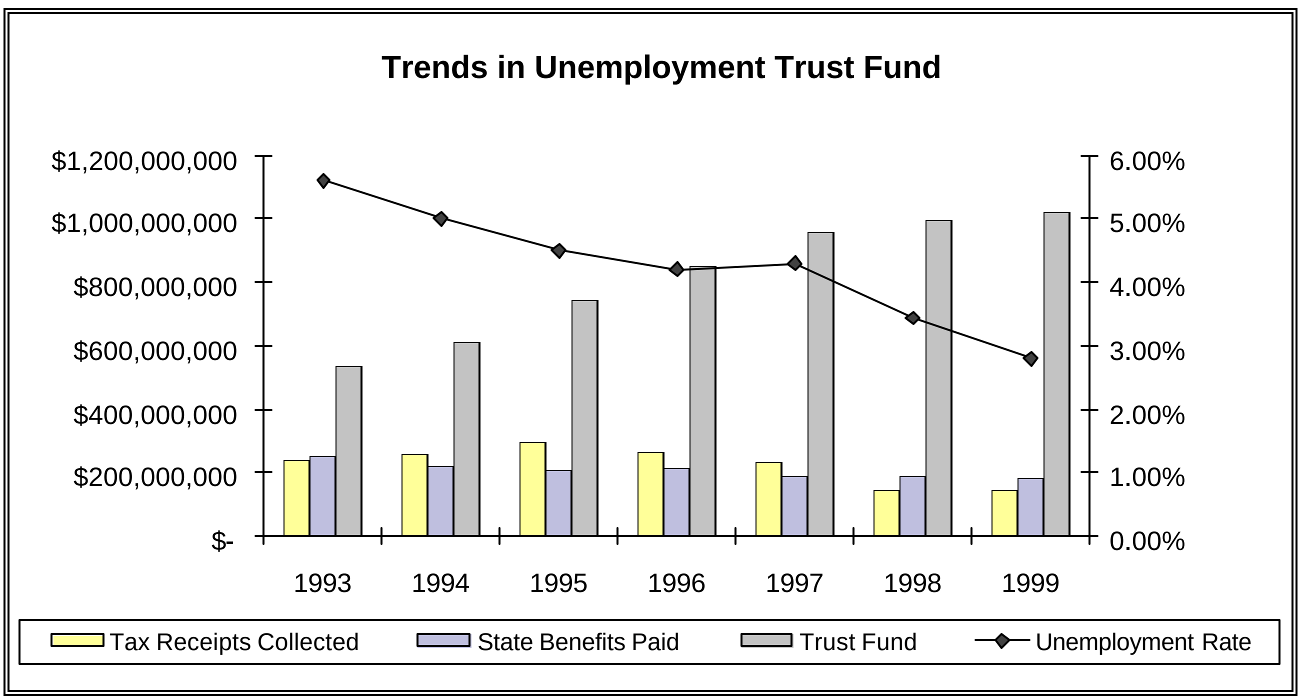
Year	Weekly Benefit Maximum	Weekly Benefit Minimum	Minimum Qualifying Earnings
1997	$ 226	$ 60	$ 3,000
1998	228	55	2,750
1999	230	50	2,500
2000	232	50	2,500

In 1999, for example, an eligible individual who earned at least $2,500 in the base period would receive a weekly benefit ranging from a minimum of $50 to a maximum of $230.

In response to falling unemployment and an increasing balance in the Unemployment Trust Fund, the General Assembly revised the formula used to determine the trust fund balance factor in 1997. This resulted in lower employer tax rates. The table below shows the change in the tax rates.

	Prior to July 1, 1997	**After July 1, 1997**
Minimum Tax	0.1 % or $8 per employee	0.0 % or $0 per employee
Maximum Tax	6.2 % or $496 per employee	5.4 % or $432 per employee
Taxable on first:	$8,000 of each employee's wages	$8,000 of each employee's wages

The balance in the trust fund continues to rise. After the affect of the reduced tax rates and for the second consecutive year, benefits paid out exceeded collections. The interest that the fund earns offsets the deficit in tax revenue and causes the fund's balance to grow. The illustration below presents historical trends, which show the changes in tax collections, benefits payments, trust fund balance, and the unemployment rate over the past several years.



Year	Tax Collections	Benefits Paid	Collections Over (Under) Benefits	Trust Fund Balance*	Trust Fund Solvency**	Unemployment Rate
1993	$ 211,332,150	$ 254,476,292	$ (43,144,142)	$ 533,270,690	64.8%	5.7%
1994	263,715,851	223,565,168	40,150,683	611,937,629	69.7%	5.0%
1995	295,673,218	208,808,361	86,864,857	743,233,179	79.3%	4.7%
1996	257,770,256	211,074,168	46,696,088	852,342,994	90.5%	4.5%
1997	217,171,263	188,615,553	28,555,710	955,948,173	123.0%	4.3%
1998	145,611,983	187,178,361	(41,566,378)	994,128,995	114.0%	3.4%
1999	143,501,663	181,424,022	(37,992,359)	1,024,275,741	107.0%	2.8%

* The Trust Fund Balance also includes interest credited to the account.

** Trust fund solvency is an indicator of the fund's ability to pay benefits during periods of high unemployment as experienced over the past twenty years. The solvency indicator compares the fund's actual balance to the calculated balance needed to pay these benefits for 16.5 months. The formula used to calculate the balance uses historical benefit and wages data. Trust Fund solvency does not directly relate to current year tax collections or benefits paid. Before June 1996, the computation of solvency used the cash basis and since then, has used a modified accrual basis as stipulated in §60.2-533 of the Code of Virginia.

At June 30, 1999, the Trust Fund was 107% solvent, which represents a decline from 114% in the previous year. The percentage decline is a direct result of the decreases in employer tax rates. According to the Employment and Training Administration, Virginia's Trust Fund could pay unemployment benefits at current unemployment levels for nearly six years.

LOCAL AREA NETWORKS

The Commission began replacing their network during 1998. The plan includes replacing dumb terminals with personal computers at field offices. Each local office will then link its personal computers into a local area network. All local area networks will connect to the central office and the mainframe applications via high-speed telecommunications lines. The installation of the new network is substantially complete.

With the new network in place, the VEC will begin to utilize an Intranet page for many of its manuals and internal forms. Also, the network will allow customers at local offices to use the new PCs to gain access to the Internet to use job search engines on the web, as well as other services that are currently unavailable or that are more difficult to use.