VIRGINIA EMPLOYMENT COMMISSION

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2011

APA
Auditor of
Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Virginia Employment Commission (Employment Commission) found:

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

- three matters involving internal control and its operations necessary to bring to management's attention;

- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and

- the Employment Commission has made significant progress, but has not completely resolved our prior year finding "Strengthen Controls Over System Access".

During our audit, we also followed up on the status of recommendations included in our "Review of Unemployment Benefit Overpayments" issued in November 2010. We performed this review based on a legislative request to analyze unemployment benefit overpayment activity to determine the amount of overpayments attributable to administrative errors. The Employment Commission has taken several actions to address overpayment issues identified in the review.

- Effective February 2011, the Employment Commission changed its work search policy to allow claimants to use telephone contact for job search. Previously, claimants could not contact employers by phone to satisfy the work search requirements and this resulted in benefit overpayments.

- In addition, the Employment Commission increased staffing in the Benefit Payment Control Unit by four investigators and one administrative staff. This Unit is responsible for detecting and addressing benefit overpayments. With the staffing increase, the backlog of cases for review for potential overpayments has decreased by approximately 4,342 cases or 20 percent.

The Employment Commission also has several system development projects underway, which we discuss later in this report. As the Employment Commission moves forward with these projects, they need to consider the need to analyze overpayment data and how to best record this information in their new system. While they are currently limited in their ability to analyze overpayment information due to system limitations, it is expected they will have opportunities to obtain better information for overpayment analysis once their new systems are implemented.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Resolve Employer Wage Discrepancies Timely

The Tax Reconciliation Unit is not consistently reviewing and resolving wage discrepancies in a timely manner. Employers report wages paid to employees to the Employment Commission, which verifies the amounts reported against other sources of information such as tax returns. Differences between the amounts reported to the Employment Commission appear on various wage discrepancy reports and the Tax Reconciliation Unit reviews and resolves discrepancies that meet certain thresholds.

During our review, we found the Tax Reconciliation Unit did not adequately resolve three out of sixteen (19 percent) wage discrepancies tested in a timely manner. These wage discrepancies date from January 2008, March 2010, and January 2011. While the Tax Reconciliation Unit staff did identify these discrepancies and contact the employer, they did not perform additional follow up and these discrepancies remain unresolved. In addition, the Tax Reconciliation Unit does not have consistent polices for what constitutes timely resolution of identified discrepancies.

During our review, we also requested a complete listing of wage discrepancies that the Tax Reconciliation Unit was currently working on and the Unit told us multiple times they could not provide us with a complete listing. Tax Reconciliation staff subsequently provided us with several listings, but the listings were incomplete and did not include information on the discrepancy amount or age of the discrepancy. As a result, we were unable to determine the total number of discrepancies or total dollar amount of discrepancies the Unit is currently researching.

We recommend the Tax Reconciliation Unit improve their review and resolution process for wage discrepancies to ensure timely resolution of discrepancies over the established thresholds. The Unit should also ensure they have consistent policies on timely resolution of the discrepancies as well as information necessary to track and monitor the status of discrepancies under review.

Follow Timekeeping and Payroll Procedures

Employment Commission staff need to consistently follow policies and procedures over timekeeping and payroll. To address an increased workload over the last several years, the Employment Commission has hired additional personnel and required overtime for many staff. As a result, it is critical that the Employment Commission staff follow policies and procedures over timekeeping and payroll; we found the following instances where staff did not follow these policies and procedures.

- Supervisors are not consistently obtaining advance approval for overtime. The Employment Commission's policies require an employee's supervisor obtain advance approval from the Division head for overtime including the specific dates and hours of overtime.

We reviewed overtime records for a sample of fourteen employees and found that 11 of the employees had instances during the year where their Supervisor did not get approval in advance for the overtime. Although overtime worked was subsequently approved, seven of the employees worked more overtime hours than approved.

- Supervisors did not obtain approval for two out of 18 (11 percent) part-time employees tested who worked over 1,500 hours. Employment Commission and Commonwealth policies require supervisors request advance approval for part time workers who work more than 1,500 hours in a year. In one case, the supervisor subsequently obtained approval for the employee.

  In the other case, the supervisor did not get approval for the additional hours worked, but the employee continued to work unpaid. The employee worked 546 hours from July to October 2010, but the Employment Commission did not pay her for these hours and she did not record these hours on her timesheet. When the supervisor retired, the employee brought this to the attention of the new supervisor and the Employment Commission paid the employee for all hours worked.

The Employment Commission also needs to improve access controls to TimeKeepers, their internal payroll and timesheet processing system. We found three employees with timesheet approval access for TimeKeepers, but there was no documentation authorizing these individuals to have approval access. These individuals noted did not approve any timesheets during the audit period and the Employment Commission deleted access for two of these individuals after we brought this to their attention. Additionally, there is no periodic management review of TimeKeepers access even though this is a critical system to the Employment Commission's payroll process.

We recommend the Employment Commission strengthen policies and procedures over TimeKeepers system access to help ensure only authorized individuals can access the system. When employees have access they do not need to complete their job duties, this increases the risk that fraudulent activities could occur. Employment Commission management should also ensure policies and procedures over approval for overtime and part time employees are followed. More effective overtime controls will minimize the opportunity for abuse and increase the efficient use of federal operating funds.

Perform VATS and VABS System Access Review

The Employment Commission did not review user access for the Virginia Automated Benefit System (VABS) and the Virginia Automated Tax System (VATS) as required by their policies and procedures. The Information Security Officer and management are required to annually review user access for critical information systems, but this review has not been performed since May 2010.

The Information Security Officer at the Employment Commission should ensure that management performs annual reviews of VATS and VABS access as required by their policies and procedures. Employees having access that they do not need to complete their job duties increases the risk that fraudulent activities could occur.

FOLLOW UP ON UNEMPLOYMENT BENEFIT OVERPAYMENTS REVIEW

During our audit, we followed up on the status of recommendations included in our "Review of Unemployment Benefit Overpayments" issued in November 2010. This review was conducted based on a legislative request we received in February 2010 to analyze unemployment benefit overpayment activity to determine the amount of overpayments attributable to administrative errors.

The Employment Commission has taken several actions to address issues identified in the review including the following:

- Effective February 2011, the Employment Commission changed its work search policy to allow claimants to use telephone contact for job search. Previously, claimants could not contact employers by phone to satisfy the work search requirement. The revised weekly work search requirements allow claimants to contact employers in person or over the telephone, or they can send resumés or applications through the Internet or fax.

- The Employment Commission increased staffing in the Benefit Payment Control Unit by four investigators and one administrative staff. This Unit is responsible for detecting and addressing benefit overpayments. These additional employees assist with investigations and provide support for the Unit, along with some additional functions. With the staffing increase as well as decreases in new cases, the backlog of cases for review for potential overpayments has decreased by approximately 4,342 (20 percent) cases to 16,668 cases as shown below.

Summary of Caseload Activity

	For the period 10/1/09 – 9/30/10	For the period 10/1/10 – 9/30/11
Beginning Number of Cases Outstanding	17,673	21,010
New Cases	42,095	36,827
Cases Completed	(38,758)	(41,169)
Ending Number of Cases Outstanding	21,010	16,668

- The Benefit Payment Control Unit has updated their policies and procedures to include all critical activities of the Unit. The updated procedures address detection of overpayments, establishment of overpayments, recovery of overpayments, overpayment prevention, coordination/ reconciliation of benefit check processing and electronic benefit payment, and verification of alien work authorization. With detailed procedures in place, the Benefit Payment Control Unit can more effectively function in the absence of the current unit director.

- The Benefit Accuracy Measurement (BAM) Unit is tracking benefit payment accuracy sample results monthly and meeting with the Benefit Payment Control Unit to discuss the results. The BAM Unit tests a weekly sample of unemployment benefits paid to ensure recipients met eligibility requirements and they use this information to estimate benefit overpayments by the Department of Labor. Improved communication and coordination between these two units should enable the Employment Commission to better analyze overpayment activity and identify trends.

As part of our follow-up, we also reviewed BAM sample results to date and the following table summarizes the calendar 2009 and 2010 BAM results as well as quarterly results to date for calendar year 2011.

Summary of BAM Report Statistics
Calendar Year 2009 - Current

	Calendar Year 2009	Calendar Year 2010	Calendar Year 2011		
			1st Quarter	2nd Quarter	3rd Quarter
Proper Payments	85.3%	78.5%	81.6%	89.0%	87.3%
Overpayments	14.6%	21.3%	18.3%	10.8%	12.4%
Underpayments	0.1%	0.2%	0.1%	0.2%	0.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

The BAM overpayment rate has fluctuated significantly as shown above. Employment Commission staff attribute the increase between the calendar 2009 and 2010 overpayment rates to the increased claims load and less experienced staff involved in the adjudication process. Since then the overpayment rate has declined with some of this reduction attributable to the change in the work search policy discussed earlier. Historically, claimants using telephone contact for work search had been a significant reason for overpayment errors. Therefore, it is reasonable the overpayment error rate would decrease as a result of the work search policy revision. Although the policy revision was effective in February 2011, the BAM unit has 60-90 days to complete reviews so the Employment Commission does not expect that the BAM error rate will decline until later quarters.

The Employment Commission also has several system development projects underway, which we discuss later in this report. As the Employment Commission moves forward with these projects, they need to consider the need to analyze overpayment data and how to best record this information in their new system. While they are currently limited in their ability to analyze overpayment information due to system limitations, the new system should give them the opportunity to obtain better information for overpayment analysis.

AGENCY BACKGROUND AND FINANCIAL INFORMATION

The Employment Commission's mission is to promote economic growth and stability by delivering and coordinating workforce services that include job placement services, temporary income support, workforce information, and transition and training services. The Employment Commission has just over 1,330 employees working at various offices throughout Virginia. Of these employees, approximately 500 are temporary wage employees.

The Employment Commission funding comes primarily from unemployment taxes collected from employers, which go into the Unemployment Trust Fund. The Employment Commission also receives some federal grants used primarily to fund administrative activities. With the economic downturn in recent years, these traditional funding sources have not been sufficient to fund agency programs, and the Employment Commission has had to borrow money from the federal government to fund the Unemployment Trust Fund. This report will discuss later the borrowing and repayment of these funds and Trust Fund activity.

The Employment Commission has also received additional federal funding for several different extensions of unemployment benefits approved by the federal government. In fiscal year 2011, the Employment Commission continued to receive federal stimulus funds under the American Recovery and Reinvestment Act of 2009 although the amount decreased significantly from 2010 as the stimulus funds have started to phase out. These stimulus funds paid for unemployment benefit extensions approved by the federal government of approximately $93 million in fiscal year 2011, as well as some administrative costs. While the federal stimulus funds are gradually phasing out, the Employment Commission continues to receive additional federal funds for emergency unemployment compensation extensions approved by the federal government, which are still ongoing.

The Employment Commission budgets their funding in two programs: Workforce Systems Services and Economic Development Services. The Workforce Systems Services program is the Commission's primary program, as shown in the following table of budget and actual activity for fiscal year 2011. For purposes of this table, we present the Workforce Systems Services program by service area to provide more detailed program information.

Budget and Actual Activity for Fiscal Year 2011

Program and Service Area	Original Budget	Final Budget	Expenses
Workforce Systems Services:			
Job Placement Services	$34,846,184	$40,354,184	$34,457,313
Unemployment Insurance Services	994,461,047	1,774,924,164	1,508,422,929
Workforce Development Services	2,700,000	2,700,000	1,572,195
Economic Development Services	3,373,144	3,373,144	2,912,939
Total	$1,035,380,375	$1,821,351,492	$1,547,365,376

The largest of these program service areas is the Unemployment Insurance Services, under which the Employment Commission makes benefit payments to unemployed workers. The budget and expenses increased significantly during the year due to high levels of unemployment, causing the significant increases in benefits. The report discusses the Unemployment Insurance Services program below.

Unemployment Insurance Services

Under the Unemployment Insurance Services program, the Employment Commission makes unemployment benefit payments to unemployed workers who lost their employment through no fault of their own. The unemployment benefit payments provide workers with minimal income during the course of a job search. Generally, the amount and length of benefits an individual is eligible for is based on wages an individual earned while employed. The Governor and the General Assembly have the ability to adjust unemployment benefit payments and the following is a history of minimum and maximum weekly benefit amounts since 2003.

Effective Dates	Minimum Benefit	Maximum Benefit
July 6, 2003 - July 3, 2004	$50	$316
July 4, 2004 - July 2, 2005	$50	$326
July 3, 2005 – July 2, 2006	$54	$330
July 3, 2006 – June 30, 2007	$54	$347
July 1, 2007 – July 5, 2008	$54	$363
July 6, 2008 – June 30, 2012	$54	$378
July 1, 2012 – Future	$60	$378

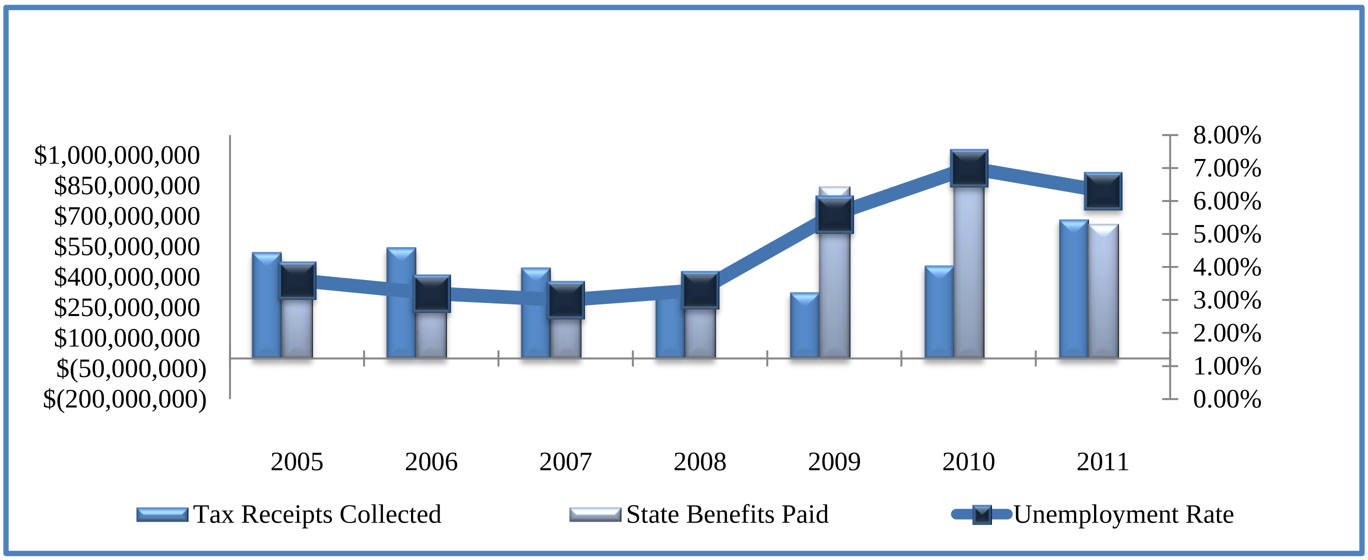
The Employment Commission pays unemployment insurance benefit payments from unemployment taxes collected from Commonwealth employers if the employer meets certain criteria set forth in the Code of Virginia. Under current law, employers pay taxes only on the first $8,000 of each employee's wages. The Employment Commission collects these taxes throughout the year and transfers the amount collected to the federal government, which maintains the Federal Unemployment Trust Fund (Trust Fund). The Employment Commission is the trustee and uses the fund to pay State unemployment insurance benefit payments.

Generally, in times of low unemployment, the Trust Fund builds up a balance to pay benefits in times of higher unemployment. The unemployment rate has increased significantly over the last several years due to the economic downturn as shown in the chart on the following page.

Fiscal Year	Unemployment Rate
2005	3.60%
2006	3.20%
2007	3.00%
2008	3.30%
2009	5.50%
2010	7.10%
2011	6.50%

As the unemployment rate increases, the Employment Commission pays more benefits and also collects less in taxes, both of which impact the Trust Fund balance. The chart below shows the relationship between the unemployment rate, benefits paid, and taxes collected.

Summary of Trust Fund Activity
Fiscal Years 2005 - 2011



Trust Fund Balance as June 30, 2011

The Trust Fund balance has decreased significantly over the last several years due to increased unemployed recipients causing the increased volume of unemployment benefits. During fiscal years

2009 and 2010, the Employment Commission had to pay significantly more in benefits than the Trust Fund contained and these deficits continued to impact the Trust Fund through most of fiscal year 2011.

When the Trust Fund incurs a deficit, Section 1201 of the Social Security Act (Act) provides for temporary loans from the federal government to ensure the continuation of benefit payments. The Act requires repayment of any loans from future employer contributions, but does not allow the Employment Commission to use employer contributions to pay any interest owed on the outstanding loan balance.

The Employment Commission began borrowing from the federal government in October 2009. The process for obtaining a loan begins when the Employment Commission, with the approval of the Governor, requests a loan from the United States Secretary of Labor within 15 days of the needed funding. The Secretary of Labor then authorizes the establishment of a line of credit, which the Employment Commission has to request each quarter. The Employment Commission does not incur a penalty for requesting a larger line of credit than it needs.

As shown in the chart below as of June 30, 2011, the Employment Commission has borrowed a total of $540 million and paid back $358 million, leaving a balance due of $182 million.

Summary of Loan Activity for Fiscal Year 2011

Beginning Balance at July 1, 2010	$346,876,000
Advances Received	193,626,711
Repayments	(358,283,711)
Ending Balance at June 30, 2011	$182,219,000

<u>Trust Fund Solvency and Tax Rate</u>

Trust fund solvency is an indicator of the fund's ability to pay benefits during periods of high unemployment. The solvency indicator compares the fund's actual balance to the calculated balance needed to pay these benefits for 16.5 months. The Employment Commission computed the trust fund solvency factor for calendar year 2011 to be (-8.1) percent, which is a significant decrease from 2010's 24.4 percent. The Employment Commission anticipates, due to the required borrowing of federal funds, that the trust fund solvency factor for calendar year 2012 will remain negative.

The Trust Fund's solvency rate has an inverse relationship to employer tax rates, meaning, as the solvency decreases, the unemployment tax rates generally increase. When the Trust Fund solvency remains at or above 100 percent, state law sets the lowest tax rate at zero. If the solvency rate falls below 100 percent, all required employers must pay unemployment tax. The tax rates imposed on employers take into account the solvency rate as well as the employment histories of individual businesses. Generally, employers with a history of higher unemployment claims pay a greater rate, while those with fewer claims pay less.

State law requires additional adjustments to the tax rate when trust fund solvency declines. The pool tax is an adjustment to the tax rate that represents a levy to recover benefits not chargeable to a specific employer, known as pool costs. When trust fund solvency exceeds 50 percent, interest income from the Trust Fund offsets pool costs; however, the Employment Commission adds the pool tax to the tax rate when interest income does not cover pool costs. In addition, state law requires a fund-building tax rate of 0.2 percent increase to employer tax rates if the Trust Fund balance drops below 50 percent.

The following table details the various tax rate components in effect for calendar years 2009, 2010, and 2011. The Employment Commission will calculate and publish the calendar year 2012 tax rates in December of 2011 so these are not included in the table below.

Minimum and Maximum Tax Rates

	Calendar Year 2009		**Calendar Year 2010**		**Calendar Year 2011**	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Tax rate	0.10%	6.20%	0.10%	6.20%	0.10%	6.20%
Pool tax	0.08%	0.08%	0.28%	0.28%	0.47%	0.47%
Fund-building tax	-	-	0.20%	0.20%	0.20%	0.20%
Total	0.18%	6.28%	0.58%	6.68%	0.77%	6.87%

Discussion of Issues Affecting Future Years

There are a number of factors that are going to continue to affect the Employment Commission's programs significantly in fiscal year 2012 and beyond, and we discuss these issues below.

Trust Fund Borrowing and Repayment

Continuing high unemployment levels in Virginia will result in the need to continue to borrow money from the federal government to pay unemployment benefits. The Employment Commission estimates they will have the initial loans paid back in full by May 2012, but they also anticipate additional short term borrowing through most of fiscal year 2013 which they anticipate repaying by May 2013. A number of different factors including changes in the economic conditions, the unemployment rates, and any additional actions taken by the federal government can affect these projections.

The federal government waived interest payments on money borrowed though December 2010 so the Employment Commission began to accrue interest starting on January 1, 2011. To minimize interest payments, the Employment Commission has begun sweeping the Trust Fund Account on designated days to repay portions of the loan as well as selecting days during the quarter where employer contributions were higher than expected to repay a lump sum of the loan. The Employment Commission has made two payments on the loan advance; the first payment in May 2011 totaled approximately $358 million and another payment in August 2011 totaled approximately $45 million.

The Employment Commission cannot use employer contributions to pay interest on any outstanding loan balance, and the Appropriation Act requires they use penalty and interest collections to pay the interest to the federal government before using these funds for other functions. The Appropriation Act did allow the usage of the unspent general fund balances at June 30, 2011 to help pay the September 2011 interest payment. The Employment Commission made the first interest payment of $8.8 million on September 30, 2011, using $5.9 million in general funds and $2.9 million of penalty and interest collections. The Employment Commission estimates the next interest payment, due in September 2012, to be $6.7 million.

System Development Projects

The Employment Commission has two ongoing system development initiatives that will replace multiple outdated systems over the next several years, the Financial Management Systems Project and the Unemployment Insurance Modernization Project (UI Mod).

The Financial Management Systems project is a modern, integrated financial management system to replace their outdated mainframe batch system. The Employment Commission has completed vendor evaluations and is currently negotiating contract terms with the highest rated vendor. The total project cost is $4.7 million and will span approximately 15 months with funding coming primarily from Reed Act funds.

In addition to the Financial Management System project, the Employment Commission is in the process of developing an Unemployment Insurance system, which will replace VATS, VABS, and the Wage Record System. This system development initiative, UI Mod, will support payment of benefits to unemployed workers, collection of taxes from employers, and the accumulation of wage data.

The total budget for UI Mod is $58.5 million with $49.1 million coming from the Reed Act funds and the remaining $9.4 million coming from the Employment Commission's penalty and interest fund. The Employment Commission is in the development stages of the project. The imaging and workflow portion of the project is in production, with the Tax and Benefit portions of scheduled for implementation in December 2012 and April 2013, respectively. The Employment Commission expects to conclude this project in June of 2013.

Within the past year, the Employment Commission resolved two issues that jeopardized the scope and success of these projects. Both project plans include partial funding from penalties and interest collected by the Employment Commission; the Financial Management System project plan includes $1.5 million in penalties and interest funding while the UI Mod project plans includes $9.4 million. As discussed above, the Employment Commission used $2.9 million in penalties and interest funding to repay interest on the federal loan in September 2011. There are still sufficient penalty and interest funds currently available for the system development projects; however as long as interest accumulates on the federal funding borrowed, a chance exists that the penalties and interest funding planned for systems development could be lost.

In addition, the Employment Commission and the Virginia Information Technologies Agency (VITA) have agreed that the production environment for both the UI Mod and the Financial Management System will reside at the Commonwealth Enterprise Solutions Center. However, VITA has granted the Employment Commission authority to host the development, test, and quality control environments at the Employment Commission's data center for the UI Mod and Financial Management projects using federally funded servers purchased by the Employment Commission. In addition, due to delays with the production environment requirements, VITA has granted the Employment Commission permission to host the UI Mod production environment temporarily.

Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 22, 2011

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Virginia Employment Commission** for the year ended June 30, 2011. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objective was to evaluate the accuracy of Employment Commission's financial transactions as reported in the Comprehensive Annual Financial Report for the Commonwealth of Virginia for the year ended June 30, 2011 and test compliance for the Statewide Single Audit. In support of this objective, we evaluated the accuracy of recording financial transactions in the Commonwealth Accounting and Reporting System and in the Employment Commission's Tax and Benefits Systems, reviewed the adequacy of the Employment Commission's internal control, tested for compliance with applicable laws, regulations, contracts, and grant agreements, and reviewed corrective actions of audit findings from prior year reports. We also followed up on the audit recommendations from the "Review of Unemployment Benefit Overpayments" report issued in 2010.

Audit Scope and Methodology

The Employment 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.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Unemployment Benefits Payments	Information Security
Taxes and Cash Receipts	Accounts Receivable
Federal Grant Revenues and Expenses	Accounts Payable
Payroll expenses	

We performed audit tests to determine whether the Employment 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. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Employment Commission's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

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

We noted certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "Internal Control and Compliance Findings and Recommendations."

The Employment Commission has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

Exit Conference and Report Distribution

We discussed this report with management on December 14, 2011. Management's response to the findings identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

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

AUDITOR OF PUBLIC ACCOUNTS

LCW: alh

COMMONWEALTH of VIRGINIA

Virginia Employment Commission

John R. Broadway
Commissioner

703 East Main Street

Post Office Box 1358
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December 14, 2011

Mr. Walter J. Kucharski
Auditor of Public Accounts
P. O. Box 1295
Richmond, Virginia 23218

Dear Mr. Kucharski:

Thank you for the opportunity to review and respond to the Auditor of Public Accounts' audit report for the year ended June 30, 2011. Your comments and recommendations are appreciated and are given the highest level of importance and consideration as we continue to review and improve our practices and procedures.

In general, we concur with the findings and recommendations identified in your report. VEC management is developing corrective action plans to improve internal controls and address the audit findings and recommendations.

Again, we appreciate the opportunity to provide comments as part of your office's report of the financial records and operations of the Virginia Employment Commission for the year ended June 30, 2011.

Sincerely,

John R. Broadway
Commissioner

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VIRGINIA EMPLOYMENT COMMISSION OFFICIALS

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Commissioner