VIRGINIA EMPLOYMENT COMMISSION

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2013

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AUDIT SUMMARY

Our audit of the Virginia Employment Commission (Employment Commission) for the fiscal year ended June 30, 2013, 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;

- four matters involving internal control and its operation necessary to bring to management's attention;

- one instance of noncompliance with applicable laws and regulations or other matters that are required to be reported; and

- the Employment Commission has made progress, but has not completely resolved our prior year finding "Resolve Employer Wage Discrepancies Timely" and this finding is repeated in our report. The Employment Commission has made progress on corrective action in response to our prior audit finding titled "Follow Timekeeping and Payroll Procedures" by reviewing and modifying their policies and procedures for overtime.

The Employment Commission is currently involved in several system development initiatives, which will replace multiple outdated systems and significantly change the agency's current business processes. The Financial Management Systems Project will replace the current financial system and the Unemployment Insurance Modernization (UI Mod) Project will replace multiple legacy mainframe-based systems changing the way employers interact with the Employment Commission. The Employment Commission is planning to implement these new systems over the next year and is devoting significant resources to these projects. We have summarized the status of these system development projects in this report.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Internal Controls Surrounding Employer Wage Discrepancies

As reported in our previous two audits, the Tax Reconciliation Unit is not resolving wage discrepancies in accordance with their policies and procedures. The Employment Commission receives wage information from employers, which is reconciled to information reported by employers on their quarterly tax returns. The Unit is responsible for identifying and resolving wage discrepancies identified in the reconciliation process, which helps to ensure that wage information used in unemployment benefit calculations is accurate.

During our review, we found that the Tax Reconciliation Unit did not adequately resolve eight of 51 (16 percent) wage discrepancies tested within 90 days in accordance with their policies and procedures. In addition, 23 out of 65 (35 percent) wage discrepancies tested were not tracked and monitored according to policies and procedures. These procedures require that an account be included on a tracking spreadsheet if the discrepancy is not reconciled within a week. The tracking spreadsheet is used to monitor unresolved discrepancies for continued follow up.

We also found three instances where the Tax Reconciliation Unit appropriately resolved a wage discrepancy, but subsequent changes in the wage information resulted in an additional discrepancy that was not detected by the Unit. This can occur when other units, such as the Monetary Determination Unit or the Auditing Unit, make changes to correct wage information but do not communicate these changes to the Tax Reconciliation Unit. As a result, the Tax Reconciliation Unit was not aware that these accounts required further follow up.

Lastly, we found the Tax System does not provide a proper audit trail for reconciliations worked by the Unit. The Tax System produces reconciliation reports daily/weekly and as the items on the report are resolved, the system removes the item. The system does not retain the information appearing on the report and the Unit disposes of the reconciliation reports after 120 days due to the size of the reports produced and lack of space. This affected our ability to evaluate the effectiveness of the reconciliation process throughout the audit period.

We believe that staffing issues in the Tax Reconciliation Unit may have contributed to the recurring issues with the wage discrepancy reconciliation process. We understand the Unit has experienced significant turnover as well as some staffing reassignments in recent years, which has resulted in several new, less experienced staff in this area.

The Employment Commission is in the process of implementing several new information systems, which will significantly affect current business processes. With these changes, we recommend management review staffing levels, responsibilities, and training for staff in the Tax Reconciliation Unit. Management should evaluate staffing levels in this Unit to ensure they are adequate given their current responsibilities as well as their responsibilities once the new systems are implemented. In addition, they should ensure staff in the Unit are adequately trained on their policies and procedures.

Management should review the Tax Reconciliation Unit's policies and procedures to ensure they are adequate and address situations where wage information is modified by another area, such as the Monetary Determination Unit. Additionally, the Employment Commission should consider developing an audit trail for the reconciliation reports used by the Tax Unit once the new systems are implemented.

Improve Controls over Benefit Adjustment Payments

The Employment Commission needs to improve their controls for generating benefit adjustment payments because of modified wage information. In addition, the Employment Commission is not withholding child support payments from benefit adjustment payments as required by the Code of Virginia.

The Employment Commission receives and processes wage data from employers through the Tax Wage Information Processing Unit (TWIP) and Monetary Determination Unit (MDU). The TWIP Unit reconciles this information and uploads wage information to the Master Wage File, which is used as the basis for benefit amount determinations. Various situations can occur where the wage information originally used as the basis for benefit payments is modified. When this occurs, the Employment Commission generates a reprocessed monetary determination. If the claimant is owed additional benefits based on the modified information, the Employment Commission immediately generates a benefit adjustment payment to the claimant for the amount owed. In some cases, the TWIP or MDU Unit detects errors in the modified wage information and subsequently determines the benefit adjustment payment was made in error. In these cases, the unit corrects the Master Wage File, which the Virginia Automated Benefits System (VABS) uses to generate a benefit overpayment.

As part of our audit, we reviewed a sample of benefit payments over $750 and found that most of these were benefit adjustment payments that resulted from modified wage information as discussed above. Of the 22 payments we reviewed, five (23 percent) were benefit adjustment payments that were subsequently found to be in error by the Employment Commission. In these cases, the Employment Commission had to establish an overpayment and attempt to collect these amounts from the claimants. In addition, we reviewed one benefit adjustment payment that was processed in error, but was not detected by the Employment Commission. Once we brought this to their attention, they corrected the information but they were unable to establish an overpayment due to time limitations established in the Code of Virginia.

Lastly, the Code of Virginia requires the Employment Commission deduct child support payments owed from unemployment benefit payments. In our sample of benefit adjustment payments over $750, we also found one payment where child support owed should have been deducted, but was not. While the Employment Commission deducts child support owed from regular unemployment benefit payments, they do not deduct child support owed from benefit adjustment payments due to a system limitation.

We recommend the Employment Commission consider changing the process for the issuance of benefit adjustment payments over a certain dollar threshold to allow time for review and verification of the modified wage information. This would reduce the likelihood that an adjustment payment will be made in error and eliminate the need for overpayment establishment and collection activities. Additionally, we recommend the Employment Commission deduct child support owed from benefit adjustment payments to ensure compliance with Code of Virginia. We understand the Employment Commission is in the process of replacing their current benefit information system, so we recommend the Employment Commission consider this in their new system implementation.

Strengthen Financial Reporting Over Accounts Receivable

The Employment Commission needs to strengthen their financial reporting of accounts receivable information. The Employment Commission has significant accounts receivable for employer tax payments as well as benefit overpayments that are reported in the Commonwealth's Comprehensive Annual Financial Report.

We reviewed year-end activity reported to the Department of Accounts (Accounts) for accounts receivable and found numerous errors and issues in the information. During our review, we found:

- An understatement of approximately $1.5 million in accounts receivable for employer taxes due to a formula error in the spreadsheet.

- Numerous other smaller errors in various other calculations that impacted the estimate for the allowance for doubtful accounts. We also found several other instances where descriptions of information in the spreadsheets were not accurate, requiring additional explanation from the accounts receivable staff.

- While the use of estimates in accounts receivable reporting is an accepted practice, the Employment Commission should reevaluate their methodology for several estimates used in the process. There were several estimates that were based only on one years' worth of activity; best practices suggest that having more historical data would provide a more sound methodology for the estimate. In addition, the Employment Commission does not have written policies and procedures to document the basis for the methodologies they are using in the accounts receivable reporting process. This is also important if methodologies or assumptions are changed to ensure there is a justification and documentation to support the change.

- There was no documentation to support certain amounts on the Accounts Receivable Summary reported to Accounts as follows:

  - Amounts reported as adjustments to prior quarters could not be adequately supported due to an error in the reporting process in the current system. An adjustment report from the system should be the supporting documentation for these amounts; however, the Employment Commission has determined that this report is inaccurate and needs to be corrected. Given the new system implementations, corrections are not being made to the old system and there is not documentation to support this amount.

  - Receivables over sixty days old reported with a collection status of *with the state agency* could not be supported.

We recommend the Employment Commission strengthen financial reporting processes over the accounts receivable information. This includes ensuring staff preparing the information are adequately trained and that the information is properly reviewed. In addition, it is critical that documentation be maintained to support the process, most significantly the methodologies used to arrive at estimates used in the process. This documentation should include the basis for the methodology or any assumptions used in the process. It is our understanding that the Employment Commission is planning to work with the Department of Accounts to obtain guidance on reporting accounts receivable information. We recommend they continue with these efforts as part of strengthening their financial reporting processes.

Improve Internal Controls over Small Purchase Charge Card Program

The Employment Commission's Procurement Unit lacks formal written internal policies and procedures surrounding their Small Purchase Charge Card Program. In addition, they did not maintain supporting documentation of their annual review of cardholder transaction limits, and a supervisor is not following the Commonwealth's policies and procedures when completing monthly reviews of the cardholder reconciliation.

The Commonwealth Accounting Policies and Procedures (CAPP) Manual states that agencies must develop and document internal control procedures to ensure compliance with Commonwealth policies and procedures and corporate purchasing card contract provisions. In addition, the CAPP Manual requires the cardholder's supervisor to review and approve, by signing and dating, the purchase log to bank statement reconciliations. Lastly, the CAPP Manual requires that the agency charge card Program Administrator or supervisor review cardholder limits annually and document the analysis in writing.

We recommend that the Procurement Unit evaluate and document all of their current purchasing procedures that are agency specific and not documented by the CAPP Manual. For example, the Procurement Unit should document their verbal internal policies regarding supplies and materials purchases for the warehouse and local offices to ensure that they are minimizing the appearance that they are splitting purchases to circumvent transaction limits and procurement requirements. Management should also document their verbal internal policy for processing purchases using paper checks. Management must commit the resources to ensure that all policies and procedures are documented and updated sufficiently to reduce the risk of error and allow for proper succession planning. Additionally, management should ensure compliance with the CAPP Manual by signing and dating reconciled purchase logs to bank statements and by documenting the annual review of cardholder transaction limits.

Status of Prior Year Finding: Follow Timekeeping and Payroll Procedures

In the prior year, we found that Employment Commission supervisors were not consistently following internal policies, which require advance approval for overtime. In addition, employees worked more overtime hours than had been approved.

To follow up on this issue, the Employment Commission has taken several actions. First, the Employment Commission's Internal Audit Department performed a review of overtime payments and found similar issues to those found in our review. The Employment Commission has also continued to stress to supervisors the requirements for overtime approval. Human Resource Management Services also started conducting random post audits of overtime approval; however, this was not completed prior to the recent retirement of the Compensation Manager.

In addition, the Employment Commission has been working with the Department of Human Resource Management to reevaluate their current procedures and determine whether they are effective given their operations and processes. The Employment Commission revised their overtime policy and procedures in October 2013. We reviewed the new policies and procedures and they appeared reasonable. We will continue to follow up on the issue in our fiscal year 2014 audit to ensure that the Employment Commission properly implemented the new procedures.

STATUS OF SYSTEMS DEVELOPMENT PROJECTS

The Employment Commission is currently involved in several system development initiatives, which will replace multiple outdated systems and significantly change the agency's current business processes. We summarize these projects and their status below.

Unemployment Insurance Modernization (UI Mod) Project

The Unemployment Insurance Modernization Project (UI Mod) will replace multiple existing mainframe-based software systems with a web-based platform, changing the way employers interact with the Employment Commission. 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 Reed Act funds and the remaining $9.4 million coming from the Employment Commission's penalty and interest fund. The Employment Commission has spent approximately $34 million as of August 2013.

The Employment Commission initiated the UI Mod project in 2009 and the first phase, Imaging and Workflow, went into production successfully and under budget in December of 2011. The remaining phases of the project, Tax and Benefits, were originally scheduled to go live in December 2012 and May 2013; however, the Employment Commission and HCLA, the UI Mod project vendor, have extended the implementation dates for remaining portions of the system multiple times. The most recent contract modification executed in September 2013 adjusted the go live dates for both remaining phases to December 2013. The project team has been testing the system and working to achieve the aggressive December go live date; however, discussion has begun again to move the go live date into 2014 due to recently enacted law changes as well as necessary changes to core system functionality. Currently, the Employment Commission has not incurred any additional contractual costs but anticipate the most recent changes will cost approximately $775 thousand.

Financial Management System

The Employment Commission is implementing the Oracle Financial Management System to replace an outdated mainframe batch system and databases. In May 2012, the Employment Commission signed a contract with Strategic Information Solutions (SIS) for implementation services. The total project cost is $4.9 million with funding coming primarily from Reed Act funds and the Employment Commission has spent approximately $2.8 million as of August 2013. The original implementation schedule for the new system was October 2013; however, during the summer of 2013, the Employment Commission and SIS realized that this schedule was unattainable and they are currently reworking the implementation schedule with no additional contractual costs. Currently, the project team's focus is on testing the system and using the results to determine the most appropriate go live schedule.

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 policy development, job placement services, temporary income support, workforce information, and transition and training services.

The Employment Commission's funding for unemployment benefits comes primarily from unemployment taxes collected from employers, which go into the Unemployment Trust Fund (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 benefit payments, and the Employment Commission has had to borrow money from the federal government to fund the Trust Fund. We discuss Trust Fund borrowing and activity in more detail later in this report.

The Employment Commission has also received additional federal funding for several extensions of unemployment benefits approved by the federal government in the last several years. In fiscal year 2013, the Employment Commission received additional federal funding of approximately $204 million for unemployment extensions approved by the federal government. This is a significant decrease in funding for the unemployment extensions due to the expiration of the availability of funding. The Employment Commission also continued to receive federal stimulus funds although the amount decreased significantly from 2012 due to the gradual phase out of the stimulus funding.

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 2013. 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 2013

Program and Service Area	Original Budget	Final Budget	Expenses
Workforce Systems Services:			
Job Placement Services	$ 34,724,500	$ 34,724,500	$ 27,895,386
Unemployment Insurance Services	683,648,397	1,005,898,397	903,731,654
Workforce Development Services	1,500,623	1,500,623	951,834
Economic Development Services	3,487,809	3,487,809	3,097,333
Total	$723,361,329	$1,045,611,329	$935,676,207

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 the continuation of additional federal funds for benefit extensions already discussed. As previous discussed, benefits extensions are beginning to expire in addition to reductions in unemployment rates, which will be discussed later in this report; therefore, the budgets and expenses above show a significant decrease when compared to amounts in 2012. Due to the significance of the Unemployment Insurance Services program, we provide more information on this program below including a discussion of unemployment benefits, unemployment taxes and the Trust Fund.

Unemployment Insurance Services Program

Unemployment Benefits

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 although there have not been any significant changes in benefit amounts for the last several years as seen in the following chart. However, starting in fiscal year 2015 the minimum unemployment benefit amount will increase to $60.

Minimum and Maximum Unemployment Benefit Amounts
Fiscal Years 2007-2013

Effective Dates	Minimum Benefit	Maximum Benefit
July 1, 2007 – July 5, 2008	$54	$363
July 6, 2008 – July 5, 2014	$54	$378
July 6, 2014	$60	$378

The State’s unemployment insurance program pays benefits for up to 26 weeks; however, as we have discussed, the federal government has approved several benefit extensions in recent years. The chart on the following page shows the most significant state and federal benefit programs applicable during the fiscal year and the amount of weeks benefit payments that are included under each.

Summary of Available Benefit Types in Fiscal Year 2013

State Unemployment Benefits	Federal Emergency Unemployment Benefits (scheduled to expire December 28, 2013)		
26	**Tier 1**	**Tier 2**	**Tier 3**
Maximum weeks in most states	Up to 20 weeks available nationwide, reduced to 14 weeks available as of September 9, 2012. Any new or current Tier 1 claims effective before September 29, 2013, will have a 14.2 percent reduction to weekly benefits. After September 29, 2013, the reduction to weekly benefits will change to .62 percent for all new Tier 1 claims made on or after that date.	Up to an extra 13 weeks paid in "high unemployment state", 14th week added by Congress effective 11/2009	Up to 13 additional weeks of benefits paid in "high unemployment" states if other benefits exhausted

In fiscal year 2013, the Employment Commission paid out more than $825 million in unemployment benefit payments. Overall, benefit payments continued to decrease between 2012 and 2013 as the unemployment rate decreased further, extended benefits expired, and claimants began exhausting their benefits and became ineligible to file a new claim due to the length of time they have been unemployed. The following table shows benefit payments by type made in fiscal years 2011, 2012, and 2013, including the benefit programs discussed above.

Unemployment Benefit Payments by Type
Fiscal Years 2011 - 2013

Type of Unemployment Benefit	Fiscal Year 2011 Amount	Fiscal Year 2012 Amount	Fiscal Year 2013 Amount
State Unemployment Insurance Benefits	$ 666,936,329	$ 624,351,290	$586,662,335
Federal Unemployment Insurance Benefits	32,532,391	37,022,653	34,852,843
Federal Emergency Unemployment Benefits – Tier I	304,552,464	255,722,859	183,821,273
Federal Emergency Unemployment Benefits – Tier II	157,337,316	126,986,137	15,384,518
Federal Emergency Unemployment Benefits – Tier III	144,222,576	111,127,601	4,709,662
Federal Extended Benefits and Additional Compensation	123,206,428	1,518,536	182,438
Total	$1,428,787,504	$1,156,729,076	$825,613,069

Unemployment Taxes

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. The Employment Commission classifies employers as one of two types - taxable or reimbursable employers. Taxable employers pay an unemployment tax to the Employment Commission based on a set tax while reimbursable employers reimburse the Employment Commission dollar-for-dollar for their proportionate share of benefits paid. There are approximately 200,000 taxable employers and 1,300 reimbursable employers in 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 Trust Fund, which the federal government maintains. The Employment Commission is the trustee and uses the fund to pay State unemployment insurance benefit payments.

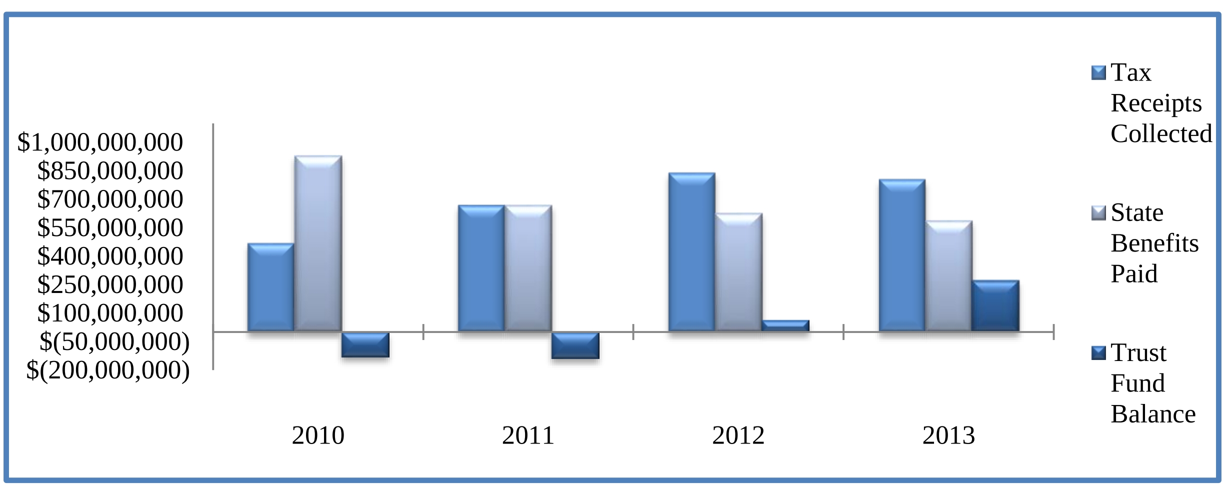
Trust Fund

Generally, in times of low unemployment, the Trust Fund builds up a balance to pay benefits in times of higher unemployment. The seasonally adjusted unemployment rate has started to decrease over the last three years as shown below. The unemployment rate impacts the amount of unemployment benefits paid which affects the Trust Fund balance.

Fiscal Year	Unemployment Rate
2010	7.30%
2011	6.70%
2012	6.20%
2013	5.60%

Trust Fund activity, specifically significant changes in the Trust Fund balance, can in turn affect future tax rates paid by employers. The chart below shows the relationship between benefits paid, taxes collected, and the Trust Fund balance over the last several years. Benefits paid in the chart below represent State benefits only. The Trust Fund balance shown below is the balance at fiscal year-end and includes any borrowed funds, which we discuss in more detail on the following page.

Summary of Trust Fund Activity – Fiscal Years 2010 - 2013



The Trust Fund balance has increased significantly over the last year due to a lower unemployment rate causing the decreased volume of unemployment benefits. Another factor is that taxes collected from employers increased due to an increase in the tax rate for 2012 discussed below in further detail. During fiscal years 2009 through 2011, the Employment Commission had to pay significantly more in benefits than it was collecting in taxes, causing the Trust Fund to run a deficit.

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 and has periodically borrowed since that time. These borrowings have resulted in interest owed to the federal government and the Employment Commission made their second interest payment on September 30, 2012, using penalty and interest collections as required by the Appropriation Act. The Employment Commission originally owed $5.6 million, but the federal government forgave $667,000 because Virginia did not borrow additional funds from the federal government before January 1, 2013. The federal government has also forgiven $753,254 in interest payments providing that Virginia does not borrow additional funds before January 1, 2014.

Some additional periodic borrowing was necessary in fiscal year 2013 to meet temporary cash flow needs, but the Employment Commission was able to repay these amounts during the year. In order to prevent a second FUTA Credit Reduction assessment on employers for calendar year 2012 and to minimize interest payments to the federal government, borrowings in 2013 were from a combination of federal and state sources. This included borrowing from the federal government as well as a treasury loan through the Virginia Department of Accounts. As shown in the chart below, the Employment Commission borrowed and repaid all loans during the fiscal year.

Summary of Loan Activity – Fiscal Year 2013

Beginning Balance at July 1, 2012	$ -
Federal advances received during the year	134,230,649
Federal repayments made during the year	134,230,649
State advances received during the year	48,000,000
State repayments made during the year	48,000,000
Ending Balance at June 30, 2013	$ -

The Employment Commission was able to reduce the loan balance to the federal government through increased tax collections over the last several years. These increased collections were primarily the result of automatically triggered changes in the tax rates required to maintain the Trust Fund's solvency and the addition of 22,000 taxable employers in fiscal year 2013.

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 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 Employment Commission annually sets the tax rates on a calendar year basis and the following table details the various tax rate components in effect for calendar years 2010 through 2013. As shown below, the tax rates for 2013 declined due to the Trust Fund solvency results discussed above.

Unemployment Tax Rates

	Calendar Year 2010		**Calendar Year 2011**		**Calendar Year 2012**		**Calendar Year 2013**	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Tax rate	0.10%	6.20%	0.10%	6.20%	0.10%	6.20%	0.10%	6.20%
Pool tax	0.28%	0.28%	0.47%	0.47%	0.53%	0.53%	0.38%	0.38%
Fund-building tax	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%
Total	0.58%	6.68%	0.77%	6.87%	0.83%	6.93%	0.68%	6.78%

Note: The Employment Commission will calculate and publish the calendar year 2014 rates in December 2013 so these are not included in the table above.

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 2, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
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, 2013. 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, 2013. 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.

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, regulations, contracts, and grant agreements.

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 System Security
Taxes and Cash Receipts	Accounts Receivable
Small Purchase Charge Card	Accounts Payable

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, regulations, contracts, and grant agreements. 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, regulations, contracts, and grant agreements that require management's attention and corrective action. These matters are described in the section entitled "Internal Control and Compliance Findings and Recommendations."

Exit Conference and Report Distribution

We discussed this report with management on December 9, 2013. 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/clj

COMMONWEALTH of VIRGINIA

Virginia Employment Commission

John R. Broadway
Commissioner

Post Office Box 1358
703 East Main Street
Richmond, Virginia 23218-1358

December 9, 2013

Ms. Martha Mavredes
Auditor of Public Accounts
Post Office Box 1295
Richmond, Virginia 23218

Dear Ms. Mavredes:

Thank you for the opportunity to review the Auditor of Public Accounts' audit report for the year ended June 30, 2013. 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.

We are in general concurrence with the findings and recommendations identified in your report and we plan to take appropriate action to address them.

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, 2013.

Sincerely,

John R Broadway

John R. Broadway
Commissioner

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Equal Opportunity Employer/Program

VIRGINIA EMPLOYMENT COMMISSION OFFICIALS

John R. Broadway
Commissioner