



VIRGINIA EMPLOYMENT COMMISSION

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2016

Auditor of Public Accounts
Martha S. Mavredes, CPA

www.apa.virginia.gov

(804) 225-3350



AUDIT SUMMARY

Our audit of the Virginia Employment Commission (Commission) for the fiscal year ended June 30, 2016, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System (CARS), Cardinal, and the Commission's internal systems: Virginia Automated Benefits System (VABS), Virginia Unemployment Insurance System (VUIS), and Financial Management System (FMS);
- matters involving internal control and its operation necessary to bring to management's attention; and
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

We found that the Commission has taken adequate corrective action to resolve audit findings reported in the prior year that are not repeated within this report. Those findings that report on issues that were not resolved from our previous audit are designated with "*– REPEAT*" at the end of their title. This report also contains an update on the status of a major ongoing system implementation as well as background information regarding the operations and financial activities of the Commission.

–TABLE OF CONTENTS–

	<u>Pages</u>
AUDIT SUMMARY	
AUDIT FINDINGS AND RECOMMENDATIONS	1-6
STATUS OF SYSTEM DEVELOPMENT PROJECTS	7
COMMISSION BACKGROUND AND FINANCIAL INFORMATION	8-13
INDEPENDENT AUDITOR’S REPORT	14-16
COMMISSION RESPONSE	17
COMMISSION OFFICIALS	18

AUDIT FINDINGS AND RECOMMENDATIONS

The Commission collects, manages, and stores significant volumes of demographic, transactional, and financial data within its mission critical information technology (IT) systems. Therefore, in addition to comparing the Commission's operational practices to the Commonwealth's standards and best practices, we also compared the Commission's information security practices to those required by the Commonwealth. This resulted in several findings below. To differentiate between information security findings and other findings, we have separated the "Audit Findings and Recommendations" section into two subsections: "Information Security Findings" and "Other Findings."

Information Security Findings

Upgrade Unsupported Technology – NEW

The Commission does not use supported, up-to-date software to run some of its mission critical and sensitive systems. Retired and unsupported software no longer receives updates and patches to remedy recently discovered vulnerabilities. The details of these control weaknesses have been communicated to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under Section 2.2-3705.2 of the Code of Virginia due to its sensitivity and description of security controls.

The Commission should upgrade or decommission its systems that run outdated and unsupported software. If the Commission determines upgrades cannot occur immediately, it should file for and receive an approved exception that includes a description of compensating controls that will reduce the software vulnerability risk. The exception request should also include the Commission's future plans to upgrade or decommission the systems running outdated and unsupported software. This will better ensure the confidentiality, integrity, and availability of sensitive Commonwealth data and achieve compliance with the Commonwealth's Information Security Standard, SEC 501-09 (Security Standard).

Continue Improving Oversight over IT Risk Assessments – REPEAT

The Commission continues to operate with outdated IT risk assessments. The Commission's Security Audit Plan classifies 59 systems as sensitive, but the Commission only has up-to-date risk assessments for 12 of these systems.

The Security Standard, Section 6.2, requires the Commission to conduct and document a risk assessment of each sensitive IT system as needed, but not less than once every three years. Additionally, Section 6.2 of the Security Standard requires the Commission to conduct and document an annual self-assessment to determine the continued validity of existing risk assessments.

Without having current and complete risk assessments, the Commission increases the risk that existing weaknesses in sensitive systems will remain undetected and unmitigated. These undetected weaknesses increase the risk of malicious users compromising the system and data, and

potentially making the system unavailable. Further, the Commission cannot effectively prioritize future security audits over sensitive systems based on the related risks.

The Commission was unable to develop risk assessments for all sensitive IT systems due to a lack of resources. The Commission was awarded additional federal funds in September of 2015 towards information system security, but those funds were allocated to higher-priority projects. The Commission continues to apply for additional funding towards improving its information security program and prioritizing corrective actions to complete IT risk assessments for all sensitive systems.

The Commission should continue its efforts in prioritizing corrective actions to develop IT risk assessments for all IT systems deemed sensitive. Also, the Commission should maintain oversight of the IT risk assessments by conducting and documenting annual self-assessments.

Continue Improving Oversight over Third-Party Service Providers – REPEAT

The Commission continues to improve oversight over third-party service providers (providers) to gain assurance over outsourced operations, but lacks a formalized framework for this process. Providers are entities that perform outsourced tasks or functions on behalf of the Commonwealth. The Commission has outsourced several of its mission critical business functions related to the Unemployment Insurance program, including hosting of its online claims portal and administration of electronic debit card operations for Unemployment Insurance benefit payments.

Section 1.1 of the Security Standard states agency heads remain accountable for maintaining compliance with the Security Standard through documented agreements with providers and oversight of services provided. Additionally, Topic 10305 of the Commonwealth Accounting Policies and Procedures (CAPP) Manual requires agencies to have adequate interaction with the provider to understand its internal control environment and maintain oversight over the provider to gain assurance over outsourced operations. In addition, the Hosted Environment Security Standard, SEC 525-02, Section SA-9-COV-3, states that each agency shall perform an annual security audit of the environment or review the annual audit report of the environment conducted by an independent, third-party audit firm on an annual basis.

Without a formally defined process to gain assurance over providers' IT environments, the Commission cannot consistently validate that those providers have effective IT controls to protect its sensitive data.

The Commission has begun developing a framework to gain assurance from providers. This effort includes reviewing current data sharing agreements and contracts to identify and develop a list of current providers; and inserting a confidentiality agreement in new contracts that requires providers to comply with the Commonwealth's Information Technology Resource Management policies, standards, and guidelines, and provide independent audit results over security controls. However, the Commission has not completed corrective actions as it does not have formal policies and procedures developed and implemented for maintaining a list of providers and reviewing assurance reports on an ongoing basis.

The Commission should continue to develop a framework for identifying providers and implement procedures for gaining assurance over outsourced operations. The Commission can obtain assurance in several forms including, but not limited to: Service Organization Control reports, on-site reviews, or other independently verified assurance of the provider's internal control environment. After developing a framework, the Commission should continue reviewing its contract listing to confirm that contract language between the Commission and provider clearly delineates the process, procedures, and controls assigned to each party. Finally, the Commission should maintain oversight over this process to confirm that it is compliant with the provisions set forth within the Security Standard and CAPP Manual.

Continue Improving Database Security – REPEAT

The Commission continues to improve some security controls in a database that supports mission critical business functions, but does not meet all requirements in the Security Standard. The Commission resolved one of 11 control weaknesses identified in the fiscal year 2015 audit. The Security Standard requires agencies to implement certain minimum controls to safeguard data that is stored in database systems. The details of the remaining control weaknesses have been communicated to management in a separate document marked FOIAE under Section 2.2-3705.2 of the Code of Virginia due to its sensitivity and description of security controls.

The Commission has taken additional steps to implement certain security controls in the database. We have not tested the controls to ensure they are operating effectively; however, we will test the controls the Commission has implemented during the next audit period. The Commission should continue its efforts to implement and improve the controls discussed in the communication marked FOIAE to meet, at a minimum, the requirements in the Security Standard and industry best practices.

Improve Change Management Process – NEW

The Commission does not require some changes related to a network device to follow a formal change management process. The details of these control weaknesses have been communicated to management in a separate document marked FOIAE under Section 2.2-3705.2 of the Code of Virginia due to its sensitivity and description of security controls.

The Commission should develop and implement the change management controls discussed in the communication marked FOIAE to meet, at a minimum, the requirements in the Security Standard.

Continue Improving Physical and Environmental Security – REPEAT

The Commission continues not to have a sufficient physical and environmental security program in place to protect technical assets that support day-to-day business functions from human and environmental risks. The Commission resolved one of three essential control weaknesses identified in the fiscal year 2015 audit. The details of the remaining control weaknesses have been

communicated to management in a separate document marked FOIAE under Section 2.2-3705.2 of the Code of Virginia due to its sensitivity and description of security controls.

The Security Standard requires the agency to develop, document, and implement physical and environmental protection policies and procedures to ensure appropriate safeguards are in place to protect information systems from human and environmental risks. By not requiring sufficient physical and environmental safeguards and supporting procedures, the Commission cannot ensure information systems maintained on the premises are protected from human and environmental risks.

The Commission should continue implement the controls discussed in the communication marked FOIAE to meet, at a minimum, the requirements in the Security Standard and industry best practices.

Other Findings

Improve Procedures related to Retirement Contributions – NEW

The Commission does not adequately reconcile the Commonwealth Integrated Personnel and Payroll System (CIPPS), Personnel Management Information System (PMIS), and the Virginia Retirement System's (Retirement System's) myVRS Navigator System. During our review, we noted instances of discrepancies that were not resolved for several months, and found the Commission is only reviewing the PMIS cancelled record report on a weekly basis.

Per Topic 50410 of the CAPP Manual, "it is extremely important to resolve exceptions on this [exception] report immediately." Resource constraints and system limitations were most likely the cause of these delays. Further, myVRS Navigator generates a "Cancelled Records" report and shows exceptions occurring during the daily interface between myVRS Navigator and PMIS. Per Topic 50410 of the CAPP Manual, "...PMIS employers must review the Cancelled Record Report daily to ensure all information was recorded in [myVRS Navigator]." The Commission's review is infrequent as a daily review of this report is not included in the Human Resource Department's procedures.

Without a timely resolution of reconciling items and frequent reviews of discrepancy reports, the Commission has increased the risk of inaccuracies in myVRS Navigator. This can lead to errors in employees' records, potentially causing complications when an employee retires. It can also contribute to inaccurate contributions to the Retirement System and inaccurate reporting of pension liability within the Retirement System's and statewide financial statements.

The Commission should work to resolve discrepancies in a timely manner. The Commission should also update its processes to include a daily review of the Cancelled Records report. This will reduce the risk of reporting incorrect information to the Retirement System.

Submit Required Reports – NEW

The Commission did not submit the past three required Employment and Training Administration Contributions Operations Reports (ETA 581 Reports) by their deadlines. The ETA 581 report provides information to the Federal Department of Labor (Labor), which they use to measure the effectiveness of the tax program. According to the grant agreement between the Commission and Labor, the Commission should submit its required reports to Labor in a timely manner and in accordance with the Unemployment Insurance Reports Handbook, Number 401. This handbook states the ETA 581 Report for each calendar quarter is due by the 20th day of the second month following the quarter to which it relates. During our review, the Commission had not submitted its past three ETA 581 reports, making them between two and eight months past the deadline and out of compliance with this requirement.

The Commission implemented a new tax administration system, the Virginia Unemployment Insurance System (VUIS), in December of 2015, but deferred production of this and other required reports until after this implementation was complete. This led to a delay in the Commission's ability to produce and submit these reports.

The Commission should finalize the controls and query logic used to prepare the ETA 581 report and submit it by the required deadline each quarter. This will eliminate this particular risk of non-compliance to the reporting requirement.

Ensure Tax Wage Discrepancy Report is Complete – NEW

The Commission has not ensured the completeness of the tax-wage discrepancy report from VUIS. The tax-wage discrepancy report identifies discrepancies between the tax and wage files submitted by employers and allows the Commission to investigate and resolve them. As discrepancies between these two files could indicate an incorrect basis used to calculate a claimant's benefit amounts and an incorrect tax rate charged to employers, it is critical to investigate and resolve these discrepancies as soon as possible. During our review, we noted that certain discrepancies did not appear on the discrepancy report, such as those who reported \$0 in wages to the employee and those whose account numbers had changed.

The Commission implemented VUIS in December of 2015 and became aware of the discrepancy report shortcomings after fiscal year end June 30, 2016. The Commission can run other reports and ad-hoc queries to identify \$0 wage employees, but during our review, the Commission had not done this or implemented any compensating controls.

The Commission should continue to work with VUIS' vendor to correct the VUIS tax-wage discrepancy report or obtain additional reports to use in conjunction with this report. This will allow the Commission to investigate all discrepancies exceeding established thresholds as prescribed by the Commission's tax-wage discrepancies policies and procedures. This will reduce the risk of incorrectly calculating benefit amounts and taxes owed.

Document Separation of Duties of Individuals for Mission Critical Systems – REPEAT

The Commission has not documented separation of duties conflicts for certain mission critical systems. The Commission uses VABS and VUIS to administer the Unemployment Insurance program. The Commission uses FMS and the statewide Cardinal system to account for activity within the unemployment trust fund. Although the Commission maintained documentation, defining each access level and group within the respective systems, it did not document which access levels and groups create separation of duties conflicts for any of these systems.

Section 8.1 AC-5 of the Security Standard requires agencies to document separation of duties of individuals. When managers at the Commission request employees' access to multiple mission critical systems concurrently, there's the risk that certain access levels and groups may conflict with one another and allow an individual to bypass the internal controls set forth by management. Without identifying and documenting separation of duties conflicts, the person granting access does not know which roles would represent such a conflict for any of the above-mentioned systems.

The Commission should document which roles within each system would represent conflicts with a proper separation of duties. This will reduce the risk of granting inappropriate access and the risk of employees entering inappropriate transactions.

Remove System Access Timely – NEW

The Commission failed to remove access to sensitive IT systems in a timely manner. During our review, we noted three employees who ended their employment with the Commission, but did not have their access to the tax administration and financial systems removed for up to two years after their departure.

The Security Standard, Section AC-2-COV.2, states, "For all internal IT systems, promptly remove access when no longer required." With individuals no longer employed by the Commission having access to IT systems, the risk of inappropriate transactions taking place is increased. Although access to the Commission's network is removed, valid employees could still use the departed person's credentials to access the systems.

A manual process for removing access of contractors and temporary employees as well as a technical issue of syncing network access with system access led to these untimely removals. In addition, this was not caught as a part of regular access reviews.

The Commission should perform a more thorough review of all users to IT systems. This will reduce the risk of employees retaining inappropriate access after termination.

STATUS OF SYSTEM DEVELOPMENT PROJECTS

The Commission has completed several system development initiatives in recent years, with one project, the Unemployment Insurance Modernization Project (UI Mod), continuing during fiscal year 2016 and into fiscal year 2017. UI Mod will replace multiple existing mainframe-based software systems with a web-based platform and reengineer the Commission's business processes.

In 2009, the Commission began efforts to replace its antiquated mainframe-based systems originally built in the 1980's. Specifically, UI Mod will support payments of benefits to unemployed workers, collection of taxes from employers, and the accumulation of wage data. The total project budget for UI Mod is \$58.5 million.

The UI Mod project consists of three main phases:

- Imaging and Workflow, implemented in December 2011
- Tax, implemented in November 2015
- Benefits, in development

The Commission and HCLA, the UI Mod project vendor, originally scheduled the Tax and Benefits phases of the project to go into production in December 2012 and May 2013. However, the project team did not achieve these dates, which resulted in multiple extensions. The Commission completed the second phase of the UI Mod project, Tax, in November 2015, leaving the final phase, Benefits, remaining for implementation.

The Commission, the Secretary of Commerce and Trade, the Office of the Attorney General, and HCLA have steadily continued to work together to establish a plan for the completion of the UI Mod Benefits phase that complies with the provisions of the contract and takes new required system changes into account and the teams. The team anticipates establishing a go-live schedule in January 2017.

The Commission has spent approximately \$49 million as of December 2016, with nearly \$26 million in contractual payments to HCLA. The remaining contracted Benefits milestone payments to HCLA amount to approximately \$6.7 million.

COMMISSION BACKGROUND AND FINANCIAL INFORMATION

The 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 Commission's primary source of funding for unemployment insurance benefits comes from unemployment taxes collected from employers. The Commission deposits these taxes into the Unemployment Insurance Trust Fund, which the United States Department of the Treasury maintains on behalf of state governments. The Commission also receives federal grants, which primarily fund administrative activities.

The Commission budgets its operational funding in two programs: Workforce Systems Services and Economic Development Services. As shown in Table 1 below, the Workforce Systems Services program is the Commission's primary program. For illustrative purposes, we have included Service Area to provide more detailed program information on operating budget and actual activity.

Budget and Actual Activity for Fiscal Year

Table 1

Program and Service Area	Original Budget	Final Budget	Expenses
Workforce Systems Services			
Job Placement Services	\$ 28,429,515	\$ 28,029,515	\$ 26,760,354
Unemployment Insurance Services	577,110,466	577,493,466	466,856,507
Workforce Development Services	834,187	2,234,187	977,362
Economic Development Services	2,881,526	2,881,526	2,803,450
Total	\$609,255,694	\$610,638,694	\$497,397,673

The largest service area in the Workforce Systems Service program is Unemployment Insurance Services. The intent of this service area is to provide benefit payments to unemployed workers. Between July 1, 2015, and June 30, 2016, the Commission provided unemployment insurance to 125,520 unemployed workers.

Unemployment Insurance Services Program

Unemployment Benefits

Under the Unemployment Insurance Services program, the Commission makes benefit payments to unemployed workers who lost their employment through no fault of their own. Unemployment benefit payments provide workers with temporary financial assistance during the course of a job search.

Generally, the amount and length of benefits an individual is eligible for is based on wages that an individual earned while employed. The State's unemployment insurance program pays benefits for up to 26 weeks. The Governor and General Assembly have the ability to adjust

unemployment benefit payments. These amounts have not changed significantly over the last several years, as shown in Table 2 below. However, the minimum weekly unemployment benefit amount increased to \$60 effective July 6, 2014.

Weekly Unemployment Benefit Amounts

Table 2

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

In fiscal year 2016, the Commission paid out more than \$410 million in unemployment insurance benefits. Overall, benefit payments continued to decrease as unemployment rates and exhaustion rates decreased, and claimants became ineligible to file a new claim due to the length of time they have been unemployed. The federal government’s extension of the emergency unemployment compensation program expired January 1, 2014. The amount reflected in Table 3 below for 2015 and 2016 federal emergency unemployment insurance benefits represents recoupment of overpayments from benefit recipients. Table 3 below shows benefit payments by type in fiscal years 2014, 2015, and 2016. The data shown below is strictly the payments to recipients and does not include the administrative costs of the program as shown in Table 1 above. These types of payments include mostly personnel expenses of the Commission and vendor payments. For this reason, there is a variance of \$56.5 million between “unemployment insurance services” from Table 1, above, and total payments in Table 3, below.

Unemployment Benefit Payments by Type

Table 3

Type of Unemployment Benefit	2014	2015	2016
State Unemployment Insurance Benefits	\$543,516,313	\$436,894,932	\$396,549,524
Federal Unemployment Insurance Benefits	26,797,322	20,484,821	14,672,717
Federal Emergency Unemployment Insurance Benefits	66,457,104	(1,685,306)	(943,584)
Total	\$636,770,739	\$455,694,447	\$410,278,657

Unemployment Taxes

The Commission pays unemployment insurance benefit payments from unemployment taxes collected from employers within the Commonwealth, if the employer meets certain criteria established in the [Code of Virginia](#). The Commission classifies employers as one of two types: taxable or reimbursable. Taxable employers pay an unemployment tax to the Commission based on a set tax rate; while reimbursable employers reimburse the Commission dollar-for-dollar for their proportionate share of benefits paid. There are over 210,000 taxable employers and 1,400 reimbursable employers in Virginia.

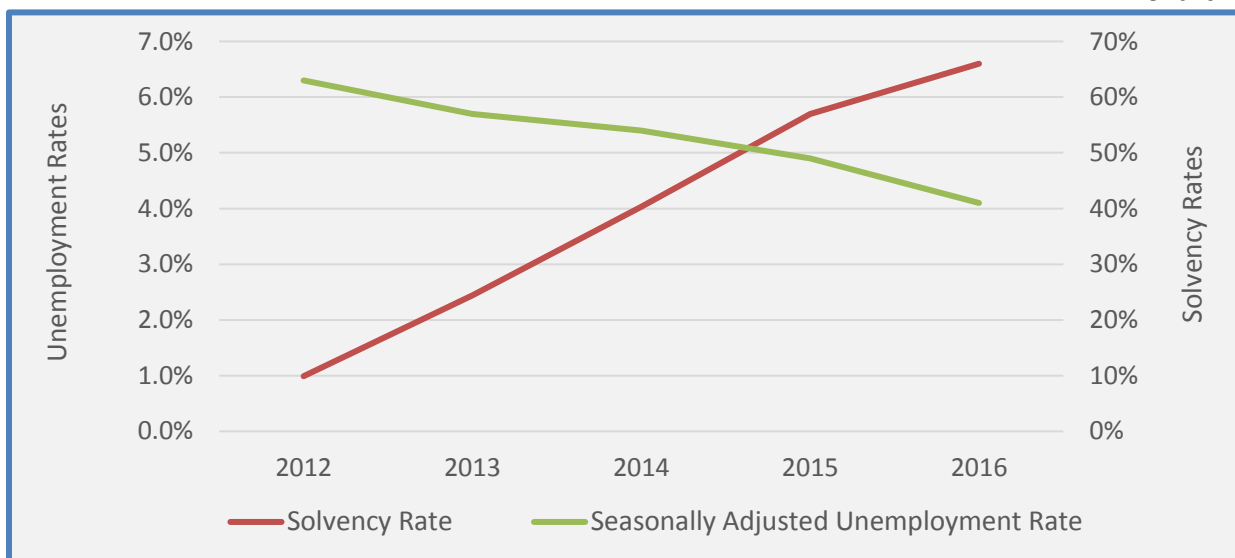
Under current law, employers pay taxes only on the first \$8,000 of each employee's wages. The Commission collects these taxes throughout the year, and transfers the amount collected to the Trust Fund maintained by the United States Department of the Treasury as discussed earlier. The Commission is the trustee and uses the Trust Fund to pay state unemployment insurance benefit payments.

Trust Fund

Trust Fund solvency is an indicator of the Trust Fund's ability to pay benefits during periods of high unemployment. The solvency indicator compares the Trust Fund's actual balance to the calculated balance needed to pay unemployment benefits for 16.5 months. During periods of high unemployment, the solvency rate is low; however, the solvency rate is high during periods of low unemployment. Chart 1 below illustrates the correlation between unemployment rates and solvency levels.

Unemployment vs. Solvency Rates

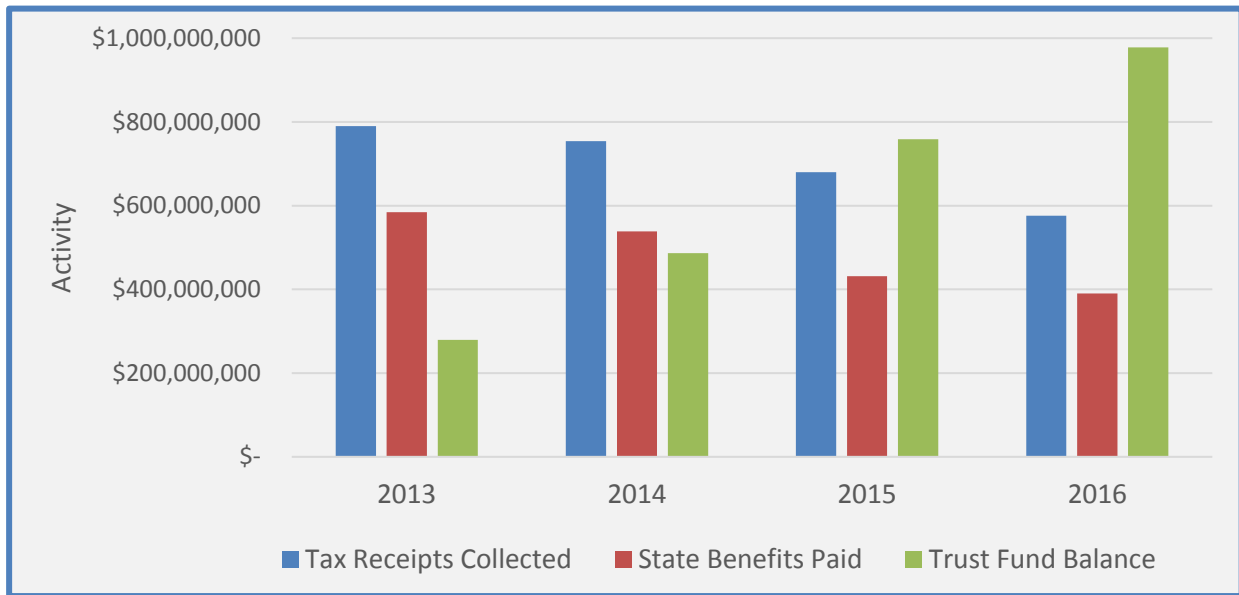
Chart 1



Generally, during times of low unemployment, the Trust Fund builds up a balance to pay benefits during times of high unemployment. Chart 2 below shows the relationship between taxes collected, benefits paid, and the Trust Fund balance over the last several years. Over the last several years, the Trust Fund balance has increased because of the decreasing unemployment rate.

Summary of Trust Fund Activity

Chart 2



Trust Fund activity, specifically significant changes in the Trust Fund balance, can in turn affect future tax rates paid by employers. 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 eligible employers must pay unemployment tax. The tax rates imposed on employers takes into account the solvency rate as well as the employment histories of individual businesses. Generally, employers with a history of higher unemployment claims pay greater rates, while those with few 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, the Commission subtracts interest income from pool costs. The Commission includes pool tax, within the employer's tax rate, when interest income does not cover pool costs. Additionally, state law requires a fund-building tax rate of 0.2 percent to employer tax rates if the Trust Fund solvency rate drops below 50 percent. The Commission did not impose this tax against employers during calendar year 2016 because the solvency rate exceeded 50 percent, as illustrated in Chart 1 above.

The Commission establishes tax rates for taxable employers on a calendar year basis annually. The following table details the various tax rate components in effect for calendar years 2013 through 2016. As shown in Table 4 below, the tax rates for 2016 declined due to the Trust Fund solvency levels discussed above.

Unemployment Tax Rates by Calendar Year

Table 4

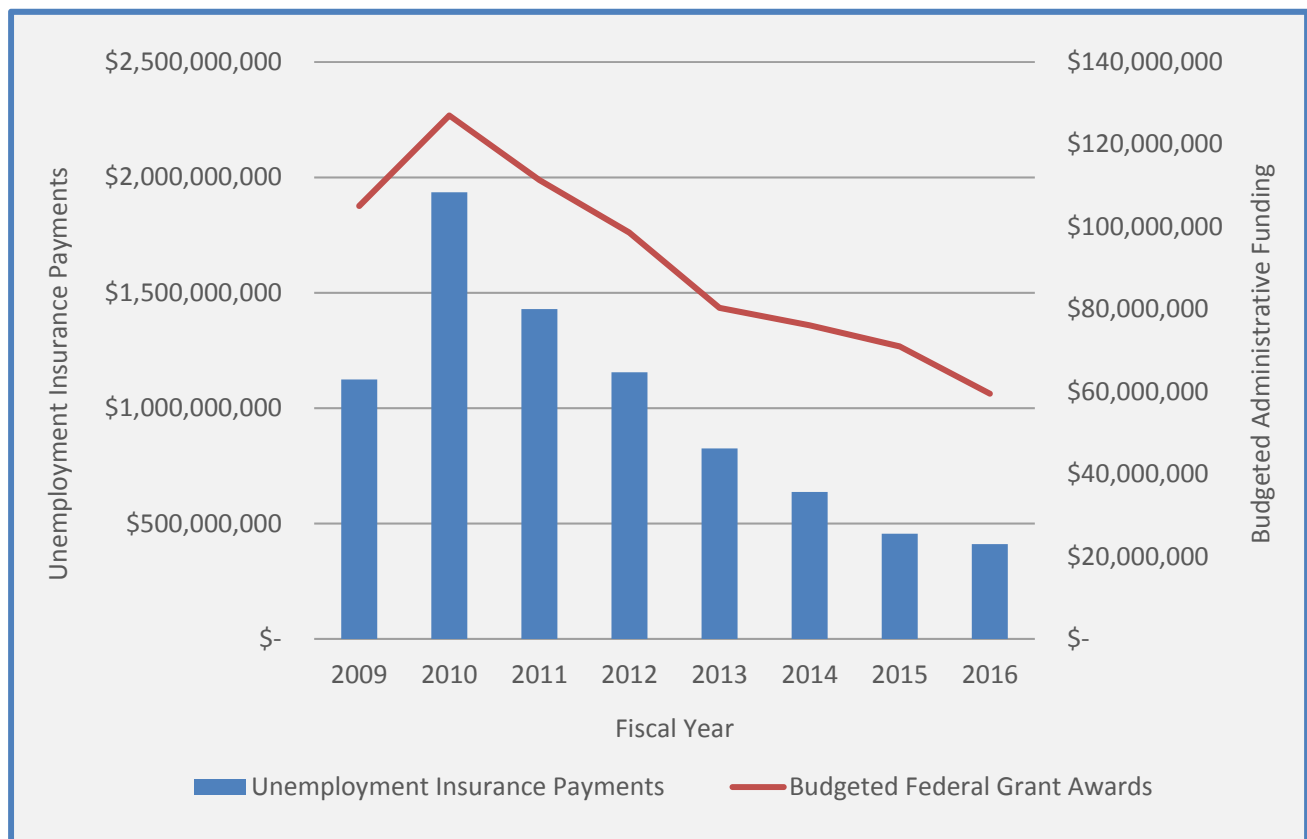
	2013		2014		2015		2016	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Tax rate	0.10%	6.20%	0.10%	6.20%	0.20%	6.20%	0.10%	6.20%
Pool tax	0.38%	0.38%	0.22%	0.22%	0.14%	0.14%	0.07%	0.07%
Fund-building tax	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	N/A*	N/A*
Total	0.68%	6.78%	0.52%	6.62%	0.54%	6.54%	0.17%	6.27%

Administrative Funding

As mentioned above, the Commission receives federal grants to support its administrative operations. Annually, the United States Department of Labor awards the Commission federal grants to administer the Unemployment Insurance program. The amount of the grant is determined based on a formula that considers factors such as unemployment rates, employment growth, and inflation measures. Therefore, when the economy is strong, administrative funding is weak and vice versa. Chart 3 below illustrates the correlation between unemployment activity and administrative funding.

Unemployment Activity and Administrative Funding

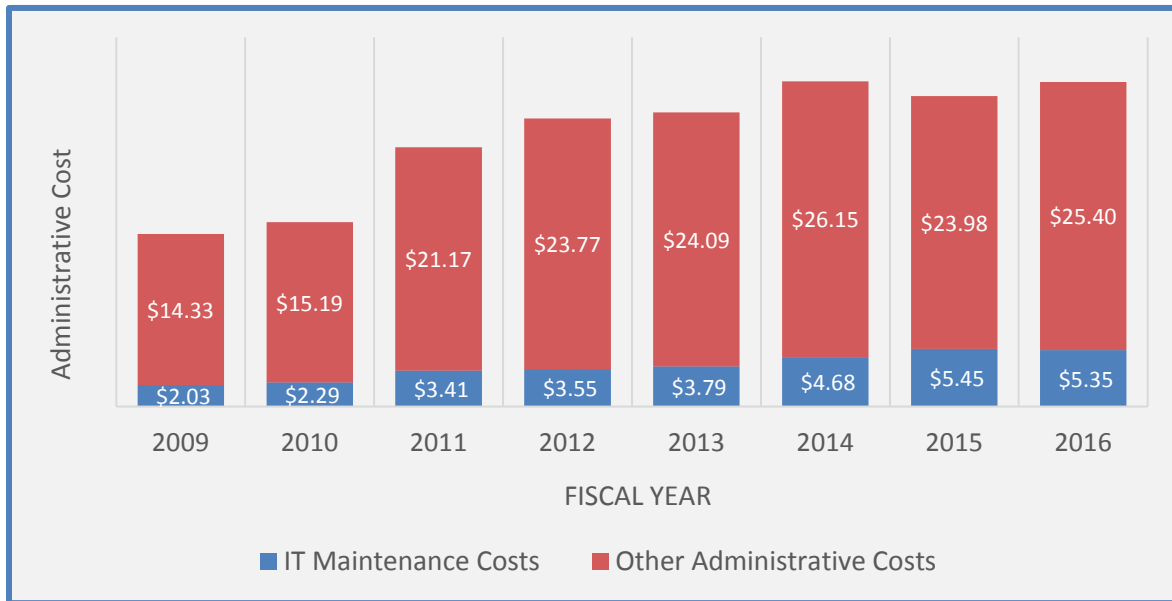
Chart 3



Additionally, the Commission has experienced increased costs to maintain its IT systems over the last several years. This increase is primarily attributed to the Commission's delay in fully transforming its IT infrastructure assets to the Commonwealth's IT Partnership with Northrop Grumman (Partnership). As a result of the delay in transformation, the Commission has allocated resources, both people and money, to support technologies not covered by the Partnership. The transformation delay has also resulted in the Commission paying additional "legacy fees" to the Partnership to support its non-transformed technology environment. This situation, coupled with reduced administrative funding, has put additional strains on the Commission's IT staff and funding, further reducing the ability of the Commission to properly maintain critical aspects of its IT environment, as identified within the section titled "Audit Findings and Recommendations." Chart 4 below shows administrative costs per unemployment claim and illustrates the increase in IT maintenance costs over the last several years.

Administrative Costs per Unemployment Claim

Chart 4





Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 15, 2016

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
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, 2016. 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 the Commission's financial transactions, as reporting in the Comprehensive Annual Financial Report for the Commonwealth of Virginia for the year ended June 30, 2016, and test compliance for the Statewide Single Audit. In support of this objective, we evaluated the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System, Cardinal and the Commission's internal systems: Virginia Automated Benefits System, Virginia Unemployment Insurance System, and Financial Management System; review the accuracy of its attachment submissions to the Department of Accounts, review the adequacy of the Commission's internal controls; test compliance with applicable laws, regulations, contracts, and grant agreements; and review corrective actions of audit findings from prior year reports. The Commission transitioned to using Cardinal, the Commonwealth's new accounting and financial reporting system, February 1, 2016.

Audit Scope and Methodology

The Commission's management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts and grant agreements. 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.

Accounts Payable	Information System Security
Accounts Receivable	Taxes and Cash Receipts
Cash and Cash Equivalents	Unemployment Benefit Payments
Federal Grant Revenues and Expenses	

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, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Commission's operations. We performed analytical procedures, including budgetary and trend analyses. We also tested details of transactions to achieve our objectives.

A nonstatistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Conclusions

We found that the Virginia Employment Commission properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and Cardinal, as well as their internal financial systems and attachments submitted to the Department of Accounts. The 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 or internal financial system.

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 "Audit Findings and Recommendations."

The 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 January 24, 2017. Management's response to the findings identified in our audit is included in the section titled "Commission 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

KJS/alh



COMMONWEALTH of VIRGINIA
Virginia Employment Commission

Ellen Marie Hess
Commissioner

January 24, 2017

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

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, 2016. 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 our office's report of the financial records and operations of the Virginia Employment Commission for the year ended June 30, 2016.

Sincerely,


Ellen Marie Hess
Commissioner

(804) 786-3001
E-Mail: vec@vec.virginia.gov

VRC/TDD VA Relay 711
Equal Opportunity Employer/Program

VIRGINIA EMPLOYMENT COMMISSION OFFICIALS

As of January 24, 2017

Ellen Marie Hess
Commissioner

Lynette Hammond
Deputy Commissioner

Jeffrey Ryan
Chief Administrative Officer

Salvatore Lupica
Chief Operating Officer

Valerie Braxton-Williams
Confidential Assistant for Policy

Cindy Pastorfield
Controller