



VIRGINIA EMPLOYMENT COMMISSION

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2019

Auditor of Public Accounts
Martha S. Mavredes, CPA

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AUDIT SUMMARY

Our audit of the Virginia Employment Commission (Commission) for the fiscal year ended June 30, 2019, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and financial reporting system; the Commission's benefits, tax, and financial systems; and in the attachments submitted to the Department of Accounts;
- one matter involving internal control and its operation necessary to bring to management's attention; and
- one instance 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. This report also contains information regarding the operations and financial activities of the Commission.

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AUDIT FINDINGS AND RECOMMENDATIONS

Improve Database Security

Type: Internal Control and Compliance

Repeat: No

The Commission does not secure one of their sensitive system's databases with some of the minimum security controls required by its policies and the Commonwealth's Information Security Standard, SEC 501 (Security Standard). The Security Standard requires agencies to implement certain minimum controls to protect the confidentiality, integrity, and availability of the system's data.

We communicated five internal control weaknesses to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under § 2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms. By not meeting the minimum requirements in the Security Standard and aligning the database's settings and configurations with best practices, the Commission cannot ensure the confidentiality, integrity, and availability of data within the database or the information it reports.

The Commission should dedicate the necessary resources to implement in a timely manner the control discussed in the communication marked FOIAE in accordance with the Security Standard and best practices.

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 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.

Budget and Actual Activity for Fiscal Year 2019

Table 1

Program and Service Area	Original Budget	Final Budget	Expenses
Workforce Systems Services	\$557,581,011	\$557,581,011	\$354,986,271
Economic Development Services	3,027,295	3,027,295	2,781,335
Total	\$560,608,306	\$560,608,306	\$357,767,606

Source: Commonwealth's Accounting and Financial Reporting System

Workforce Systems Services includes Job Placement Services, Unemployment Insurance Services, and Workforce Development Services. Unemployment Insurance Services makes up approximately 96 percent of the budget for Workforce Systems Services. The intent of this service area is to provide benefit payments to unemployed individuals. Between July 1, 2018, and June 30, 2019, the Commission provided unemployment insurance to over 135,000 unemployed individuals.

Unemployment Insurance Services Program

Unemployment Benefits

Under the Unemployment Insurance Services program, the Commission makes benefit payments to unemployed individuals who lost their employment through no fault of their own. Unemployment benefit payments provide unemployed individuals 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.

Weekly Unemployment Benefit Amounts

Table 2

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 – Present	\$60	\$378

Source: Virginia Employment Commission website

In fiscal year 2019, the Commission paid out more than \$280 million in unemployment insurance benefits. Overall, total benefit payments continued to decrease as unemployment rates and exhaustion rates decreased. There was an increase in the number of claimants that filed claims; however, the total benefit payments decreased due to increased employment. The federal government's extension of the emergency unemployment compensation program expired January 1, 2014. The amount reflected in Table 3 below for fiscal years 2017, 2018, and 2019 federal emergency unemployment insurance benefits represents recoupment of overpayments from benefit recipients. Table 3 shows benefit payments by

type in fiscal years 2017, 2018, and 2019. The data below shows strictly the payments to recipients and does not include the administrative costs of the program, which are approximately \$39 million. These types of payments include mostly personnel expenses of the Commission and vendor payments.

Unemployment Benefit Payments by Type

Table 3

Type of Unemployment Benefit	2017	2018	2019
State Unemployment Insurance Benefits	\$348,634,773	\$315,758,719	\$274,488,521
Federal Unemployment Insurance Benefits	12,048,383	9,901,156	6,451,974
Federal Emergency Unemployment Insurance Benefits	(2,513,706)	(1,025,082)	(541,327)
Total	\$358,169,450	\$324,634,793	\$280,399,168

Source: Virginia Employment Commission financial system

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 the proportionate share of benefits paid. There are over 228,000 taxable employers and over 1,400 reimbursable employers in Virginia.

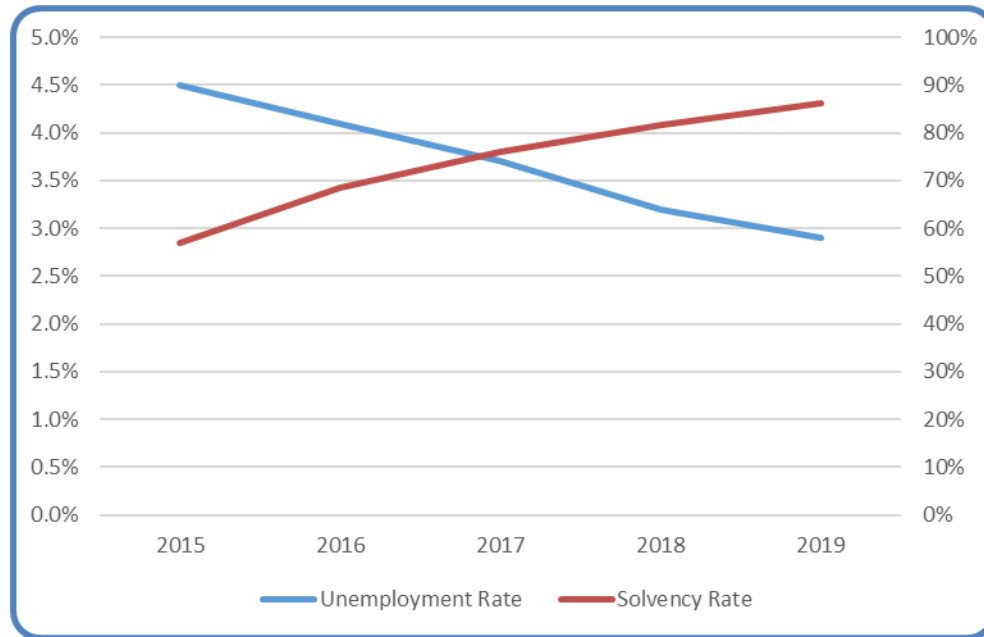
Under current law, employers pay taxes only on the first \$8,000 of each employee's wages. The Commission collects these taxes throughout the year, and transfers the amount collected to the trust fund maintained by the United States Department of Treasury.

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 by Calendar Year

Chart 1

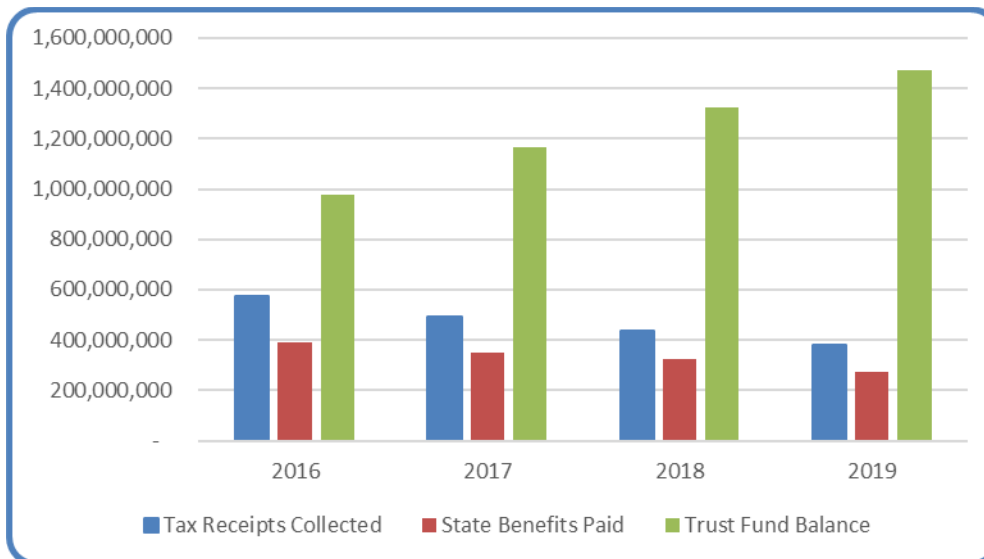


Source: Virginia Employment Commission financial system

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. The Trust Fund balance has increased because of the decreasing unemployment rate.

Summary of Trust Fund Activity by Fiscal Year

Chart 2



Source: Virginia Employment Commission financial system

Trust Fund activity, specifically 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 2019 because the solvency rate exceeded 50 percent, as illustrated in Chart 1 above.

The Commission establishes the tax rate for taxable employers on a calendar year basis annually. The following table details the various tax rate components in effect for calendar years 2016 through 2019. As shown in Table 4 below, the tax rates did not change for 2019 due to the Trust Fund solvency levels discussed above.

Unemployment Tax Rates by Calendar Year

Table 4

	2016		2017		2018		2019	
	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	0.07%	0.07%	0.03%	0.03%	0.01%	0.01%	0.01%	0.01%
Fund-building Tax	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	0.17%	6.27%	0.13%	6.23%	0.11%	6.21%	0.11%	6.21%

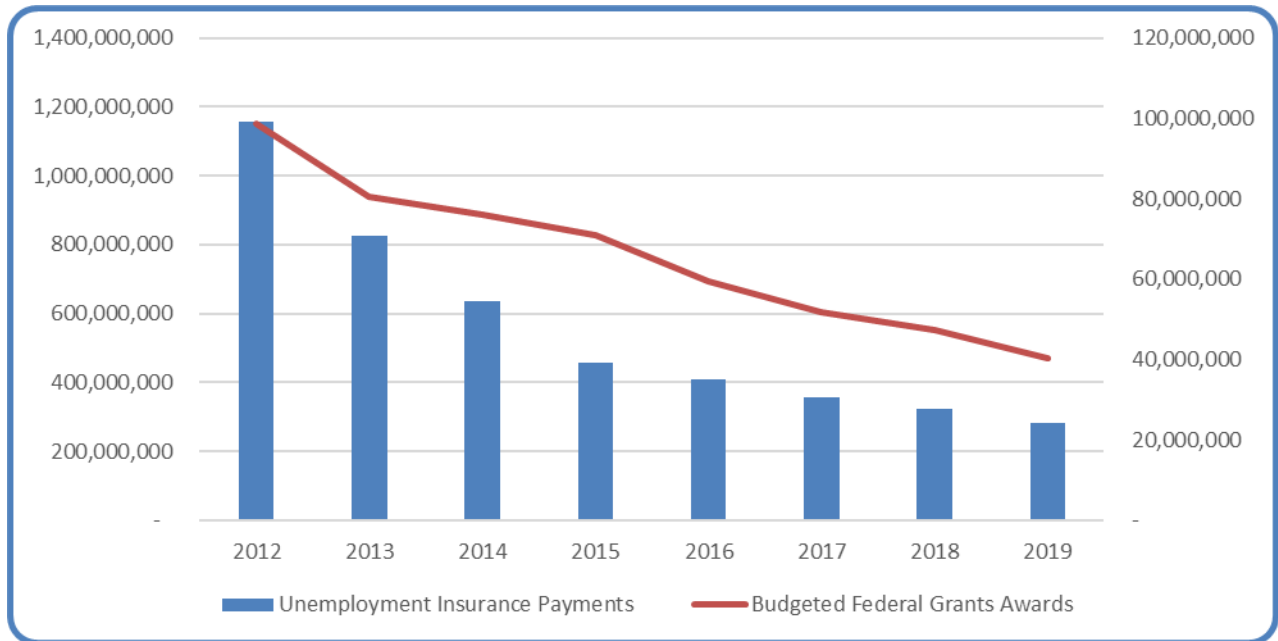
Source: Virginia Employment Commission tax system

Administrative Funding

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 insurance payments and administrative funding.

Unemployment Activity and Administrative Funding by Fiscal Year

Chart 3



Source: Virginia Employment Commission financial system



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
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December 3, 2019

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Virginia Employment Commission (Commission)** for the year ended June 30, 2019. 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 objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth's accounting and financial reporting system, in the Commission's benefits, tax, and financial systems, and in the attachments submitted 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.

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	Payroll 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’s accounting and financial reporting system, as well as the Commission’s internal financial systems and attachments submitted to the Department of Accounts.

We noted a matter involving internal control and its operation and compliance with applicable laws, regulations, contracts, and grant agreements that requires management’s attention and corrective action. This matter is 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.

Exit Conference and Report Distribution

We discussed this report with management on January 7, 2020. 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.

Martha S. Mavredes
AUDITOR OF PUBLIC ACCOUNTS

KS/vks



COMMONWEALTH of VIRGINIA
Virginia Employment Commission

Ellen Marie Hess
Commissioner

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

January 7, 2020

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, 2019. Your comments and recommendation are appreciated and are given the highest level of importance and consideration as we continue to review and improve our practices and procedures.

We concur with the finding and recommendation identified in your report and we plan to take appropriate action to remediate the finding.

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, 2019.

Sincerely

A handwritten signature in cursive script that reads "Ellen Marie Hess".

Ellen Marie Hess
Commissioner

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VRC/TDD VA Relay 711
Equal Opportunity Employer/Program

VIRGINIA EMPLOYMENT COMMISSION OFFICIALS

As of June 30, 2019

Ellen Marie Hess
Commissioner

Jeffrey Ryan
Deputy Commissioner

Salvatore Lupica
Chief Operating Officer

Valerie Braxton-Williams
Confidential Assistant for Policy

Michael Faszewski
Director of Finance