

LOUISIANA WORKFORCE COMMISSION

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES

MANAGEMENT LETTER

JUNE 2, 2021

**LOUISIANA LEGISLATIVE AUDITOR  
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# Louisiana Legislative Auditor



## Louisiana Workforce Commission

June 2021

Audit Control # 80200025

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## Introduction

As a part of our audit of the State of Louisiana’s Comprehensive Annual Financial Report and our work related to the Single Audit of the State of Louisiana (Single Audit) for the fiscal year ended June 30, 2020, we performed procedures at the Louisiana Workforce Commission (LWC) to provide assurances on financial information that was significant to the state’s Comprehensive Annual Financial Report; evaluate the effectiveness of LWC’s internal controls over financial reporting and compliance; and determine whether LWC complied with applicable laws and regulations. In addition, we determined whether management has taken actions to correct the findings reported in the prior year.

## Results of Our Procedures

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### Follow-up on Prior-year Findings

Our auditors reviewed the status of the prior-year findings reported in the LWC management letter dated December 23, 2019. The prior-year findings related to Weak Security Controls, Inadequate Source Code Escrow Agreement, and Noncompliance with Subrecipient Monitoring Requirements have not been resolved and are addressed again in this letter.

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### Current-year Findings

#### **Inadequate Controls Over and Noncompliance with Unemployment Insurance Benefits Requirements**

LWC did not have adequate internal controls and did not comply with requirements of the Unemployment Insurance (UI) federal program.

In March 2020, Congress passed the CARES Act, which included funding for new UI programs. These new programs are funded entirely with federal funds and include the Pandemic Unemployment Assistance (PUA) program and the Federal Pandemic Unemployment Compensation (FPUC) program. The PUA extended unemployment benefits to claimants that did not qualify for UI, but had lost their job to the COVID-19 pandemic, including those that were self-employed and gig workers. FPUC provided claimants receiving UI or PUA benefits an extra \$600 per week. Because of the large amount of funding provided and the lack of identity

requirements, these programs have been exposed to identity theft and fraud schemes across the United States of America. Between March 14, 2020, and June 30, 2020, LWC issued more than \$3.7 billion in benefit payments to more than 575,000 claimants.

We tested a random sample of 138 claimants who were paid \$902,822 in unemployment benefits between March 14, 2020, and June 30, 2020. Ninety-seven of the claimants received UI/FPUC benefits and 41 received PUA/FPUC. Our audit procedures identified the following:

- Thirty-seven (27%) of the claimants reviewed who were paid \$261,063 had inconsistent or missing information on the UI application which may indicate the claimant is intentionally filing to receive benefits that they are not entitled, or that may indicate possible identify theft. These inconsistencies included job history information on the application that did not agree with the UI database; incomplete job information on the application; questionable and contradictory personal contact information including email, telephone number and address when compared with work location; contradictory information about the last day of work; and unusual age of applicant. In addition, the claimant may have certified for weeks that they were still unemployed although their job sector had returned to work. Of these 37 claimants, 23 have since been flagged by LWC for investigation or to provide proof of identity. These 23 claimants were paid \$162,170 through June 30, 2020, and these payments may ultimately be determined to be overpayments. Those that are potentially fraudulent, including possible identity theft, will be turned over to law enforcement agencies. These potential overpayments may have been avoided or reduced had LWC established adequate controls to ensure the claimants' identities were established prior to payment of claims or that the claimants were eligible to receive the payments, instead of relying on their post-payment controls. We consider the \$261,063 to be questioned costs.
- Deductions were not properly withheld for five (4%) of the 138 claimants reviewed. All five of these exceptions related to child support deductions. Louisiana Revised Statute 23:1693 requires child support to be deducted from unemployment compensation when notified by the Department of Children and Family Services (DCFS). The notification received from DCFS states that the deduction should start within seven days. Three of the cases were set up between one to three months after LWC received the child support enforcement notice. One case had not been set up in the seven months since receiving the enforcement notice. One case has a termination notice on file from a previous claim to end the deduction and the child support is still being deducted. LWC represented it had limited personnel to set up child support deductions which created a backlog of these deductions.

In addition, during the course of our procedures, four claimants were identified that received benefit payments from two different federal programs for the same weeks. These claimants had exhausted their UI claim and were moved to the PUA program. The PUA claim was backdated causing duplicate payments for weeks the claimant had received benefits under UI. When brought to LWC attention, LWC set up \$25,943 in overpayments on these claims and corrected the funding sources associated with these claims. We consider the duplicated payments totaling \$25,943 to be questioned costs. We did not note any of these issues during our testing of the sample noted above.

Failure to implement internal controls that will identify possible fraud or disqualification from the programs can lead to overpayments that LWC may not be able to collect if correct personal identifying information is not obtained prior to the payment of claims. Failure to properly withhold child support payments results in noncompliance with state laws. By backdating the PUA claims and thus, duplicating payments, LWC is noncompliant with federal program regulations.

The U.S. Department of Labor issued guidance on January 8, 2021, to require identity verification of PUA applicants. LWC has represented that this guidance is now being followed for all applicants, which should reduce the risk of overpayments or payments to ineligible claimants.

LWC should evaluate the controls in place when implementing new programs to ensure that improper payments are minimal to reduce the risk of noncompliance. In addition, LWC should take the necessary actions to ensure child support deductions are setup timely to address the noted backlog and to ensure LWC is compliant with applicable laws. Finally, LWC should establish internal controls to ensure duplicate payments are not made from multiple programs and review other claimants that have a similar situation as the exceptions noted above to ensure that there are no other instances of duplicate payments and incorrect coding of funding sources. Management concurred in part with the finding and outlined a plan of corrective action. Management agreed that proper internal controls should be put in place before implementing a program, but noted that states were given little time, insufficient guidance, and had inadequate resources while managing record-breaking surge in claim volume (see Appendix A, pages 3-6).

### **Noncompliance with Civil Service Rules Regarding Special Leave**

LWC's use of Special Leave - Act of God (SLAG) was not in accordance with State Civil Service Rules (CSR) and may have resulted in improper compensation totaling approximately \$786,000. On March 19, 2020, State Civil Service issued General Circular 2020-014, which included clarification that CSR 27.2(b) Special Paid Leave granted the appointing authority great discretion to grant special paid leave under CSR 11.23(d) Act of God. CSR 11.23(d) provides that SLAG can be granted "When the appointing authority determines the employee cannot work due to an act of God."

From March 26, 2020, through April 14, 2020, LWC paid employees who actually worked both SLAG plus "straight time overtime" for the hours actually worked. Any hours actually worked over 40 hours in one work week were paid at time and a half. For example, during this time period an LWC employee who actually worked 50 hours in a work week received 95 hours total compensation (40 hours SLAG, 40 hours at straight time overtime and 10 hours at time and a half overtime).

Employees who were prevented from working or for whom it was impracticable to come in to work should have been granted SLAG. LWC employees who actually worked should have been paid straight salary only plus time and a half overtime for any hours worked over 40 in a work week pursuant to CSR 27.5, whether exempt or nonexempt.

Audit procedures performed regarding the use of SLAG identified the following:

- LWC granted \$1.7 million of SLAG to 792 employees between March 23, 2020, and April 19, 2020. Based on a sample of 91 employees paid \$197,616 in SLAG,

49 (54%) employees may have been improperly compensated \$81,469 for SLAG in addition to compensation for the time actually worked. Of this amount, \$76,501 was charged to federal programs, which we consider to be questioned costs.

- Further procedures were performed to identify instances when employees recorded SLAG and overtime on the same day. Based on these procedures, we determined that from March 26, 2020 through April 14, 2020, LWC employees may have been improperly granted nearly 33,560 of SLAG hours totaling approximately \$786,000 in compensation.

On March 22, 2020, the governor issued Proclamation 33 JBE 2020 directing that all state office buildings be “closed to the public effective immediately. However, essential state functions shall continue.” The Governor’s proclamation was not an “official” office closure. While overtime is allowable under CSR 21.7(b)(4) during an official office closure, this rule was not in effect because LWC was not officially closed.

State Civil Service General Circular Numbers 2020-017 and 2020-022 demonstrate that the Emergency Rules issued by State Civil Service General Circular Number 2020-013 on March 18, 2020, supersede agency leave rules regarding the response to COVID-19. Nothing in the Emergency Rules allows for the payment of both SLAG and straight time overtime for hours actually worked. Agencies were specifically advised by these Circulars that the rules regarding official office closures “do not apply at this time.”

Failure to follow State Civil Service Rules and guidance could result in improper compensation to employees, and in disallowed costs resulting from improper charges to federal programs.

LWC should work with State Civil Service in the development of future additional compensation policies or plans to avoid violation of State Civil Service Rules and contact State Civil Service if clarification of rules or guidance is necessary. Management did not concur with the finding, and noted that it properly compensated its employees within the constraints of the Civil Service Commission Rules and Louisiana law (see Appendix A, pages 7-9).

**Additional comments:** Based on its response, LWC continues to comingle State Civil Service Emergency Rules regarding COVID-19 and its overtime compensation policies resulting in a method of payment that was improper. Agencies were required to abide by the Emergency Leave Rules regarding compensation during this time period to address the COVID-19 pandemic. SLAG time compensation should have been used for those employees who were prevented from work or for whom it would be impracticable to work due to COVID-19, not as additional compensation for those employees who did work. Also, the Governor’s proclamations closing state offices to the public were not official “office closures.” Normal functions for the state agencies were not altered or suspended. Therefore, employees who actually worked during the time period were not entitled to “straight time overtime” in addition to SLAG time for working during “office closures”.

As part of our due diligence in reporting this noncompliance, auditors sought guidance from State Civil Service about the rules and regulations in effect during this time period. This finding included consideration of that guidance.

## Inaccurate Financial Reporting

LWC did not have adequate controls to ensure accurate financial reporting for the Unemployment Trust Fund (UTF). The UTF's Annual Fiscal Report (AFR) is used by the Office of Statewide Reporting and Accounting Policy (OSRAP) to compile the State of Louisiana's Comprehensive Annual Financial Report. Failure to establish adequate controls over financial reporting may cause the financial statements to have errors requiring audit adjustments and increases the risk that material misstatements may occur and remain undetected, resulting in a misstatement in the state's Comprehensive Annual Financial Report.

Based on our audit procedures, the following financial statement errors were identified:

- Federal revenue and amounts due from the federal government were understated by \$65.2 million because LWC did not properly accrue federal unemployment insurance benefits received after fiscal year-end. This includes \$52.6 million the federal government reimbursed UTF for the first week of regular unemployment benefits paid to claimants during the year, as provided for in the CARES Act.
- Unemployment Insurance Benefits expense and other liabilities were understated by \$46.5 million because LWC did not properly accrue for expenses at year-end. This includes \$31.8 million in interstate claims due to other states for amounts incurred prior to year-end, but not paid until after year-end.
- Cash was understated by \$17.7 million due to errors and omissions in the agency's general ledger. As a result of these errors, expenses were overstated by \$8.4 million and amounts due to other funds were understated by \$9.3 million.

Good internal controls over financial reporting should include adequate procedures to record, process, and compile financial data needed to prepare accurate and complete financial statements. It should also include an effective review of the financial statements so that errors and omissions can be detected and corrected before submitting the AFR to OSRAP for inclusion in the state's Comprehensive Annual Financial Report. LWC did not effectively consider the impact of the COVID-19 pandemic when compiling and estimating year-end full accrual adjustments. In addition, LWC did not effectively reconcile its general ledger and supporting documentation or adequately review its financial statements before submitting the AFR to OSRAP.

Management should establish and implement an effective reconciliation process, consider the effects of any unusual or extraordinary events, and adequately review its financial statements to ensure they are accurately presented. Management partially concurred with the finding, noting that the Emergency Unemployment Insurance State Administrative funds should not be considered cash in the trust fund (see Appendix A, page 10).

**Additional Comments:** Cash in the Unemployment Trust Fund, including the Emergency Unemployment Insurance State Administrative funds, was confirmed with the U.S. Treasury, resulting in an audit adjustment that LWC management accepted.

## **Weak Security Controls**

For the second consecutive year, LWC did not have adequate security controls over the Louisiana Wage and Tax System (LaWATS) and the UI mainframe. LaWATS is a portal that allows employers to enter wages, and it interfaces with the UI mainframe, which contains employment tax records. Both systems are utilized for the UI program.

Our audit procedures revealed that LWC has not established responsibilities for monitoring Office of Technology Services (OTS) employees with access to the operating systems and databases for LaWATS and the UI mainframe to ensure they have a valid business need. Without adequate monitoring, LWC may be unable to detect unauthorized user access to LaWATS and the UI mainframe.

Inadequate security of LWC's systems may lead to unauthorized view or theft of unemployment insurance and tax data, or noncompliance with privacy laws. LWC should establish responsibility for regular monitoring of OTS employees with access to LaWATS and the UI mainframe. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 11).

## **Inadequate Source Code Escrow Agreement**

As of June 30, 2020, LWC did not ensure that all key terms were included in a signed contract with Geographic Solutions, Inc. (GSI) and that those key terms were fully executed. The original contract with GSI was inadequate as it did not account for the infrastructure and other systems the Helping Individuals Reach Employment (HiRE) system's source code requires for execution. LWC contracts with GSI as a sole source provider of the HiRE system. The HiRE system is used to administer the state's Unemployment Insurance program, and GSI performs critical services without which LWC could no longer operate the program. LWC may be unable to use the source code in the event of GSI's contractual default.

LWC amended the contract to provide for extended escrow services and both LWC and GSI signed this addendum in October 2020. However, as of December 2020, the escrow fees have not been paid; therefore, the source code has not been provided to the escrow agent. This is the fourth consecutive audit that LWC's contract with GSI lacks an adequate and fully executed source code escrow agreement.

Good internal controls over information technology (IT) contracts should ensure the inclusion of certain key terms in IT agreements, including a source code escrow clause that would protect the entity upon contractual default of the contractor, and that those key terms are executed.

Management should take the actions necessary to ensure the key terms are included in the escrow agreement and are fully met. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 12).

## Noncompliance with Subrecipient Monitoring Requirements

For the second consecutive year, LWC did not adequately monitor subrecipients under the Workforce Innovation and Opportunity Act (WIOA) Cluster programs. Failure to perform adequate monitoring impairs LWC's ability to ensure that program funds passed through to its subrecipients are spent in accordance with program regulations and increases the risk of improper payments which LWC may have to repay to the federal grantor.

WIOA program expenditures totaled \$41 million during fiscal year 2020, with approximately \$36.5 million provided to subrecipients who were not adequately monitored. Although LWC conducted annual site visits and monitoring reports were issued on each of the 15 subrecipients under the WIOA program, LWC did not adequately document or monitor the activities as necessary to ensure that the subaward was used for authorized purpose, complied with the terms and conditions of the subaward, and achieved performance goals. Audit procedures for five of the subrecipients revealed the following deficiencies:

- LWC did not perform adequate risk assessment procedures for any of the five subrecipients reviewed (100%), in order to evaluate the subrecipients' risk of noncompliance. Risk of noncompliance should be performed to determine the appropriate level of monitoring needed, and should include consideration of the subrecipients' prior experience, previous audits, including the subrecipient's Single Audit, change in subrecipient personnel or system changes, and results from federal awarding agency monitoring.
- Three of the reports reviewed cited findings and potential questioned costs. However, LWC did not document the resolution of these possible questioned costs.
- LWC did not maintain adequate documentation to support the conclusions in its monitoring reports. For three of the five subrecipients reviewed, there was no support and for one of the five, the support was inadequate. None of the five reports showed evidence of supervisory review.

In addition, LWC did not have adequate controls in place to ensure that required audit reports for the subrecipients were reviewed and that management decisions were issued for any findings to ensure timely and appropriate corrective action by subrecipients. Decision letters are due six months after the reports are due. For the two subrecipients who had audit findings, LWC had not issued decision letters. At the time of our request, the audit reports had been issued for approximately one year.

LWC should require that monitoring reports are properly reviewed and adequately supported before they are issued. This includes implementing an overall risk assessment policy to ensure that risk assessments are performed and documented on all subrecipients to determine the appropriate level of monitoring. In addition, LWC should strengthen controls to ensure the timely review of all required subrecipient audit reports in order to resolve any audit findings and questioned costs. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 13-14).

**Additional comments:** In LWC’s response, management noted that the reports reviewed by the auditor had not been completed and that the final reports address the potential questioned costs or other findings, assigned corrective actions to remedy findings, and included a documented resolution. The reports auditors reviewed were dated in May 2020. According to LWC’s policy, the subrecipient will submit a corrective action plan to LWC within forty-five days of the issuance of the monitoring report. At the time of our review in October 2020, there was no documentation for the resolution of the findings.

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## **Comprehensive Annual Financial Report – State of Louisiana**

As a part of our audit of the Comprehensive Annual Financial Report for the year ended June 30, 2020, we considered internal control over financial reporting and examined evidence supporting certain account balances and classes of transactions of LWC’s Unemployment Trust Fund as follows:

### **Statement of Net Position**

**Assets** – Cash in U.S. Treasury, Receivables, and Due from Federal Government

**Liabilities** – Due to Federal Government, Amounts Held in Custody for Others, and Other Current Liabilities

### **Statement of Revenues, Expenses, and Changes in Net Position**

**Revenues** – Assessments, Use of Money and Property, and Federal Grants and Contracts

**Expenses** – Unemployment Insurance Benefits

Based on the results of these procedures, we reported a finding related to Inaccurate Financial Reporting, as described previously. In addition, the account balances and classes of transactions tested, as adjusted, were materially correct.

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## **Federal Compliance - Single Audit of the State of Louisiana**

As a part of the Single Audit for the year ended June 30, 2020, we performed internal control and compliance testing as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) on LWC’s major federal programs, as follows:

- Unemployment Insurance (CFDA 17.225)
- Workforce Innovation and Opportunity Act Cluster (CFDA 17.258, 17.259, and 17.278)

Those tests included evaluating the effectiveness of LWC's internal controls designed to prevent or detect material noncompliance with program requirements and tests to determine whether LWC complied with applicable program requirements. In addition, we performed procedures on information submitted by LWC to the Division of Administration's Office of Statewide Reporting and Accounting Policy for the preparation of the state's Schedule of Expenditures of Federal Awards (SEFA) and on the status of the prior-year findings for the preparation of the state's Summary Schedule of Prior Audit Findings, as required by Uniform Guidance.

Based on the results of these Single Audit procedures, we reported findings related to Inadequate Controls Over and Noncompliance with Unemployment Insurance Benefits Requirements, Noncompliance with Civil Services Rules Regarding Special Leave, Inaccurate Financial Reporting, Weak Security Controls, Inadequate Source Code Escrow Agreement, and Noncompliance with Subrecipient Monitoring Requirements. These findings will also be included in the Single Audit for the year ended June 30, 2020. In addition, LWC's information submitted for the preparation of the state's SEFA and the state's Summary Schedule of Prior Audit Findings, as adjusted, is materially correct.

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## Other Reports

On March 31, 2021, a report was issued by the Louisiana Legislative Auditor's Performance Audit Services – Data Analytics Unit. The report, *Improper Payments in the Unemployment Insurance Program: Ineligible Recipients Based on Income*, identified potential improper payments totaling \$405.3 million to 97,585 individuals who do not appear to have been eligible for these programs. In addition, on April 28, 2021, the Performance Audit Services – Data Analytics Unit issued a report, *Improper Payments in the Unemployment Insurance Program: Ineligible Incarcerated Recipients*. This report identified approximately \$6.2 million in State and Federal UI payments to 1,195 incarcerated individuals who do not appear to have been eligible for benefits. Both reports are available on the Louisiana Legislative Auditor's website.

The recommendations in this letter represents, in our judgment, those most likely to bring about beneficial improvements to the operations of LWC. The nature of the recommendations, their implementation costs, and their potential impact on the operations of LWC should be considered in reaching decisions on courses of action. The findings related to LWC's compliance with applicable laws and regulations should be addressed immediately by management.

Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Michael J. "Mike" Waguespack, CPA  
Legislative Auditor



## **APPENDIX A: MANAGEMENT'S RESPONSES**





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John Bel Edwards, Governor  
Ava Dejoie, Secretary

**Office of the Secretary**

May 26, 2021

Mr. Michael J. Waguespack, CPA  
Legislative Auditor  
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Mr. Waguespack,

The Louisiana Workforce Commission (LWC) respectfully submits its responses to the reportable audit findings included as part of the State of Louisiana's Comprehensive Annual Financial Report and the Single Audit of the State of Louisiana for the fiscal year ended June 30, 2020.

My administration is working diligently to resolve all of the pertinent issues noted in the report. Indeed, the report has highlighted the many unprecedented challenges that LWC has faced since the start of the COVID-19 pandemic. As a nation, a crisis of this magnitude is far beyond anything we have collectively experienced. Our Agency, as well as countless other state workforce agencies, experienced the greatest workload increases in the history of the Unemployment Insurance (UI) program.

The crippling effect of COVID-19 on the Louisiana workforce was unimaginable. At the onset of the pandemic, state unemployment benefits provided the only source of relief for Louisiana citizens who faced sudden and unforeseen unemployment challenges. To put this into perspective, the number of initial unemployment claims for the week ending March 7, 2020 totaled 1,698. That number increased exponentially in a matter of just two weeks to 72,438 initial unemployment insurance claims. Thereafter, the initial UI claims for the week ending March 28, 2020 rose to 97,400, and for the week ending April 4, 2020 that number rose to an astonishing 102,172 initial claims (over 60 times the number of weekly pre-pandemic initial claims). With little to no likelihood of income in the foreseeable future, those individual claimants relied solely upon LWC for support.

Since March of 2020, LWC has paid over \$8 billion in UI benefits to nearly one million people. This amount almost doubles the total benefits paid out in 2019 to the eleven (11) states comprising USDOL Region 4—the region encompassing the LWC. In addition, LWC has thwarted two large-scale fraud attempts and referred thousands of suspicious and potentially fraudulent cases to law enforcement for investigation. As one might imagine, numerous international and domestic criminal enterprises attempted to exploit the increase in benefits that arose from the various federal benefit programs rolled out in 2020.

The federal programs were designed to bolster the state's efforts to support their newly unemployed citizens. To ensure that the public received the assistance to which it was entitled, LWC was required to rapidly implement these new benefit programs, some of which included provisions that ran counter to typical UI operations and safeguards. For instance, one of the newly implemented federal benefit programs, Pandemic Unemployment Assistance, was originally designed as a self-certification program, requiring states to ignore a long-standing integrity principle of the UI program—that is, validating the claimant's representations.

In 2020, LWC administered nine different types of unemployment benefits, each of which have their own rules and requirements. Implementing the provisions of the Emergency Unemployment Insurance Stabilization and Access Act, CARES Act, Continued Assistance Act, American Rescue Plan Act—along with intervening Disaster Unemployment Assistance programs, required the LWC to develop new applications for a system designed to administer two benefit programs at most. This, as well as a lack of concrete guidance from the federal government with respect to implementation procedures and processes, undoubtedly contributed to many of the issues detailed in the findings referenced herein.

While this report references issues that were examined in a highly controlled environment after the initial turmoil had passed, LWC was required to perform all of the above-mentioned tasks at the height of the chaos that erupted at the onset of the pandemic. Simultaneously, LWC was under immense pressure from the media as well as the legislature to ensure that benefits were being paid to the public. LWC has responded to thousands of legislative constituents who have had issues with obtaining their benefits. In fact, as many as 260,000 people are currently receiving benefits on a weekly basis.

LWC acknowledges that considerable work remains, and our Agency is committed to addressing these challenges and creating a more effective Workforce Commission for the State of Louisiana. Should you have any concerns or need additional information, please feel free to contact my office at 225-342-3001.

Sincerely,



Ava Cates  
Secretary

### **Inadequate Internal Controls and Noncompliance with UI Benefit Requirements**

The Louisiana Workforce Commission (LWC) concurs in part.

We agree that proper internal controls should be put in place before implementing a program. The LWC would have painstakingly evaluated, planned, programmed, and thoroughly tested adequate controls had we been given adequate time, guidance, and resources to do so. In response to the COVID-19 pandemic, beginning in early 2020 and continuing into 2021, the LWC has been tasked with administering and/or implementing all of the following programs with an urgency to administer payments to the public:

- Unemployment Insurance (UI), including Unemployment Compensation for Federal Civilian and Military claims
- Pandemic Emergency Unemployment Compensation (PEUC)
- Pandemic Unemployment Assistance (PUA)
- Federal Pandemic Unemployment Compensation (FPUC)
- Mixed Earners Unemployment Compensation (MEUC)
- Extended Benefits (EB)
- Lost Wage Assistance (LWA)
- Disaster Unemployment Assistance (DUA)
  - Hurricane Laura
  - Hurricane Delta
  - Hurricane Zeta
  - Severe Winter Storm in February 2021

Five of the above programs were created in response to the pandemic and meant to assist those unemployed suddenly as a direct result of the impact of COVID-19. States were given little time and insufficient guidance to get these program implemented, while also managing a record-breaking surge in claim volume, for which our existing resources were not equipped to handle.

- **Inadequate Controls**

- The LWC has adequate test controls in place that are followed when implementing major program changes. This includes Joint Application Design (JAD) sessions, Business Requirements gathering, extensive testing, etc. The urgency for the implementation of these Federal programs did not allow for proper and extensive development, testing and implementation. Each of these major implementations should have spanned 2-6 months to fully implement. This type of delay in payments to those in dire need as the state shutdown due to COVID-19 is not acceptable. The rapid implementation of these complex programs with little guidance was warranted.
- The LWC had several controls in place prior to the pandemic, including a cross-match with the Social Security Administration (SSA). The LWC has added numerous new internal controls throughout the pandemic to address some of the concerns mentioned in your report, including many front-end identity verification and scheme-detection processes. We are currently working on implementing additional identity and wage verification processes that will improve program integrity and also alleviate the incredible burden that has been placed on our staffing resources.
- In an effort to deter and prevent fraudulent activity, the LWC implemented a mandatory identity verification in mid-November due to a drastic influx of fraudulent claim activity. This mandatory requirement was later followed up by Legislation with the implementation of the Continued Assistance Act (CAA) as a mandatory requirement for all states. The LWC already had this process in place at the time it was required through CAA. The implementation of the identity verification has drastically slowed down the ability for the LWC to make payments for valid individuals in an effort to stop fraudulent payments on unsuspecting victims.
- The LWC has already referred over 30,000 suspicious claims to law enforcement for investigations assistance.

**Contact Person:**

Richard Pierce

**Corrective Action Plan:**

Implement ID.me for improved identity verification process, which will deter fraud on the front-end, allow legitimate claims to be paid faster, and reduce stress and workload on state staff.

Implement Steady's *Automated 1099 & Mixed Earner Income Verification* platform, which will automate the income verification on the PUA and MEUC programs, increase payment accuracy, reduce labor hours, increase fraud protection and mitigation, and increase first payment promptness.

**Anticipate Completion Date:**

April 30, 2021

- **Deductions**

- Child support deductions are processed manually. These manual updates are completed when the LWC receives the orders from the Department of Children and Family Services (DCFS). The manual updates pre-pandemic were managed in a timely fashion and no additional interfaces were needed. Due to the onslaught of claims volume incurred during the past year and the exponential increase in child support orders that need to be processed, the LWC is investigating the use of an electronic interface to manage these updates systematically.

**Contact Person:**

Richard Pierce

**Corrective Action Plan:**

Implement an interface with DCFS to update child support deductions and stop orders. We are currently in the research phase and will create a work order for our vendor once we have gathered all necessary requirements.

**Anticipate Completion Date:**

August 31, 2021

- **Duplicate weeks paid**

- The LWC was aware of this issue early on during the pandemic and updates were made to the system to prevent the same weeks paying on different programs. This issue has been resolved.



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May 11, 2021

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Re: LWC Noncompliance with Civil Service Rules regarding Special Leave

LWC unequivocally disagrees with the preliminary finding from the Legislative Auditor that it did not comply with Civil Service Rules (CSR) and improperly compensated employees from March 26-April 14, 2020. This three week period at the onset of the COVID-19 pandemic proved to be a critical time for LWC to not only continue operating, but to go far above and beyond the call of duty. During that time, LWC submits that it properly paid its employees working as first responders during a declared State of Emergency in accordance with LWC Policy 69, which allows the compensation in question for essential employees who perform duties relative to emergency/disaster operations.

Despite the Governor's stay at home order issued on March 22, 2020, LWC staff was required to report to work as first responders under exigent circumstances, following completely new CDC guidelines and social distancing protocol, and was under no uncertain terms expected to ensure that the citizens of Louisiana received the crucial social services to which they were entitled. Indeed, the crippling effect of COVID-19 on the Louisiana workforce was unprecedented. To put it into perspective, the number of initial unemployment claims for the week ending March 7, 2020 totaled 1,698. That number increased exponentially in a matter of just two weeks to 72,438 initial unemployment insurance claims. Thereafter, the initial unemployment insurance claims for the week ending March 28, 2020 rose to 97,400, and for the week ending April 4, 2020, that number rose to an astonishing 102,172 initial claims (over 60 times the number of weekly pre-pandemic initial claims).

From March 26-April 14, 2020, LWC was obligated to take swift action to operate at a previously unforeseen level, and to encourage LWC employees to perform 60 times the amount of work previously required in the midst of one of the most dangerous global health crises the world has ever seen. In order to effectively respond to the sudden monumental increase in unemployment claims, LWC executed an "all hands on deck" approach to train staff in various departments throughout the agency to handle the claims, all while continuing to perform their typical duties. LWC employees undoubtedly acquired an enormous amount of additional responsibility and were compensated accordingly.

On April 19, 2020, LWC announced that in the previous nineteen (19) days alone, the agency paid unemployed Louisianans nearly \$270 million dollars in benefits. It was during this time, before the CARES Act allowed for non-state merit staff to be hired and before non-merit staff could learn the process, before the \$600 Federal Pandemic Unemployment Compensation

increase in benefits, and before food stamps were made available to the newly unemployed, that LWC implemented the compensation that has been brought into question.

In the finding, it is alleged that LWC did not follow CSRs 21.7 and 27 (which resulted from the Governor's stay at home order issued on March 22, 2020). This allegation is categorically incorrect. CSR 21.7(b)(4) allows overtime compensation during official office closures. As correctly pointed out, Louisiana state offices were not closed for business during March and April of 2020, rather, they were closed to the public only. Accordingly, CSR 21.7 did not apply as it relates to overtime used during official office closures. Rather, CSR 27 was promulgated specifically to address the COVID-19 pandemic and provided for the use of special leave. Particularly relevant here, Civil Service Emergency Rule 27.2 provided Appointing Authorities with the discretion to allow employees who could not report to work in person for various enumerated reasons the ability to use special leave and still retain their employment as well as their full salary and benefits. It stands to reason then that LWC would supplement the compensation for those essential employees who did in fact report to work in person. As such, CSR 27.5 and subsequent guidance from the Civil Service Commission ("Commission") allowed Appointing Authorities the discretion to compensate the usual state overtime related to COVID-19 activities... "unless the state agency has a previous policy approved by the Commission."<sup>1</sup> LWC asserts that it was, without question, granted such an exception by the Commission.

As first responders during a global health crisis and economic shutdown, LWC paid its employees working during the declared State of Emergency in accordance with LWC Policy 69. This policy constitutes an exception to the regular pay rules. The Commission granted LWC this exception on July 17, 2019, at a monthly business meeting. The exception is narrowly constructed to allow LWC to compensate employees during a Governor declared state of public health emergency who are working to provide unemployment support to ensure benefits continue to be paid. The exception provides that employees will be paid regular pay *and* emergency/disaster pay at the same rate for 40 hours, and any overtime over 40 hours will be compensated at a rate of time and one-half (1.5). Thus, the emergency/disaster assistance pay to those employees who worked on unemployment services for the three week period from March 26-April 14, 2020, was in compliance with the Commission's Emergency Rules as well as LWC's policies and was in in no way improper compensation.

In granting the exception, the Commission was well aware of the need for this type of compensation under exigent circumstances. Further, in promulgating the Emergency Rules, the Commission also recognized the need to provide Appointing Authorities with great discretion to grant special leave "in the best interest of the agency for situations related to COVID-19...." CSR 27.2(b). LWC submits that it was indeed in the best interest of the agency, especially with respect to its employees who risked going to work every day, to provide those in need with the benefits they were entitled to and to compensate its employees accordingly for doing so.

In order to continue the payment of benefits and other social services as required by law, LWC must be allowed to compensate its employees differently during an emergency or disaster. LWC therefore believes corrective action is not necessary. As stated above, LWC's staff was required to act as first responders working around the clock, seven (7) days a week, to ensure that benefits would continue to be paid and to keep up with the unprecedented increase in claims. The benefits paid by LWC enabled claimants to pay rent, utility bills, medical bills and for food and other essentials.

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<sup>1</sup> See also CSR 21.13 which states, "[t]he Commission may grant exceptions to these rules."

With little regard for CSR 27 explicitly affording Appointing Authorities vast discretion to grant special leave "out of an abundance of caution and in the best interest of the agency for situations relating to COVID-19," the Legislative Auditor's Office improperly concluded that LWC did not follow the Civil Service Commission's Rules. LWC therefore maintains that, from March 26, 2020-April 14, 2020, it properly paid its employees who reported to work every day and processed claims resulting from COVID-19 and did so within the constraints of the Civil Service Commission Rules and Louisiana law.

Sincerely,

A handwritten signature in blue ink, appearing to read "Ava Dejoie".

Ava Dejoie  
Secretary



1001 North 23<sup>rd</sup> Street  
Post Office Box 94094

(O) 225-342-3001  
(F) 225-342-2051

John Bel Edwards, Governor  
Ava Dainis, Secretary

**Office of the Undersecretary**

December 22, 2020

Mr. Daryl Purpera, CPA, CFE  
Legislative Auditor  
Post Office Box 94397  
Baton Rouge, LA 708049397

**RE: INACCURATE FINANCIAL REPORTING**

The Louisiana Workforce Commission (LWC) partially concurs with the finding regarding inaccurate financial reporting.

Many if not all of the statement errors noted in the finding were derived from reports run subsequent to submission of the Unemployment Trust Fund financial report. The reports used had not been created and were not available to the accounting staff prior to submission of the AFR.

As a result of the COVID-19 pandemic, and multiple hurricanes, Louisiana was faced with an unemployment claims and funding source level that had never been experienced before. Louisiana claims are processed and paid by a third party contractor. The system generates a benefit payment summary by funding source along with benefit detail that the accounting staff can download for review and reconciliation. The quantity of claims prevented the accounting staff from downloading claim detail for review and reconciliation.

The LWC does not agree that the Emergency Unemployment Insurance State Administrative funds (EUISAA) should be considered cash in the trust fund. The funds were made available through the same system the state uses to draw funds from the Unemployment Trust Fund for benefit payments. If the agency does not spend the funds, the federal government will remove the ability to draw the funds just like any administrative funds available to the agency through the Health and Human Services payment management system. The EUISAA funds were not due to other funds as no administrative expenditures had been charged to this particular funding source.

Sincerely,

A handwritten signature in blue ink that reads "Bennett Soulier".

Bennett Soulier  
Undersecretary



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John Bel Edwards, Governor  
Ava Dejoie, Secretary

**Office of the Undersecretary**

January 26, 2021

Daryl G. Purpera, CPA, CFE,  
Legislative Auditor  
1600 North Third Street  
Post Office Box 94397  
Baton Rouge, Louisiana 70980-9397

RE: LWC Response to Legislative Audit Finding – Weak Security Controls

We concur with the finding that the Louisiana Workforce Commission (LWC) has not established responsibilities for monitoring Office of Information Services (OTS) employees with access to LWC systems. OTS has statutory authority over all information technology services for the state and is charged with managing all IT systems and services. While LWC may raise issues with regard to access to LWC systems, we have no legal authority or control over OTS assigning personnel administrative rights to LWC systems that are in their possession and control.

The existing written procedures to monitor all employees who have access to the UI mainframe and LaWats systems exist but are outdated and will be updated as soon as the new Agency Relationship Manager (ARM) is hired. This procedure will require a quarterly report that will generate a list of all users that have been granted membership to an access control group and internal application level permissions to ensure that all access is authorized. The reports will be distributed to system cost center managers for review no later than March 31, 2021.

If you have any questions or need additional information, please contact me at 225-342-3110.

Sincerely,

A handwritten signature in blue ink that reads "Bennett Soulier".

Bennett Soulier  
Undersecretary



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John Bel Edwards, Governor  
Ava Dejoie, Secretary

**Office of the Undersecretary**

January 21, 2021

Daryl G. Purpera, CPA, CFE,  
Legislative Auditor  
1600 North Third Street  
Post Office Box 94397  
Baton Rouge, Louisiana 709804-9397

RE: LWC Response to Legislative Audit Finding - Inadequate Source Code Escrow Agreement

The Louisiana Workforce Commission (LWC) concurs with the finding. The Geographic Solutions, Inc. (GSI) contract was amended during 2017 to include an escrow clause to require that the source code be placed in possession with a third party vendor. However, in 2018 the audit finding concluded that the amendment should include a provision for the inclusion of infrastructure, such as computer hardware and other systems that might be required for execution of the source code. The contract with GSI has since been modified to include an appropriate escrow clause. An implementation plan has been agreed upon and we are working with GSI and the Office of Technology Services to achieve full implementation of the HIRE system software escrow by June 30, 2021.

Sincerely,

A handwritten signature in blue ink, appearing to read "Bennett Soulier", is written over a light blue horizontal line.

Bennett Soulier  
Undersecretary



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John Bel Edwards, Governor  
Ava Dejoie, Secretary

**Office of the Secretary**

March 19, 2021

Daryl G. Purpera, CPA CFE  
Legislative Auditor  
1600 North Third Street  
Post Office Box 94397  
Baton Rouge, LA 70804-9397

**RE: LWC Response to Legislative Audit Finding – Noncompliance with Sub-Recipient Monitoring Requirements**

Dear Mr. Purpera,

In connection with the audit findings on Noncompliance with Sub-Recipient Monitoring Requirements, the Louisiana Workforce Commission (LWC), concurs with the following:

- *LWC did not perform adequate risk assessment procedures for any of the five sub-recipients reviewed (100%), in order to evaluate the sub-recipients' risk of noncompliance. Risk of noncompliance should be performed to determine the appropriate level of monitoring needed, and should include consideration of the sub-recipients' prior experience, previous audits, including the sub-recipient's Single Audit, change in sub-recipient personnel or system changes, and results from Federal awarding agency monitoring.*
  - **Response: LWC has established procedures to determine the appropriate level of monitoring needed based on the sub-recipients' prior experience, previous audits, including the sub-recipient's Single Audit, changes in sub-recipient personnel and system changes, and results from Federal awarding agency monitoring.**
- *Three of the reports reviewed cited findings and potential questioned costs. However, LWC did not document the resolution of these possible questioned costs.*
  - **Response: During the time of this legislative audit, the reports being reviewed had not yet been completed. The final reports address the potential questioned costs (or other findings), assigned corrective actions to remedy findings, and contained a documented resolution.**
- *LWC did not maintain adequate documentation to support the conclusions in its monitoring reports. For three of the five sub-recipients reviewed, there was no support and for one of the five, the support was inadequate. None of the five reports showed evidence of supervisory review.*

- **Response: While there may have appeared to be inadequate documentation, the issue may have in fact been a lack of the supporting documents. The monitoring unit has put systems in place for better labeling of hard copies and electronic files. With regard to evidence of supervisory review, reports now include a conspicuously marked area for a supervisor to sign and date the report upon review.**

**Corrective Action:**

- LWC began reconstructing the monitoring process for WIOA in September 2020 and is currently enhancing tools and procedures that will serve to improve the quality of monitoring reports conducted on local grant recipients. LWC completed monitoring reports on each of the fifteen local grant recipients.
- The agency has acquired the assistance of an external professional auditor to work with the team to address the shortfalls identified by the legislative auditor. This additional resource will work closely with the unit in hopes of providing additional staff trainings on accurately completing and maintain working papers, including sufficient supporting documentation, and incorporating a monitoring resolution process that promptly addresses any compliance issues noted with proper follow up conducted to promptly resolve monitoring findings and hold grant recipients accountable for any deficiencies.
- The grant manager and monitoring manager has been assigned the task of working with the contractor to complete a training plan which will be implemented and completed no later than June 30, 2021.

The contact person responsible for this corrective action is Mr. Tavares A. Walker, Assistant Secretary, Office of Workforce Development. He can be contacted via email or phone at [twalker2@lwc.la.gov](mailto:twalker2@lwc.la.gov) or (225) 342-2679.

Sincerely,



Ava Dejoie  
Secretary

## APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Louisiana Workforce Commission (LWC) for the period from July 1, 2019, through June 30, 2020, to provide assurances on financial information significant to the State of Louisiana's Comprehensive Annual Financial Report, and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures, summarized below, were a part of the audit of the Comprehensive Annual Financial Report and our work related to the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2020.

- We evaluated LWC's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to LWC.
- Based on the documentation of LWC's controls and our understanding of related laws and regulations, we performed procedures to provide assurances on certain account balances and classes of transactions to support our opinions on the Comprehensive Annual Financial Report.
- We performed procedures on the Unemployment Insurance (CFDA 17.225) and the Workforce Innovation and Opportunity Act Cluster (CFDA 17.258, 17.259, and 17.278) for the year ended June 30, 2020, as a part of the 2020 Single Audit.
- We performed procedures on information for the preparation of the state's Schedule of Expenditures of Federal Awards and on the status of prior-year findings for the preparation of the state's Summary Schedule of Prior Audit Findings for the year ended June 30, 2020, as a part of the 2020 Single Audit.
- We compared the most current and prior-year financial activity using LWC's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from LWC's management for significant variances.

The purpose of this report is solely to describe the scope of our work at LWC, and not to provide an opinion on the effectiveness of LWC's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purposes.

We did not audit or review LWC's Annual Fiscal Reports, and accordingly, we do not express an opinion on those reports. LWC's accounts are an integral part of the state of Louisiana's Comprehensive Annual Financial Report, upon which the Louisiana Legislative Auditor expresses opinions.