

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

REVIEW REPORT

OF

DEPARTMENT OF WORKFORCE DEVELOPMENT

STATE OF INDIANA

March 1, 2012 to December 31, 2013



**FILED**  
08/25/2014



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AGENCY OFFICIALS

Office

Official

Term

Commissioner

Mark Everson  
Scott Sanders

06-01-10 to 04-30-12  
05-01-12 to 01-09-17



**STATE OF INDIANA**  
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE DEPARTMENT OF WORKFORCE DEVELOPMENT

We have reviewed the activities related to the receipts, disbursements, and assets of the Department of Workforce Development for the period of March 1, 2012 to December 31, 2013. The Department of Workforce Development's management is responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports. Federal programs are included in the scope of our statewide single audits as reflected in the Statewide Single Audit Reports.

Based on our review, nothing came to our attention that caused us to believe that the activities related to the receipts, disbursements, and assets of the Department of Workforce Development are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, and applicable laws and regulations, except as stated in the Review Comments.

The Department of Workforce Development's response to the Review Comments identified in our review is described in the accompanying section of the report entitled Official Response. We did not review the Department of Workforce Development's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Department of Workforce Development's management and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the Indiana State Board of Accounts and of the office reviewed.

STATE BOARD OF ACCOUNTS

July 9, 2014

DEPARTMENT OF WORKFORCE DEVELOPMENT  
REVIEW COMMENTS  
DECEMBER 31, 2013

***UNEMPLOYMENT INSURANCE***

As stated in the prior review report, the Department of Workforce Development (DWD) is the responsible agency for the collection of unemployment taxes and the payment of unemployment benefits. When the tax is collected by the DWD from an Indiana employer, the DWD receipts the monies into the state's records and then transfers the funds to the U.S. Department of the Treasury. The U.S. Department of the Treasury maintains the funds in a trust fund. When an individual is eligible to receive unemployment compensation, the DWD must draw down the funds from the U.S. Department of the Treasury to pay those claims. These funds are drawn down on a daily basis. In February 2007, the DWD no longer issued checks to claimants, but began issuing the unemployment compensation via a debit card. At that same time, the DWD ceased reporting the draw downs and the payment of unemployment benefits in the Auditor of State's records. The DWD did not receive approval from either the Auditor of State or Budget Agency to cease reporting these monies within the Auditor of State's records. The Unemployment Compensation fund is the responsibility of the State of Indiana and is reported in the state's Comprehensive Annual Financial Report (CAFR) as a proprietary fund. In July 2011, the DWD began again recording the drawdowns from the U.S. Department of Treasury and the expenditures of unemployment benefits within the State's Accounting system (ENCOMPASS). However, the beginning balance has not yet been recorded in ENCOMPASS. Therefore, the State will still need to make material adjustments in order to properly report the Unemployment Compensation fund within the CAFR for fiscal year 2014 if the balances are not recorded by year end.

System controls are in effect on the ENCOMPASS financial accounting system, which is the official book of record for the State; however, each agency is responsible for controls in any subsidiary systems used or other records maintained. At all times, the agency's manual and subsidiary ledgers should reconcile with ENCOMPASS. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, IV)

DEPARTMENT OF WORKFORCE DEVELOPMENT  
REVIEW COMMENTS  
DECEMBER 31, 2013  
(Continued)

The state accounting system includes features of standardized source documents, uniform transaction identification and classification codes, uniform report formats, an account structure with summarization of activity for business units and funds, and centralized control for revenue deposits and warrant issuance. This structure is designed to identify, analyze, classify, record, and report the State of Indiana financial transactions and to maintain accountability of the related assets and liabilities. This account structure provides for the preparation of the Indiana Comprehensive Annual Financial Report (CAFR) in conformity with generally accepted accounting principles, as prescribed by Governmental Accounting Standards Board (GASB) pronouncements. The GASB is the authoritative accounting and financial reporting standard setting body for governmental entities throughout the United States. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, IV)

***INTERNAL CONTROL OVER REVENUE COLLECTIONS***

Duties are not sufficiently segregated. A DWD employee accountant has full control over depositing cash collections to the bank. Cash collections are input by a staff clerical employee into the Uplink system. The DWD employee accountant prepares the spreadsheet listing and scans checks to deposit to the bank. However, the accountant also has the ability to go into Uplink and change individual collections that DWD has received.

Separation of duties is the division or segregation of key duties and responsibilities among different people to reduce the opportunities for any individual to be in a position to commit and conceal errors, intentional or unintentional, or perpetrate fraud in the normal course of their duties. The fundamental premise of segregated duties is that different personnel should perform the functions of initiation, authorization, record keeping, and custody. No one individual should control or perform all key aspects of a transaction or event. These are called incompatible duties when performed by the same individual. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 2.3)

DEPARTMENT OF WORKFORCE DEVELOPMENT  
EXIT CONFERENCE

The contents of this report were discussed on July 9, 2014, with Scott Sanders, Commissioner. The Official Response has been made a part of this report and may be found on page 7.

The contents of this report were provided via email on July 24, 2014, to Mark Everson, former Commissioner.



INDIANA DEPARTMENT OF WORKFORCE DEVELOPMENT  
RESPONSE  
July 19, 2014

**STATUS OF FINDING AS OF JULY 9, 2014**

UNEMPLOYMENT INSURANCE

The status of this finding as of the end of the audit period was unresolved; however, DWD has now finalized the actions necessary to resolve this issue. DWD invested significant effort to reconcile and balance all TFA related funds to actual activity from FY09-FY13. The correcting entries that were required as a result of this effort were posted to Encompass prior to the end of FY14 as planned. As of today, all TFA related funds in Encompass are in balance to actual activity.

In addition, the end of FY14 marked a full year of daily entries into the Encompass system. These actions are reflective of the corrections that have been made to internal controls and daily processes that bring the agency into compliance in this regard. DWD no longer keeps sub-ledgers for TFA activity and has fully transitioned to using Encompass as our only ledger and official record.

It is our anticipation that further review and audit of TFA related funds and financial statements will validate the improvements that have been made and will bring this issue to a close.

INTERNAL CONTROL OVER REVENUE COLLECTIONS

As a result of this finding and in response to the conflicted employees' statements that he routinely disregarded his work instructions on separation of duties, DWD has funded an additional PCN as an Accountant 4 in UI Cashiering and removed the conflicted employee's access to banking at all levels.

To enforce separation by system, we are working with the development team to set the new employees security profile in UPLINK to prevent him from having access to Tax or Benefit Cashiering Functionality while allowing him to complete work in the UPLINK system that does not violate the required separation of duties under discussion.

By removing the conflicted employees banking authority and controlling the new employee's UPLINK access, we will be able to enforce the required separation of duties even if the worker is inclined to disregard both training and instructions.