

# ALASKA STATE LEGISLATURE

## LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



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December 16, 2009

Ms. Karen Rehfeld, Director  
Office of Management and Budget  
P.O. Box 110020  
Juneau, Alaska 99811-0020

The Honorable Annette Kreitzer  
Commissioner  
Department of Administration  
P.O. Box 110200  
Juneau, Alaska 99811-0200

Ms. Kim Garnero, Director  
Division of Finance  
P.O. Box 110204  
Juneau, AK 99811-0204

Dear Mss. Rehfeld, Kreitzer, and Garnero:

This communication is provided pursuant to the parameters of the 2009 United States Office of Management and Budget (OMB) pilot project. Such project requires auditors of entities that volunteer for the project to issue, in writing, an early communication of significant deficiencies and material weaknesses in internal control over compliance for certain federal programs having expenditures of American Recovery and Reinvestment Act of 2009 (ARRA) funding at an interim date, prior to the completion of the compliance audit. Accordingly, this communication is based on our audit procedures performed through November 24, 2009, an interim period. Because we have not completed our compliance audit, additional significant deficiencies and material weaknesses may be identified and communicated in our final report on compliance and internal control over compliance issued to meet the reporting requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

In planning and performing our audit through November 24, 2009 of CFDA 17.225, Unemployment Insurance program, we are considering the Department of Labor and Workplace Development (DLWD), State of Alaska's compliance with the following material compliance requirements as described in the *OMB Circular A-133 Compliance Supplement* for the year ended June 30, 2009:

- Activities allowed or unallowed.
- Allowable costs and cost principles.
- Cash management.
- Eligibility.
- Matching.
- Period of availability.
- Reporting.
- Special tests and provisions.

We are also considering DLWD's internal control over compliance with the requirements previously described that could have a direct and material effect on CFDA 17.225, Unemployment Insurance, in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of DLWD's internal control over compliance.

Our consideration of internal control over compliance is for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined in the following paragraph. However, as discussed subsequently, based on the audit procedures performed through November 24, 2009, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency or combination of control deficiencies that adversely affect the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

We consider the following deficiency in internal control over compliance to be a significant deficiency:

Recommendation: The director of the Employment Security Division (ESD) should develop and implement procedures to ensure compliance with allowable costs requirements.

Unemployment Insurance (UI) expenditures totaling \$81,395 were charged to the FFY 06 UI grant award (#UI15107TM) after the allowable funding period. These expenditures are part of agreed upon activity between ESD and Data Processing (DP) unit in the Administrative Services Division.

Title 29 CFR 97.23(a) states, “[W]here a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period.” All charges to the FFY 06 award were required to be obligated by September 30, 2008.

DLWD lacks procedures to prevent or detect charges to the federal awards outside of the allowable funding period. Additional contributing factors include:

- Inadequate monitoring between divisional units for this requirement;
- The appropriate staff were unaware of the funding period requirement;
- The increased workload for UI, fiscal, and DP staff resulting from American Reinvestment & Recovery Act requirements.

We recommend the director of ESD develop and implement procedures to ensure compliance with allowable costs requirements of the UI program (CFDA 17.225). Furthermore, to become compliant with the allowable costs requirements, DLWD should process an adjustment moving the questioned costs to a currently available grant and submit an amended final ETA 9130 report for this federal award.

#### Agency’s Response

*DOLWD concurs with the recommendation and additional contributing factors as identified in the management letter. DOLWD Administrative Services Division (ASD) fiscal staff will prepare the adjustment to move the questioned costs to an open and allowable funding stream, and will provide amended ETA 9130 and other associated reports as required. ASD will coordinate with the appropriate ESD staff as needed for the adjustment, in addition to coordinating improved monitoring processes as related to period of availability.*

*In coordination with the ASD finance officer, the director of ESD will develop and implement procedures to ensure compliance with allowable cost requirements of the UI program.*

DLWD’s response to our finding is described in the preceding paragraph. We did not audit DLWD’s response, and accordingly, we express no opinion on it.

Ms. Rehfeld  
Commissioner Kreitzer  
Ms. Garnero

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December 16, 2009

This interim communication is intended solely for the information and use of DLWD management, Office of the Governor, Department of Administration, and federal awarding agencies. It is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink that reads "Pat Davidson". The signature is written in a cursive style with a large, prominent loop for the letter "D".

Pat Davidson, CPA  
Legislative Auditor

cc: Commissioner Clark Bishop  
Department of Labor and Workforce Development