

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

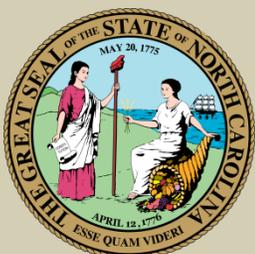


## DEPARTMENT OF COMMERCE

RALEIGH, NORTH CAROLINA

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2019



**NC**  **OSA**  
The Taxpayers' Watchdog



Beth A. Wood, CPA  
State Auditor

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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

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## **AUDITOR'S TRANSMITTAL**

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The Honorable Roy Cooper, Governor  
Members of the North Carolina General Assembly  
Anthony M. Copeland, Secretary  
Department of Commerce

As part of our audit of the State of North Carolina's compliance with the types of requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs, we have completed certain audit procedures at the Department of Commerce for the year ended June 30, 2019.

Our responsibility is to express an opinion on compliance for each of the State of North Carolina's major federal programs based on our audit of the types of compliance requirements referred to above. However, the results included herein are in relation to our audit scope at the Department and not to the State of North Carolina as a whole. The State Auditor expresses an opinion on the State's compliance with requirements applicable to its major federal programs in the State's *Single Audit Report*.

Our federal compliance audit scope at the Department of Commerce included CFDA 17.225 Unemployment Insurance (UI) program. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

We conducted our audit of compliance in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with types of compliance requirements referred to above that could have a direct and material effect on major federal programs occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

### Other Matters

#### *Compliance*

The results of our audit procedures at the Department of Commerce disclosed no instances of noncompliance that are required to be reported in accordance with the Uniform Guidance.

#### *Internal Controls*

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, material weaknesses and significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we consider the deficiency described in the Findings, Recommendations, and Responses section to be a significant deficiency in internal control over compliance.

### Department of Commerce's Response to Findings

The Department's response to the finding identified in our audit is included in the Findings, Recommendations, and Responses section of this transmittal. The Department's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

Purpose of This Transmittal

The purpose of this transmittal is solely to describe the scope of our testing of internal control over compliance and testing of compliance and the results of that testing at the Department of Commerce based on the requirements of the Uniform Guidance. Accordingly, this transmittal is not suitable for any other purpose.

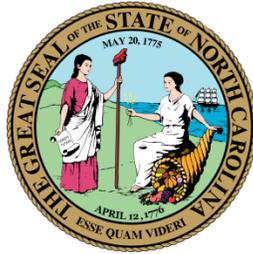
*North Carolina General Statutes* require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this transmittal.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

March 20, 2020



# **FINDINGS, RECOMMENDATIONS, AND RESPONSES**

## **Matters Related to Federal Compliance Audit Objectives**

### BENEFIT OVERPAYMENT IDENTIFICATION PROCEDURES NEED IMPROVEMENT

The North Carolina Department of Commerce (Department) did not perform required cross-matches to identify potential overpayments of Unemployment Insurance (UI) benefits. During the audit period the Department paid approximately \$169 million in UI benefits to 85,000 individuals.

The primary cause of overpayments is due to unreported or under-reported earnings by claimants while they claim benefits. The Department implemented the Southeast Consortium for Unemployment Benefits Integration (SCUBI) project as the new UI benefits system during the state fiscal year 2019. Prior to the implementation of SCUBI, the Department's procedures for identifying potential overpayments included the following:

- Weekly New Hires Cross-match
- Quarterly Earnings/Wage Cross-match
- Tips and Leads

Since the September 2018 implementation of SCUBI, the Department has not been able to perform the weekly new hire or the quarterly earnings/wage cross-matches. Instead, the Department relied solely on tips and leads to identify new potential overpayments. Cross-matches performed in SFY 2018 identified 3,962 potential overpayments compared to 898 identified from the cross-matches done in SFY 2019 before SCUBI was implemented.

As a result, claimants could retain and continue to collect benefits they were not entitled to receive. In addition, delays in the identification of potential overpayments reduces the likelihood of future recovery.

According to the Department, the cross-matches were not performed because of difficulties obtaining the data needed from SCUBI. Department management prioritized their efforts on the effective implementation of the benefit payments operations of SCUBI and focused on completing investigations of backlogged overpayments cases until the data issues with SCUBI could be resolved.

Unemployment Insurance Program Letter (UIPL) No. 19-11 National Effort to Reduce Improper Payments in Unemployment Insurance (UI) Program, issued on June 10, 2011, mandated that all states be required to use the data from the National Directory of New Hires<sup>1</sup> to conduct cross-matches in the State Benefit Payment Control operations by December 2011. Per the UIPL, cross-matching with the information in the National Directory of New Hires is considered one of the most effective strategies for identifying overpayments.

*Federal Award Information:* Federal Awarding Agency: U.S. Department of Labor; CFDA Number (title): 17.225 (Unemployment Insurance); Federal Award Number (award period): UI-32617-19-55-A-37 (October 1, 2018 – December 31, 2021).

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<sup>1</sup> The National Directory of New Hires is a national database of wage and employment information. It contains information on newly hired employees as reported by employers and, quarterly wage information on individual employees and unemployment insurance information on individuals who received or applied for unemployment benefits as reported by the State Workforce Agency.

*Recommendation:* Department management should coordinate efforts with the vendor and internal Information Technology staff to identify methods and procedures for obtaining the data needed from the SCUBI system to perform the mandatory cross-matches.

*Agency Response:* See page 6 for the Department of Commerce's response to this finding.



ROY COOPER  
*Governor*

ANTHONY M. COPELAND  
*Secretary*

March 5, 2020

The Honorable Beth A. Wood, State Auditor  
Office of the State Auditor  
2 South Salisbury Street  
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Raleigh, North Carolina 27699-0600

Dear Auditor Wood,

We agree with your audit finding identified in connection with your audit of the major federal programs of the State of North Carolina for the year ended June 30, 2019, in accordance with the Single Audit Act and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance).

The Department of Commerce agrees with your recommendation, and we implemented the recommended coordination efforts with the vendor and internal IT staff so that the running and working of the cross-matches was completed in August 2019. Work with the vendor is ongoing to meet the business unit's needs.

Thank you,

A handwritten signature in black ink, appearing to read "Heather Horton".

Heather Horton  
Chief Financial Officer, NC Department of Commerce

# ORDERING INFORMATION

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For additional information, contact the  
North Carolina Office of the State Auditor at 919-807-7666.

