

Department of Labor and Industry

Summary of Audit Work in Support of Statewide and Single Audits
Audit Periods Ending June 30, 2023

To: Legislative Audit Committee

From: Delsi Osmanson, Financial-Compliance Audit Supervisor

Cc: Sarah Swanson, Commissioner
Jay Phillips, CSD Administrator

Date: September 2024

Re: Single Audit and Statewide Audit Support Work: Montana Department of Labor and Industry


Introduction

The Montana Department of Labor and Industry (department) is headed by a commissioner appointed by the governor. In addition to the Commissioner's Office, the department is composed of five divisions including workforce services, employment standards, unemployment insurance, technology services, and centralized services. The department is responsible for upholding state and federal labor laws, administering the state's unemployment insurance program, ensuring worker safety, and encouraging business and employee growth and relations. Managing these responsibilities includes investigating discrimination complaints, providing business support and education, operating community resource centers, and offering job training.

Summary of Audit Work in Support of Single Audit

The department internal controls and compliance with federal program requirements need improvement.

We audited one federal program administered by the department. The following describes the purpose of the federal program and depicts normal grant expenditures in comparison to Covid-related expenditures for the audit period.

Federal Program	Federal Expenditures		Purpose	% COVID-related
	FY2022	FY2023		
Unemployment Insurance Program reference: ALN 17.225	\$63M	\$117M	Provides benefits to eligible, unemployed workers for periods of involuntary unemployment	 10%

We identified the following issues related to the department's administration of its federal programs. We did not identify any questioned costs.

AUDITOR'S OPINION – QUALIFIED

Unemployment Insurance



No Questioned Costs

Finding 2023-009

Significant Deficiency in Internal Control

The department did not retain evidence of the internal control being used to monitor the completion of federally required claim reviews for the Benefits Accuracy Management program.

Department response: Concur

Finding 2023-010

Significant Deficiency in Internal Control

The department did not have controls in place to ensure certification of employers' state unemployment insurance contributions occurred before the federally determined deadline.

Department response: Concur

Finding 2023-011

Material Weakness in Internal Control and Material Non-Compliance

The department did not have sufficient internal controls in place related to Employment and Training Administration unemployment insurance program reports, resulting in material reporting errors during the audit period.

Department response: Concur

Other Single Audit Related Information

During the audit, we encountered the following difficulties or inefficiencies for the audit team that resulted in unexpected audit delays.

- In order to adequately and efficiently complete our audit of the Unemployment Insurance (UI) program, we have always obtained read-only access to the department's UI systems to review UI claims and employer contributions. We followed our usual procedures to request staff access to the systems, however, we were not informed of a change in department policy related to obtaining access. The department now requires a Memorandum of Understanding in order to grant access and this unexpected requirement resulted in a two-month delay to the audit.
- Management requested we include a management representative in all meetings with department staff. We accommodated the request, but it resulted in general delays and inefficiencies for the audit.

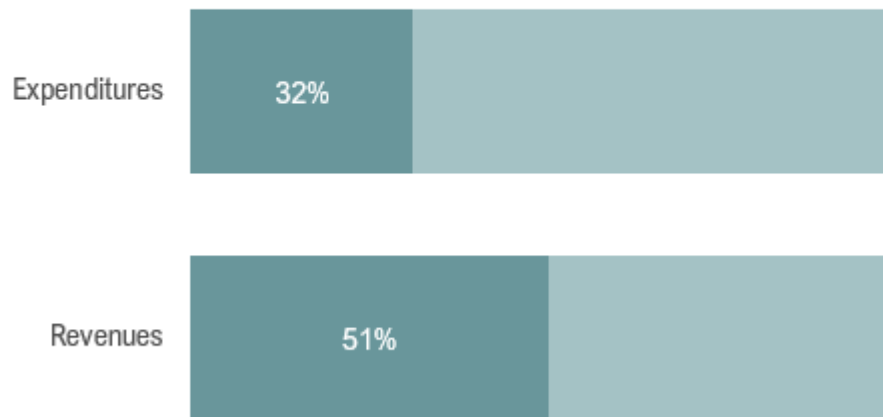
Summary of Audit Work in Support of Statewide Audit

We did not make any recommendations over the department's audited financial activity for fiscal year 2023. The Unemployment Insurance related recommendation reported in the 22-01 State of Montana audit is also required to be reported in the Single Audit. That recommendation has been implemented.

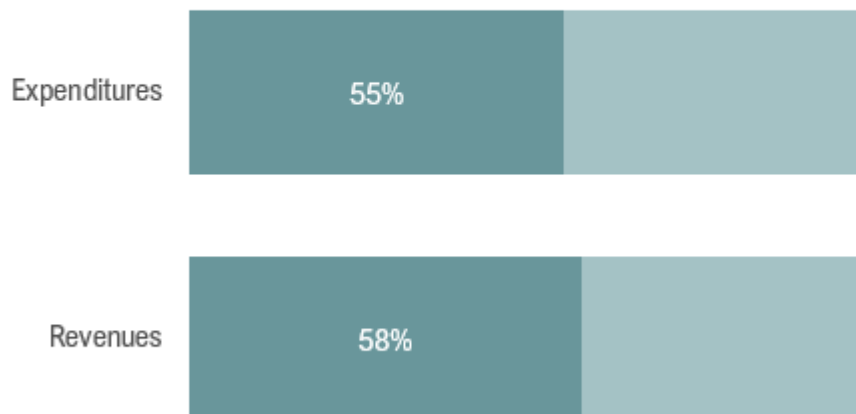
For fiscal years 2022 and 2023, our audit work focused on activity in the Unemployment Insurance Fund including cash and fund equity, revenues from employer contributions, long-term loans, and UI claims expenses. We also audited the Unemployment Insurance federal program on the Schedule of Expenditures of Federal Awards for both fiscal years.

The figures below depict the portion of the department's revenues and expenditures that we audited because they were considered material to the state's Basic Financial Statements for fiscal years 2022 and 2023.

Approximately half of the department's revenues and a third of their expenses were considered **risky and audited by us** for the FY22 Statewide audit.



Approximately half of the department's revenues and expenditures were considered **risky and audited by us** for the FY23 Statewide audit.



We audited the following financial activity of the department in support of our audit of the state's ACFR in fiscal years 2022 and 2023:

Department of Labor and Industry

Financial Activity Audited in Support of the State's ACFR

ACFR Opinion Unit	Activity Audited	FY22	FY23
Business Type Activities	Cash & Cash Equivalents	\$464M	\$524 M
	Receivables	\$12M	-
	Accounts Payable	\$3.5M	-
	Restricted Net Assets	\$517M	\$544 M
	Long-Term Loans	\$43M	\$6 M
	Charges for Services	\$135M	\$152 M
	Expenses	\$60M	\$149 M
	Operating Grants and Contributions	\$42M	\$10 M

Prior Audit Recommendations:

Our prior financial-compliance audit of the department (#21-15) contained six recommendations. We determined the implementation status of these recommendations as follows:

Fully Implemented: 4

Partially Implemented: 0

Not Implemented: 0

No Longer Valid: 2



July 17, 2024

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RECEIVED
JUL 19 2024
LEGISLATIVE AUDIT DIV.

RE: Single Audit Report - Department of Labor & Industry

Dear Mr. Maciver:

The Department of Labor & Industry (DLI) has reviewed the Single Audit report for the two fiscal years ended June 30, 2023. The Department thanks your staff for their review. The Department welcomes collaborative opportunities to improve DLI operations. Our responses to LAD's recommendations are as follows:

Recommendation 2023-009

We recommend that the Department of Labor & Industry retain evidence of the internal control used for monitoring completion of the required BAM case reviews.

Response:

Concur. During the audit period, DLI implemented new internal controls for tracking BAM case file monitoring progress. As noted in the audit report, DLI implemented new internal controls when the new MUSE system launched. DLI procedures have been amended to ensure retention of all MUSE & SUN system reports documenting monitoring activities. DLI is currently working with the MUSE vendor, FAST, to develop capacities for reproducing case review reports after case reviews are completed and reported.

Recommendation 2023-10

We recommend the Department of Labor & Industry implement internal controls to ensure the required certification over taxpayer information for each calendar year is completed within the deadline established by the federal government.

Response:

Concur. During the audit period DLI implemented new internal procedures to ensure compliance with reporting deadlines. Responsive new controls include creation of a master reporting schedule, and use of duplicative automated task reminders to multiple staff with reporting responsibility to ensure timely submission.

Recommendation 2023-011

We recommend the Department of Labor & Industry:

- A. Improve internal controls over the preparation of key unemployment insurance program reports, and
- B. Report accurate and complete report data on key unemployment insurance program reports as required by federal rules and regulations.

Response:

Concur. Since the new Unemployment Insurance system MUSE launched, DLI has worked with the system vendor (FAST) to program reports generated directly from data housed within the system. DLI has successfully reconciled all applicable program accounts to ensure the fiscal activity has been and will be accurately reported. The implementation of these internal controls will mitigate risks associated with future report accuracy and centralizes supporting documents within the MUSE system.

Respectfully,



Sarah Swanson, Commissioner
Montana Department of Labor & Industry